



2017 ANNUAL REPORT

QBE INSURANCE GROUP LIMITED

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QBE Insurance Group Limited Annual Report 2017
ABN 28 008 485 014

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Responding to a challenging year

QBE's 2017 financial performance was well short of our expectations. Heavy catastrophe losses were extremely costly for the wider insurance industry; however, QBE's results were also marred by a material decline in the performance of our emerging markets businesses. These challenges necessitated action and change. We finished the year with refreshed leadership and a clear plan for a simpler footprint and improved performance in 2018 and beyond.

2017

Coming after several years of downward pressure on insurance pricing across most of the globe and continuing low investment yields, the record insured catastrophe losses of 2017 provided an additional test for insurers and reinsurers in the second half of the year. North America and the Caribbean were responsible for more than 80% of the estimated \$135 billion¹ in insured catastrophe losses, with Hurricanes Harvey, Irma and Maria and wildfires in California causing tragic loss of life and heavy and widespread property and infrastructure damage. Notwithstanding our comprehensive reinsurance protections, the net cost of catastrophes for QBE (after reinsurance) was \$1,227 million, which compares with \$439 million in 2016.

Natural disasters were not the only challenge confronted by QBE during the year, with the performance of the Emerging Markets division a major disappointment due to adverse claims experience in numerous portfolios. Prompt action was taken when declining performance became evident around the middle of the year, with two separate operating divisions formed to facilitate a more granular focus on each of the Asia Pacific and Latin American regions. Detailed performance improvement plans have been developed for Asia Pacific Operations while we have made the decision to exit Latin America as part of a broader strategy to simplify our global footprint and improve the quality and consistency of our results.

The statutory financial result was also impacted by non-cash items that included a \$700 million impairment of North American goodwill along with a \$230 million write down of the deferred tax asset in our North American Operations due to the reduction in the US corporate tax rate. Incorporating these items, the Group reported a statutory net loss after tax of \$1,249 million compared with a net profit after tax of \$844 million in the prior year. On a cash basis, a loss after tax of \$258 million compares with a profit of \$898 million in 2016.

At a divisional level, Australian & New Zealand Operations was the only major division not to be significantly affected by catastrophes during the year. The turnaround of the division is continuing to plan, with the attritional claims ratio seeing further improvement following the program of rate increases and underwriting initiatives that was first introduced by Pat Regan in 2016.

Our European Operations had another strong result in difficult trading conditions, with a reduced performance in the second half partly due to the division's exposure to Hurricanes Harvey, Irma and Maria, as well as a reduced level of positive prior accident year claims development which has moderated from the levels seen in recent years.

European Operations' result also included a \$141 million one-off charge following a legislative decision that required a reduction in the statutory discount rate used in the determination of lump sum payments in relation to UK personal injury claims (the Ogden decision). Although disappointing, more recent statements from the relevant government authority give us cause for optimism that this charge could partially reverse in 2018.

Whilst the underwriting performance of our North American Operations was significantly impacted by catastrophes, the underlying performance in the second half was still below expectations. We have taken actions to ensure a more consistent and improved future performance, including the strengthening of claims provisions by more than \$100 million in the second half while also reinsuring the division's commercial auto runoff liabilities, thereby eliminating any possibility of surprises from this segment of the portfolio in the future. The rehabilitation of North American Operations has been a multi-year and costly effort, but we are starting to see our portfolio strategy emerge and believe this persistent reshaping will prove to be beneficial to all QBE stakeholders.

¹ Source: Munich Re, 4 January 2018.

Leadership transition

2017 was a landmark year for QBE with the appointment of Pat Regan as Group Chief Executive Officer from 1 January 2018 following a four month leadership transition. The Board is grateful to John Neal for his dedication and leadership over five years as Group Chief Executive Officer as he led the business through a significant transformation during a very challenging period for the insurance industry globally. QBE is a demonstrably better organisation today thanks to John's leadership and I am confident future financial results will benefit from his past stewardship.

In the year prior to his appointment as Group Chief Executive Officer, Pat Regan led the strong turnaround in Australian & New Zealand Operations, and the Board supports his plans to apply a similar approach to performance management across all of QBE's operations. In his previous role as Group Chief Financial Officer, Pat was pivotal in strengthening the balance sheet and enhancing the Group's capital management discipline.

Alongside the appointment of a new Group Chief Executive Officer, the Group Executive Committee has been strengthened following three external appointments in the last half year. David McMillan (Group Chief Operations Officer) and Michael Ford (Group Chief Financial Officer) joined QBE in September 2017, bringing a wealth of experience from the insurance and broader financial services sectors. In early 2018 Vivek Bhatia, a seasoned insurance executive with management consulting experience in restructuring and transformation, was appointed to replace Pat as Chief Executive Officer of Australian & New Zealand Operations.

Capital strength

Achieving the right balance between prioritising QBE's capital strength and rewarding shareholders is an ongoing priority for the Board. Shareholders would recall that a strong balance sheet and positive outlook for cash remittances from the divisions enabled us to revise the dividend policy in 2016 to allow for "up to 65% of cash profit" to be paid out as dividends, while more recently we commenced a program of buying back shares in QBE.

The Group's financial performance shaped our approach to capital management during the year. In the first half the Group generated a substantial cash profit, and the dividend of 22 Australian cents per share represented a payout ratio of 61%. During the second half of 2017 we purchased A\$139 million of QBE shares under the buyback, resulting in the cancellation of 0.9% of the Group's issued capital.

Due to adverse catastrophe experience a significant loss was recorded for the second half on a cash basis and the Board had this in mind, as well as our confidence in the Group's future earnings prospects, when declaring a reduced final 2017 dividend of four Australian cents per share.

The Board is aware that the dividends QBE pays are highly valued by many of our shareholders but we are also mindful of the overriding importance of ensuring the Group balance sheet remains robust when measured against both regulatory and rating agency capital requirements.

Our dividend policy remains unchanged for 2018.

We remain committed to the three-year share buyback announced in February 2017; however, we intend taking a considered approach in the near term.

Looking to the future

While our European and Australian & New Zealand Operations delivered strong results, aspects of QBE's performance in 2017 were unsatisfactory and your Board is taking the necessary steps to improve the Group's performance in coming years.

There are now signs of a modest recovery in the commercial insurance market in the northern hemisphere after years of weakness, with premium rates in some classes starting to adjust for the catastrophe losses of 2017. At the same time, there are tangible signs of rising global interest rates which, if sustained, bode well for future investment returns.

Although there are some encouraging signs, Pat Regan and his management team are not relying on an improving external landscape. Their focus is on "Brilliant Basics" – improving underwriting quality, pricing and claims handling while simplifying the business portfolio and improving efficiency across QBE's operations. Investing in technology and accelerating the pace of innovation will have a substantial role to play. Both the Board and management are committed to moving expeditiously, with the required decision-making to deliver on our plans and on QBE's potential.

In closing, I would like to thank shareholders. QBE has been through a period of challenge and change with financial results that are below expectations. We expect better and more consistent results in the future that will reward your continued support. We also acknowledge the hard work of QBE employees around the world, for their commitment to supporting the management team and the company as we finalise, and commence implementation of, a refreshed strategic plan.

W. Marston Becker
Chairman

2017 snapshot¹

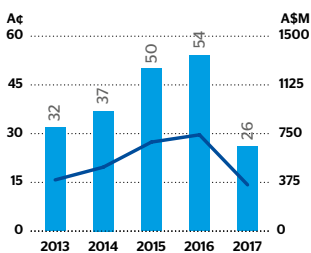
Shareholder highlights

Dividend per share (A¢)

26¢

Dividend payout (A\$M)

\$356M



● Dividend per share (A¢)
— Dividend payout (A\$M)

⬇️ 52% from 2016

(Loss) earnings per share (US¢)

(91.5)¢

2016 61.6¢

Return on average shareholders' funds (%)

(13.0)%

2016 8.1%

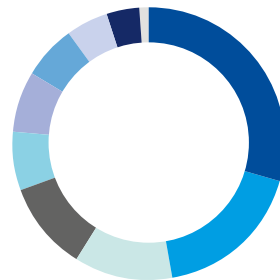
Financial highlights

Combined operating ratio (COR) (%)

104.8%

2016 94.0%

Gross earned premium by class of business



	2017 %	2016 %
Commercial & domestic property	29.7	31.4
Motor & motor casualty	17.7	18.3
Agriculture	11.7	10.8
Public/product liability	10.4	10.1
Professional indemnity	7.1	6.3
Workers' compensation	7.1	7.4
Marine energy & aviation	6.4	6.3
Accident & health	5.1	4.6
Financial & credit	3.8	4.0
Other	1.0	0.8

Net earned premium (US\$M)

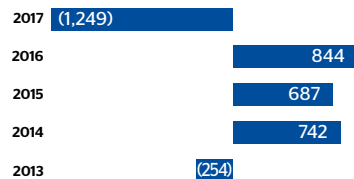
12,041

⬇️ 9% from 2016

Net (loss) profit after income tax (US\$M)

(1,249)

⬇️ 248% from 2016



Insurance (loss) profit (US\$M)

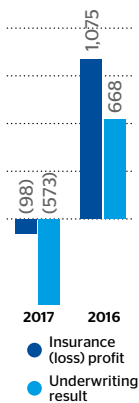
(98)

⬇️ 109% from 2016

Underwriting result (US\$M)

(573)

⬇️ 186% from 2016



Net earned premium by type

93% direct and facultative insurance

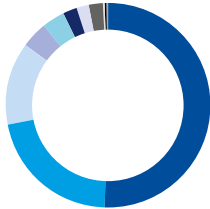
7% inward reinsurance

¹ The information in the tables above is extracted or derived from the Group's audited financial statements. The Group Chief Financial Officer's report sets out further analysis of the results to assist in comparison of the Group's performance against 2017 targets provided to the market.

Operational highlights

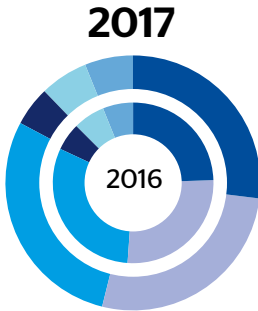
Investments and cash at 31 December 2017 (US\$M)

\$26,141M



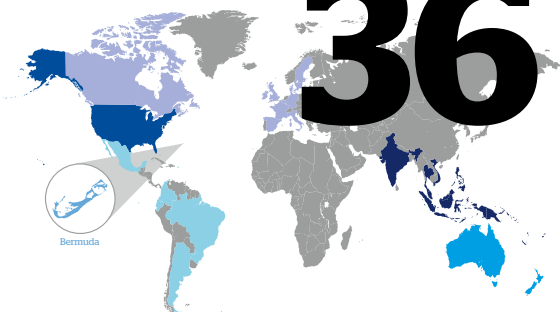
	2017 %	2016 %
Corporate bonds	50.7	44.9
Government bonds	21.3	23.8
Short-term money	13.2	15.7
Property trusts/ investment property	4.2	4.1
Infrastructure assets	3.5	1.0
Cash	2.2	3.4
Infrastructure debt	2.1	1.8
Equities	2.0	2.3
Emerging market debts and equities	0.4	1.3
Private equity	0.3	0.1
Unit trusts	0.1	0.1
Alternatives	-	0.7
High yield debt	-	0.8

Divisional analysis of net earned premium (%)



- North American Operations
- European Operations
- Australian & New Zealand Operations
- Asia Pacific Operations
- Latin American Operations
- Equator Re

Countries of operation



Environmental and social highlights

Carbon emissions reduction

↓ 7%
from 2016



Included as a member of the 2018 Bloomberg Gender-Equality Index



QBE leadership academy

2,573



graduates in total

Premiums4Good (US\$M)

\$455M

total invested

Grants and donations to charities (US\$M)

\$4.39M

26

total investments

Charities supported

350+



Towards a stronger and simpler QBE

At the start of 2018 I was honoured to become Group Chief Executive Officer and to commence an accelerated reshaping of the company's strategic focus to create a stronger and simpler QBE. My appointment came at a challenging time with the Group recording an underwriting loss in 2017 due largely to the unprecedented severity of weather-related catastrophes, coupled with a material decline in the performance of our Asia Pacific and Latin American Operations.

Over the last four months I have worked with my Group Executive Committee colleagues to put together a program of work that I am confident will simplify the Group, improve performance and reduce volatility. While the program certainly draws on elements that were successful in the turnaround of Australian & New Zealand Operations, it has been designed for the needs of QBE overall.

The key elements of the program are as follows:

Simplify QBE

While QBE has a number of strongly performing businesses in major insurance markets, our portfolio remains diverse both in terms of geography and product mix. There is scope to simplify the business to ensure we operate only in markets and products where we have a competitive advantage and can deliver profitable growth. Following a strategic review of our footprint in Latin America, we have decided to exit the region in order to focus on our core markets and to improve the quality and consistency of our results.

Brilliant Basics

The basics of insurance – underwriting, pricing and claims – need to be performed at a consistently high standard in every market in which we operate and across every product we underwrite. We do have areas of expertise and strength in parts of our business and our objective is to consistently deliver excellence in these core areas across the Group. I am confident that with a relentless commitment to getting the basics right, improvements in the quality and predictability of our earnings will naturally follow.

Drive performance improvement

The same rigorous approach we employed in Australian & New Zealand Operations to assess the quality of all parts of that business will be implemented across the Group. This will involve regular reviews of discrete business "cells" to identify strengths and weaknesses, develop strategies and specific plans for performance improvement and make decisions about the overall structure of our portfolio.

Cost and efficiency

We have delivered significant cost reductions in recent years, but there is more to be done. The simplification of our portfolio will facilitate some cost reduction as will the ability to leverage savings from the investment in better tools and systems for our staff.

Further reposition North American Operations

To deliver on QBE's potential we need North American Operations to perform at a similar level to European Operations and Australian & New Zealand Operations, both of which delivered 2017 results consistent with their market-leading positions. In recent months we have conducted a detailed review of the North American business, including an assessment of its capabilities across the Brilliant Basics areas of pricing, underwriting and claims, along with a review of its strategic focus to identify the market segments in which we have the capabilities to grow profitably. We see significant opportunities to further transform and refocus the business to improve underwriting results.

Remediate Asia

Improving the performance of Asia Pacific Operations is a high priority for 2018. QBE has had a presence in some Asian markets for more than 100 years and the region is important to us. While the division reported an unsatisfactory combined ratio of 115.3% in 2017, approximately half of the underwriting loss relates to issues in the Hong Kong workers' compensation business. Improved pricing and risk selection in a number of key portfolios will now be a focus as we work towards a more acceptable performance.

Customer focus

Sound progress has been made in institutionalising a customer-centric approach in recent years; however, there is scope to leverage existing strengths to form closer client relationships. Better co-operation across QBE will be key to our success, building upon existing industry vertical and practice group structures to develop better systems for identifying new customers and to identify opportunities for providing clients with better outcomes.

Innovation

Developments in technology and data science will have enormous ramifications for the insurance industry in the coming years and at QBE we know we need to innovate faster than ever before. In 2017 we made significant progress in building our internal data science capability and forming our first two partnerships with technology start-ups that have developed solutions directly relevant to our business, both involving the application of artificial intelligence. We have only just started this journey and QBE's commitment to innovation will increase in 2018 and beyond.

Technology

Our technology roadmap will be aligned to support the Brilliant Basics initiative with a focus on enhancing our systems to support the use of complex pricing models, improve risk selection and increase the use of data throughout our underwriting processes. In addition to Brilliant Basics enablement, we will be increasing the use of digital solutions and automation to deliver efficiencies, along with improvements in platform stability and upgrades to our cyber security capability.

Talent and culture

We are embedding a culture that mirrors and supports our objectives for QBE. To drive the right behaviours across the Group, a new set of values will be introduced that place greater emphasis on diversity and being customer-led, technically excellent, collaborative, accountable, energetic and decisive.

In closing, I am confident that the program of work we have established to meaningfully transform our business has sound foundations and I look forward to reporting to you on our progress as we set out to deliver better outcomes for our stakeholders.

Pat Regan
Group Chief Executive Officer

Outlook for 2018

2018 targets:

Combined operating ratio:

95.0%
to
97.5%^{1,2}

Investment return:

2.5%
to
3.0%²

Following an extended period of declining premium rates, particularly in European Operations and to a lesser degree North American Operations, we welcome the modest improvement in premium pricing now occurring as a result of the recent catastrophe activity.

Although we expect the market to remain competitive, we are observing low to mid-single digit premium rate increases across our European Operations and anticipate low single digit premium rate increases in our North American Operations. Pricing is expected to remain firm in Australian & New Zealand Operations, albeit increasingly targeted towards poorer performing classes of business, particularly commercial property. We expect market conditions to remain challenging in Asia, particularly in Hong Kong and Singapore; however, we will sacrifice top-line to drive appropriate premium rate increases across our Asia Pacific portfolio.

The Group is targeting a combined operating ratio range of 95.0–97.5%. This assumes more normal catastrophe experience (within the tolerances allowed for by the Group's aggregate reinsurance protection) coupled with a targeted improvement in the attritional claims ratio reflecting premium rate increases, global implementation of the cell performance review discipline and specific remediation initiatives, particularly in Asia Pacific and North American Operations.

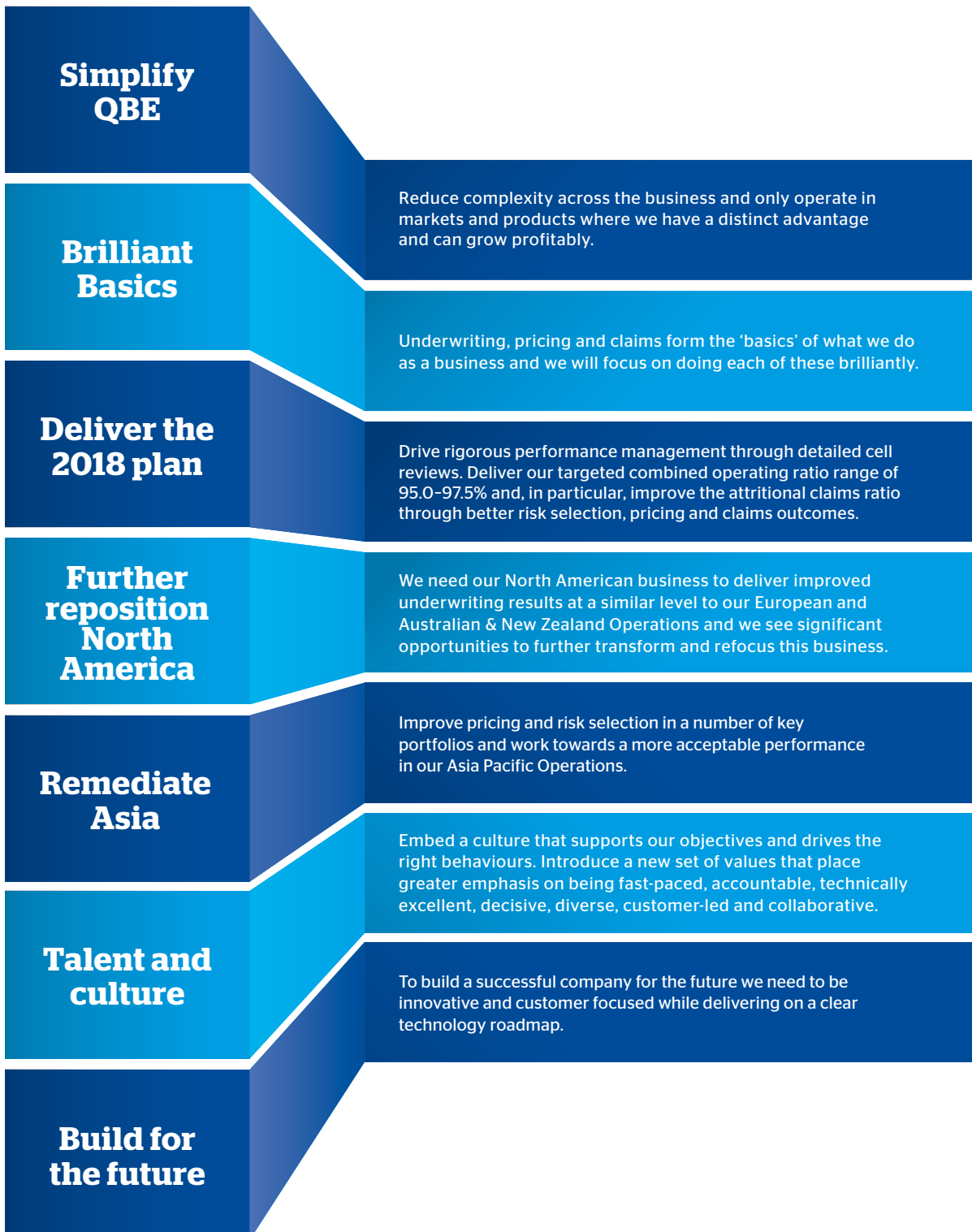
Although we are targeting additional operational cost efficiencies, the Group's underwriting expense ratio is expected to remain broadly stable in 2018 due to a likely further reduction in fee income and planned investment in growth and other strategic initiatives.

We are targeting a net investment return of around 2.5–3.0% reflecting an expectation that our fixed income portfolio will deliver slightly above its current running yield of around 2% and growth assets will generate overall returns of around 7%.

¹ Assumes risk-free rates as at 31 December 2017.

² Includes the results of operations in Latin America which will be presented as discontinued operations in the 2018 statement of comprehensive income.

Our priorities for 2018





Financial and operations overview

Record catastrophe activity, reduced favourable prior accident year claims development and unacceptable results in Asia Pacific and Latin American Operations drove an underwriting loss despite improved cost efficiency.

General overview

My commencement as Group Chief Financial Officer coincided with the appointment of Pat Regan as the Group's Chief Executive Officer. During these early months, a key focus for me has been working with the Group Executive Committee to develop the program of work which you will have read about in Pat's Chief Executive Officer's report and referenced in the Chairman's message.

The program's near-term focus is on reducing complexity, simplifying the portfolio and delivering underlying performance improvement. One important focus of mine, which is critical to our performance improvement ambitions, is the successful rollout and implementation across the Group of the "Cell Performance Review" discipline which has been successfully implemented in Australian & New Zealand Operations.

As has been the case in Australian & New Zealand Operations, implementation of cell reviews will drive greater accountability for divisional performance down to a more granular level, ensuring that performance improvement plans are not only realistic but are also being successfully executed. Performance monitoring will take place by way of a structured timetable of cell reviews to ensure there is stronger accountability, more timely decision making and that all cells in our business have strong performance improvement plans and a disciplined approach to execution.

The rollout and implementation of cell reviews, including the consistent and accurate global reporting of cell performance, is one of my key priorities in 2018.

Consistent with our objective of reducing complexity and simplifying the portfolio, we have decided to exit our Latin American Operations which will see QBE reduce its geographic footprint and focus its ambition on being an "international" as distinct from a "global" insurer, with meaningful operations in the major insurance market hubs.

With respect to the recently announced 2017 results, I would like to discuss three broad areas:

1. Financial performance.
2. Investment strategy and performance.
3. Financial strength and capital management.

1. Financial performance

QBE reported a statutory net loss after tax of \$1,249 million compared with a net profit after tax of \$844 million in 2016.

The headline after tax loss included two significant non-cash items: a \$700 million North American goodwill impairment charge and a \$230 million write down of the carrying value of the deferred tax asset in our North American Operations due to a reduction in the US corporate tax rate to 21% from 35%. Both items are discussed in more detail later in my report.

Excluding these and other non-cash items, the loss after tax on a cash basis was \$258 million and compares with a cash profit of \$898 million in 2016.

The Group's combined operating ratio increased to 104.1%^{1,2,3}, from 93.7%^{1,3,4} in the prior year, primarily due to extreme catastrophe experience, a significantly reduced level of positive prior accident year claims development and an increase in the attritional claims ratio, which more than offset an improved combined commission and expense ratio.

Excluding the net cost of large individual risk and catastrophe claims in excess of the Group's aggregate reinsurance limit, the 2017 combined operating ratio would have been 98.2%^{1,2,3}.

From my perspective, the key themes to emerge from the 2017 full year result are set out below:

(a) North American Operations heavily impacted by catastrophes and claims reserve strengthening

North American Operation's result was heavily impacted by second half catastrophes including Hurricanes Harvey, Irma and Maria and the Californian wildfires. Excluding the cost of large individual risk and catastrophe claims in excess of the division's aggregate reinsurance limit, North American Operations delivered a combined operating ratio of 102.2%^{1,3}, up from 98.5%^{1,3} in the prior year. The deterioration in the underwriting result reflected a more normal Crop result following an outstanding 2016, coupled with an increase in the attritional claims ratio due to adverse weather-related claims and generally competitive pricing conditions.

During 2017, we completed a further loss portfolio transfer (LPT) which, together with the LPT undertaken in 2016, has removed in excess of \$850 million of potentially volatile claims liabilities from our balance sheet. The LPTs, coupled with a \$116 million second half claims reserve strengthening, lay a stronger foundation for improved profitability and reduced earnings volatility as we progress into 2018.

(b) Deterioration in Asia Pacific Operations due to lapse in underwriting discipline

Asia Pacific Operations reported an unacceptable combined operating ratio of 115.5%¹, up from 95.6%¹ in the prior period. The result includes a material increase in attritional claims activity across a number of portfolios and territories but especially in Hong Kong workers' compensation and in property and marine classes in Hong Kong, Singapore and Indonesia. In addition to the competitive market landscape, the heightened attritional claims activity in these portfolios reflects a disappointing lapse in risk selection and underwriting discipline that led to an increase in exposure to higher hazard risks.

The Hong Kong workers' compensation portfolio contributed around half of the division's \$100 million underwriting loss, including a material strengthening of prior accident year claims reserves.

Gross written premium (US\$M)

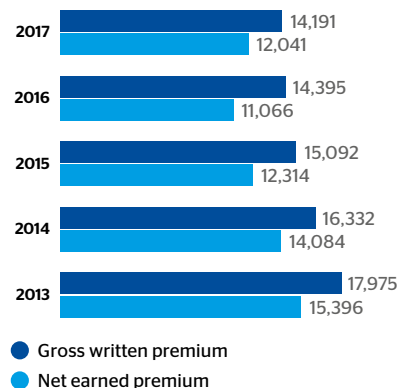
\$14,191M

↓ 1% from 2016

Net earned premium (US\$M)

\$12,041M

↑ 9% from 2016



1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
 2 Excludes one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK.
 3 Excludes transactions to reinsure US liabilities.
 4 Excludes transactions to reinsure UK liabilities.

(c) Continued solid results in European Operations despite reduced positive prior accident year claims development

Despite challenging market conditions and significant exposure to the catastrophes in North America and the Caribbean, European Operations once again produced a strong underwriting result reporting a combined operating ratio of 95.2%^{1,2} reflecting the maintenance of strong underwriting discipline and especially strong reinsurance protections. The result was assisted by \$141 million² of favourable prior accident year claims development, albeit down on the prior year.

While premium rates reduced further during the year, the pace of decline slowed significantly and the recent January 2018 renewals give some early cause for optimism that the extended soft pricing cycle has abated.

(d) Further improvement in Australian & New Zealand Operations

Performance improvement in Australian & New Zealand Operations remains focused on premium rate increases, tightened terms and conditions, improved underwriting discipline and claims management initiatives, all of which are now embedded in to the cell performance review process. Premium rate increases averaged 6.1% (excluding NSW CTP where regulatory reforms are driving reduced small claims frequency leading to significant premium rate reductions). Premium retention was stable at around 82%, consistent with a market-wide upswing in premium rates.

As foreshadowed, our Lenders' Mortgage Insurance (LMI) business reported a higher combined operating ratio consistent with a cyclical slowdown in the Australian mortgage insurance industry. Notwithstanding reduced LMI earnings, Australian & New Zealand Operations' combined operating ratio improved to 92.0%¹ from 92.4%¹ in the prior period, underpinned by a 1.8% improvement in the attritional claims ratio or 2.5% excluding LMI.

2. Investment strategy and performance

Our investments delivered a net return of 3.2% compared with 2.9% in the prior year.

Investment performance in 2017 exceeded expectations, with the fixed income portfolio benefiting from credit spread compression throughout the year and growth assets delivering very strong returns. Tactical positioning during the year added value beyond the underlying asset class performances, as we held more credit early in the year and less duration in the second half.

Exposure to growth assets peaked at 13.2% of total investment assets in April; however, after an especially strong performance, was reduced to 10.2% at year end.

3. Financial strength and capital management

While the Group's capital position remains strong when measured against both regulatory and rating agency capital requirements, severe second half catastrophe experience coupled with dividends paid and the share buyback resulted in our APRA PCA multiple falling to 1.64x at 31 December 2017 from 1.76x a year earlier.

Following a material strengthening of risk margins and completion of the LPT, the probability of adequacy (PoA) of outstanding claims increased from 89.5% to 90.0%, the mid-point of our benchmark 87.5–92.5% PoA range.

Cash remittances from the operating divisions remained strong at \$1,022 million compared with \$1,106 million in the prior period. Dividend coverage remains very strong at 1.8x.

Group head office cash flows

FOR THE YEAR ENDED 31 DECEMBER	2017 US\$M	2016 US\$M
Opening head office cash balance	1,007	845
Total divisional remittances	1,022	1,106
Net interest on parent entity borrowings	(196)	(81)
Gross organic cash flow	826	1,025
Dividends paid	(570)	(535)
Net organic cash flow	256	490
Other (including share purchases)	(228)	(328)
Closing head office cash balance	1,035	1,007

As noted in February 2017, QBE established a three-year cumulative on-market share buyback facility of up to A\$1 billion, with a current target of acquiring not more than A\$333 million in any one calendar year. During 2017, QBE purchased A\$139 million of QBE shares resulting in the cancellation of 13 million shares or 0.9% of issued capital.

Whilst we remain committed to the share buyback, we intend to adopt a considered approach, especially in the first half of 2018 as we look to gradually increase our PCA multiple within our 1.6–1.8x benchmark range.

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

² Excludes one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK.

Operating and financial performance

Summary income statement

FOR THE YEAR ENDED 31 DECEMBER	STATUTORY RESULT		ADJUSTMENTS		ADJUSTED RESULT	
	2017 US\$M	2016 US\$M	2017 US\$M	2016 US\$M	2017 ^{1,2} US\$M	2016 ^{2,3,4} US\$M
Gross written premium	14,191	14,395	–	(307)	14,191	14,088
Gross earned premium	14,446	14,276	–	(413)	14,446	13,863
Net earned premium	12,041	11,066	417	570	12,458	11,636
Net claims expense	(8,537)	(6,442)	(297)	(581)	(8,834)	(7,023)
Net commission	(2,116)	(2,034)	–	–	(2,116)	(2,034)
Underwriting and other expenses	(1,961)	(1,922)	2	–	(1,959)	(1,922)
Underwriting result	(573)	668	122	(11)	(451)	657
Net investment income on policyholders' funds	475	407	–	–	475	407
Insurance (loss) profit	(98)	1,075	122	(11)	24	1,064
Net investment income on shareholders' funds	337	339	–	–	337	339
Financing and other costs	(305)	(294)	–	–	(305)	(294)
Losses on sale of entities	(6)	–	–	–	(6)	–
Unrealised losses on assets held for sale	–	(3)	–	–	–	(3)
Share of net losses of associates	(1)	–	–	–	(1)	–
Amortisation and impairment of intangibles	(752)	(45)	700	–	(52)	(45)
(Loss) profit before income tax	(825)	1,072	822	(11)	(3)	1,061
Income tax expense	(428)	(228)	199	–	(229)	(228)
(Loss) profit after income tax	(1,253)	844	1,021	(11)	(232)	833
Non-controlling interest	4	–	–	–	4	–
Net (loss) profit after income tax	(1,249)	844	1,021	(11)	(228)	833

1 Excludes one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK.

2 Excludes transactions to reinsure US liabilities.

3 Excludes M&LS fronting.

4 Excludes transactions to reinsure UK liabilities.

Overview of the 2017 result

The 2017 adjusted result in the preceding table shows the statutory result excluding the following items which materially distort key performance indicators:

- a \$139 million increase in the Group's net central estimate of outstanding claims reflecting the reduction in statutory discount rates applicable to UK personal injury liabilities (the Ogden decision) and a related \$2 million reinsurance charge with an associated \$31 million tax benefit – refer European Operations' commentary on page 29;
- a transaction to reinsure US commercial auto run-off liabilities which reduced net earned premium by \$415 million and net claims expense by \$436 million while adversely impacting underwriting expenses by \$2 million. Although having only a minor impact on net profit, the transaction impacts year-on-year comparison of net earned premium and underwriting ratios, depressing the net claims ratio and inflating the combined commission and expense ratio;
- a \$700 million non-cash impairment charge as discussed in the intangible assets section on page 21; 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%.

Similarly, the 2016 statutory profit in the preceding table is presented after excluding the following items that also materially distort key performance indicators:

- transactions to reinsure legacy US multi-line property and casualty (program) run-off liabilities and long-tail UK liabilities, which together reduced net earned premium by \$570 million and net claims expense by \$581 million. Although only having a minor impact on net profit, the transactions impact year-on-year comparisons of net earned premium and underwriting ratios, depressing the net claims ratio and inflating the combined commission and expense ratio; and
- M&LS was sold in 2015; however, we continued to front this business on a progressively reducing basis until March 2017, with no impact on net premium or profit (and an immaterial impact on gross written premium in 2017).

Unless otherwise stated, the profit and loss and underwriting result commentary following refers to the Group's result on the basis described above.

The Group incurred a 2017 pre-tax loss of \$3 million, compared with a pre-tax profit of \$1,061 million in the prior year, primarily reflecting a \$772 million increase in the net cost of large individual risk and catastrophe claims and a \$329 million reduction in the contribution from positive prior accident year claims development.

The Group's effective tax rate was materially distorted by significant catastrophe claims in our North American Operations, where an already substantial deferred tax asset precluded recognition of further tax losses, as well as in Equator Re. Tax expense was incurred in the profitable Australian & New Zealand and European Operations. As a result, the Group recognised \$229 million of tax expense against a \$3 million pre-tax loss which, in addition to the operational profit drivers, contributed to a net loss after tax of \$228 million compared with a net profit after tax of \$833 million in the prior year.

Excluding amortisation of intangibles and other non-cash items, the Group incurred a loss after tax on a cash basis of \$258 million compared with an \$898 million cash profit reported in the prior year.

On a constant currency basis, gross written premium increased by 0.5% while net earned premium grew by 7%, partially reflecting reduced reinsurance expense.

The combined operating ratio increased to 104.1%¹ from 93.7%¹ in the prior year, primarily due to adverse catastrophe experience which saw the net cost of large individual risk and catastrophe claims increase to 14.6% of net earned premium from 9.1% in the prior year. The combined operating ratio was also adversely impacted by a reduced level of positive prior accident year claims development coupled with a largely Crop driven increase in the attritional claims ratio (following an outstanding Crop result in 2016), which more than offset an improved combined commission and expense ratio.

Excluding the net cost of large individual risk and catastrophe claims retained in excess of the Group's aggregate reinsurance protection, the 2017 combined operating ratio would have been 98.2%¹.

The net investment return on policyholders' funds increased to 3.0% from 2.6% in the prior year, contributing 3.8% to the insurance profit margin compared with 3.5% in 2016. Returns were enhanced by mark-to-market gains on sovereign and corporate bonds coupled with strong growth/risk asset returns partially offset by foreign exchange losses, while the prior year benefited from significant foreign exchange gains.

The Group reported an insurance profit of \$24 million, down significantly from \$1,064 million in the prior year. The insurance profit margin fell to 0.2% from 9.1% in the prior period.

Investment income on shareholders' funds was broadly stable at \$337 million. Stronger underlying returns were offset by the non-recurrence of significant prior year foreign exchange gains.

Financing and other costs increased to \$305 million from \$294 million in the prior year, including costs associated with the settlement of the class action which more than offset reduced interest costs following significant refinancing activities over the past two years.

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

Cash profit

FOR THE YEAR ENDED 31 DECEMBER	2017 US\$M	2016 US\$M
Cash (loss) profit before tax	(37)	1,147
Tax expense on cash profit	(225)	(249)
Loss attributable to non-controlling interest	4	–
Net cash (loss) profit after tax	(258)	898
Losses on sale of entities after tax	(4)	–
Amortisation and impairment of intangibles after tax ¹	(757)	(54)
Write down of deferred tax asset	(230)	–
Net (loss) profit after income tax	(1,249)	844
Return on average shareholders' funds	(13.0)%	8.1%
Basic earnings per share – cash basis (US cents)	(18.9)	65.5
Dividend payout ratio (percentage of cash profit) ²	na	61%

¹ \$31 million of pre-tax amortisation expense is included in underwriting expenses (2016 \$29 million).

² Dividend payout ratio is calculated as the total AUD dividend divided by cash profit converted to AUD at the average rate during the period.

Premium income

Gross written premium increased marginally to \$14,191 million compared with \$14,088 million in the prior year.

On an average basis and compared with 2016, sterling depreciated against the US dollar by 5% while the Australian dollar and Euro appreciated by 3% and 2% respectively. Currency movements favourably impacted gross written premium by \$36 million relative to the prior period.

Gross written premium increased by 0.5% on a constant currency basis, reflecting modest growth in North American and European Operations coupled with inflation-led growth in Argentina, largely offset by a slight decline in Australian & New Zealand and Asia Pacific Operations.

Assisted by firming market conditions in Australian & New Zealand Operations, overall premium rate momentum turned positive during the year. Group-wide premium rate increases averaged 1.7%¹ compared with an average reduction of 0.5%¹ in 2016. Although remaining highly competitive and still below the level of claims inflation, pricing conditions improved in North American and European Operations while deteriorating in Asia Pacific Operations.

North American Operations reported an underlying 1%² increase in gross written premium, assisted by an average premium rate increase of 0.7% compared with flat in the prior year. Continued strong growth in Specialty coupled with increased Crop income following higher commodity prices, higher coverage demand and policy count growth were partly offset by a reduction in Property & Casualty income. This reduction followed the 2016 decision to exit mono-line commercial auto insurance and the mid-year termination of a heavily property catastrophe exposed condominium program.

European Operations' gross written premium was up 0.4% on a constant currency basis. This is a solid outcome given the competitive pricing landscape that saw an average premium rate reduction of 0.2% during the year, an improvement on the average premium rate reduction of 2.4% experienced in the prior year.

Australian & New Zealand Operations reported a 1% reduction in gross written premium on a constant currency basis. An average premium rate increase of 5.3% compared with 1.2% in the prior year coupled with broadly stable retention was offset by a significant and targeted reduction in new business volumes in selected classes of business.

Asia Pacific Operations' gross written premium fell 3% on a constant currency basis, consistent with increased competitive pressure as evidenced by average premium rate reductions of 2.3% compared with 0.1% in the prior year. A targeted reduction in Hong Kong workers' compensation and marine business in Singapore and Indonesia, coupled with increased lapses in Thailand post the announcement of our intention to sell, more than offset personal lines premium growth through the Manulife distribution relationship.

Latin American Operations' gross written premium grew 4% on a constant currency basis, underpinned by an average premium rate increase of 10.1% (largely driven by Argentine motor inflation) compared with 4.1% in the prior year, partially offset by the mid-year sale of the Chilean business and contraction in Ecuador due to soft market pricing and a weak economy.

Net earned premium increased 7% on a constant currency basis, partially reflecting reduced reinsurance spend following the renegotiation and restructuring of the Group's 2017 reinsurance protections.

¹ Group premium rate movements exclude Latin America where high inflation distorts the headline premium rate movements.

² Excludes \$142 million of Latin American premium income fronted on behalf of Equator Re in 2016.

Underwriting performance

Key ratios – Group

FOR THE YEAR ENDED 31 DECEMBER	2017		2016	
	STATUTORY %	ADJUSTED ^{1,2} %	STATUTORY %	ADJUSTED ^{2,3} %
Net claims ratio	70.9	70.9	58.2	60.4
Net commission ratio	17.6	17.0	18.4	17.5
Expense ratio	16.3	15.7	17.4	16.5
Combined operating ratio	104.8	103.6	94.0	94.4
Adjusted combined operating ratio ⁴	105.4	104.1	93.2	93.7
Insurance (loss) profit margin	(0.8)	0.2	9.7	9.1

¹ Excludes one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK.

² Excludes transactions to reinsure US liabilities.

³ Excludes transactions to reinsure UK liabilities.

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

Divisional performance

Contributions by region

FOR THE YEAR ENDED 31 DECEMBER	GROSS WRITTEN PREMIUM		NET EARNED PREMIUM		COMBINED OPERATING RATIO		INSURANCE (LOSS) PROFIT BEFORE INCOME TAX	
	2017 US\$M	2016 US\$M	2017 US\$M	2016 US\$M	2017 %	2016 %	2017 US\$M	2016 US\$M
North American Operations	4,556	4,647	3,541	3,318	108.8	97.8	(236)	155
European Operations	4,049	4,076	3,212	3,115	93.4	93.6	335	314
Australian & New Zealand Operations	4,024	3,933	3,480	3,410	91.9	92.7	438	418
Asia Pacific Operations	740	765	653	615	115.3	95.6	(93)	34
Latin American Operations	863	867	715	713	113.2	102.9	(49)	39
Equator Re	1,580	1,349	847	468	141.3	70.7	(323)	164
Equator Re elimination ¹	(1,567)	(1,349)	–	–	–	–	–	–
Corporate adjustments	(54)	(200)	10	(3)	–	–	(48)	(60)
Group adjusted	14,191	14,088	12,458	11,636	103.6	94.4	24	1,064
Ogden adjustments ²	–	–	(2)	–	1.2	–	(141)	–
M&LS fronting ³	–	307	–	–	–	–	–	–
Reinsurance transactions ^{4,5}	–	–	(415)	(570)	–	(0.4)	19	11
Group statutory	14,191	14,395	12,041	11,066	104.8	94.0	(98)	1,075
Direct and facultative	13,152	13,369	11,161	10,219	104.5	94.3	(60)	958
Inward reinsurance	1,039	1,026	880	847	108.3	90.0	(38)	117
Group statutory	14,191	14,395	12,041	11,066	104.8	94.0	(98)	1,075

1 Non-eliminated Equator Re gross written premium relates to minority interests in Lloyd's Syndicate 386.

2 One-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK.

3 The M&LS fronting transaction incepted on 1 October 2015 and had no subsequent impact on the net underwriting result or insurance profit. The transaction was terminated in March 2017.

4 Transactions to reinsure US liabilities.

5 Transactions to reinsure UK liabilities.

Incurred claims

The Group's net claims ratio deteriorated to 70.9% from 60.4% in the prior year, reflecting a significant increase in the net cost of catastrophe claims, a higher attritional claims ratio and a reduced level of favourable prior accident year claims development, partially offset by an increase in the impact of risk-free rates used to discount net outstanding claims.

The table below provides a summary of the major components of the net claims ratio.

Analysis of net claims ratio

FOR THE YEAR ENDED 31 DECEMBER	2017		2016	
	STATUTORY %	ADJUSTED ^{1,2} %	STATUTORY %	ADJUSTED ^{2,3} %
Attritional claims	56.2	54.3	54.9	52.2
Large individual risk and catastrophe claims	15.2	14.6	9.6	9.1
Impact of reinsurance transactions	(0.7)	–	–	–
Claims settlement costs	3.2	3.2	2.9	2.8
Claims discount	(2.5)	(2.5)	(1.9)	(1.9)
Net incurred central estimate claims ratio (current accident year)	71.4	69.6	65.5	62.2
Changes in undiscounted prior accident year central estimate	(0.3)	(0.3)	(3.3)	(3.1)
Impact of reinsurance transactions	(2.9)	–	(5.2)	–
Impact of Ogden	1.2	–	–	–
Changes in discount rates	(0.6)	(0.5)	0.7	0.7
Movement in risk margins	0.7	0.8	(1.2)	(0.8)
Other (including unwind of prior year discount)	1.4	1.3	1.7	1.4
Net incurred claims ratio (current financial year)	70.9	70.9	58.2	60.4

1 Excludes one-off adverse impact on the Group's claims incurred due to the Ogden decision in the UK.

2 Excludes transactions to reinsure US liabilities.

3 Excludes transactions to reinsure UK liabilities.

Excluding Crop insurance, the attritional claims ratio increased to 52.4% from 51.9% in the prior year. A 1.8% improvement in Australian & New Zealand Operation's attritional claims ratio following repricing coupled with strengthened underwriting discipline and claims initiatives, was more than offset by deterioration elsewhere.

North American Operation's attritional claims ratio (excluding Crop) increased 1.6% primarily due to an increased frequency of non-catastrophe weather-related claims as well as business mix changes due to the growing contribution from Specialty that ordinarily operates at a higher attritional claims ratio.

European Operations' attritional claims ratio increased 1.1% reflecting higher underlying attritional claims activity in segments of the property portfolio, business mix changes and a number of temporary impacts including the Ogden decision, additional one-off reinsurance expense and the post-Brexit devaluation of sterling.

Asia Pacific Operations' attritional claims ratio increased by 9.1% due to price competition and a disappointing lapse in risk selection and underwriting discipline. This led to an increase in exposure to higher hazard risks, particularly in property and marine in Singapore and Indonesia as well as workers' compensation in Hong Kong.

Latin American Operations' attritional claims ratio increased 1.7% due to Brazilian travel insurance, Colombian SOAT and a heightened frequency of medium-sized claims in Mexico.

Equator Re's attritional ratio increased 6.6% due to growth in proportional business which ordinarily operates at a higher attritional claims ratio relative to excess of loss business.

Analysis of attritional claims ratio

FOR THE YEAR ENDED 31 DECEMBER	2017		2016	
	NEP US\$M	ATTRITIONAL %	NEP US\$M	ATTRITIONAL %
Rest of portfolio	11,507	52.4	11,093	51.9
Crop insurance	951	77.5	543	59.0
QBE Group	12,458	54.3	11,636	52.2

Large individual risk and catastrophe claims net of reinsurance are summarised in the table below.

Large individual risk and catastrophe claims

FOR THE YEAR ENDED 31 DECEMBER 2017	COST US\$M	% OF NEP
Total catastrophe claims	1,227	9.8
Total large individual risk claims	601	4.8
Total large individual risk and catastrophe claims	1,828	14.6

FOR THE YEAR ENDED 31 DECEMBER 2016	COST US\$M	% OF NEP
Total catastrophe claims	439	3.8
Total large individual risk claims	617	5.3
Total large individual risk and catastrophe claims	1,056	9.1

The total net cost of catastrophe claims increased to \$1,227 million or 9.8% of net earned premium from \$439 million or 3.8% in the prior year, with particularly adverse experience in North American Operations, Equator Re and European Operations (due to hurricanes Harvey, Irma and Maria and the Californian wildfires) and, to a lesser degree, Australian & New Zealand Operations (largely due to Cyclone Debbie and above average storm frequency).

The total net cost of large individual risk claims fell slightly to \$601 million or 4.8% of net earned premium from \$617 million or 5.3% in the prior year, reflecting reduced large claim activity in European Operations and, to a lesser degree, Australian & New Zealand Operations, partly offset by increased activity in Equator Re.

As summarised in the table below, the currency weighted average risk-free rate (excluding the Argentine peso) used to discount net outstanding claims liabilities increased from 1.33% as at 31 December 2016 to 1.53% as at 31 December 2017. Risk-free rates increased across all major currencies, with a particularly strong uplift in both Euro and sterling while Australian dollar risk-free rates increased only marginally.

Movement in weighted average risk-free rates

CURRENCY		31 DECEMBER 2017	30 JUNE 2017	31 DECEMBER 2016	30 JUNE 2016
Australian dollar	%	2.31	2.17	2.26	1.77
US dollar	%	2.36	2.15	2.04	1.20
Sterling	%	0.92	0.89	0.68	0.56
Euro	%	0.42	0.45	0.19	(0.16)
Group weighted average (ex Argentine peso)	%	1.53	1.42	1.33	0.92
Estimated impact of discount rate benefit (charge) ¹	\$M	67	29	(80)	(267) ²

1 Excludes discount rate impact due to changes in yields for our Australia 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 transactions to reinsure UK liabilities.

The increase in risk-free rates gave rise to a favourable underwriting impact of \$67 million that reduced the net claims ratio by 0.5% compared with a \$80 million charge in the prior year that increased the net claims ratio by 0.7%.

The result includes \$37 million of positive prior accident year claims development that benefited the claims ratio by 0.3% compared with \$366 million or 3.1% of favourable development in the prior year.

The Group's overall positive prior accident year claims development of \$37 million comprised:

- North American Operations' strengthened prior accident year claims reserves by \$114 million compared with \$121 million in 2016, with positive development in Crop more than offset by strengthening in P&C commercial, Specialty accident & health and Assumed Reinsurance casualty;
- European Operations recorded \$141 million of positive development compared with \$273 million in the prior year, with releases across several portfolios and accident years in both insurance and reinsurance;
- Australian & New Zealand Operations reported \$158 million of positive development compared with \$147 million in the prior year, largely reflecting the continued absence of any notable claims inflation across most long-tail classes;
- Asia Pacific Operations reported \$35 million of adverse development compared with \$6 million of favourable development in the prior year, primarily reflecting an increase in average claims size and common law claims frequency in the Hong Kong workers' compensation portfolio;
- Latin American Operations reported \$14 million of adverse development compared with \$11 million of favourable development in the prior year, largely due to adverse development in Colombian SOAT and liability and Argentine motor; and
- Equator Re reported \$97 million of adverse development compared with \$56 million of positive development in 2016, largely reflecting reduced recoveries on prior year aggregate reinsurance treaties.

The result also included a risk margin charge of \$98 million (\$80 million on a statutory basis) which increased the probability of reserving adequacy to 90.0% from 89.5% previously. This compares with a risk margin release of \$98 million (\$132 million on a statutory basis) in the prior year.

Commission and expenses

The Group's combined commission and expense ratio improved to 32.7% from 34.0% in the prior year.

The commission expense ratio improved marginally to 17.0% compared with 17.5% in the prior year. Favourable business mix changes in North American Operations, primarily growth in lower commission paying Specialty and Crop, was partially offset by a higher commission rate in European Operations reflecting ongoing commission pressure in the London market insurance operations.

The Group's expense ratio improved to 15.7% from 16.5% in the prior year, due to a minor increase in underwriting expenses relative to 7% growth in net earned premium. As expected, some of the additional gross cost savings achieved during the year were reinvested in longer term expense reduction and growth initiatives while the expense ratio was also adversely impacted by a reduction in workers' compensation managed fund fee income in Australia and restructuring charges associated with the separation of Asia Pacific and Latin American Operations.

Income tax expense

The Group's statutory income tax expense of \$428 million includes a \$230 million write down of our North American deferred tax asset due to the reduction in the corporate tax rate from 35% to 21% effective 1 January 2018.

On an adjusted basis, income tax expense is \$229 million on a pre-tax loss of \$3 million and compared with \$228 million of tax expense in the prior year at a more typical effective tax rate of 21%. Tax expense in the current year was materially distorted by significant catastrophe claims in North American Operations, where an already substantial deferred tax asset precluded the further recognition of tax losses, and in Equator Re.

During the year, QBE paid \$92 million in corporate income tax to tax authorities globally, including \$23 million in Australia. Income tax payments in Australia benefit our dividend franking account, the balance of which stood at A\$199 million as at 31 December 2017. The Group is therefore capable of fully franking A\$464 million of dividends.

The combination of a higher payout and increased profitability of non-Australian operations is anticipated to reduce the franking account balance and shareholders should therefore expect the franking account percentage to remain around 30% in 2018.

Balance sheet

Capital management summary

Despite a catastrophe driven second half loss the Group's regulatory capital position remains strong with an indicative APRA PCA multiple of 1.64x, albeit down from 1.76x at the previous year end and 1.69x at 30 June 2017.

Nevertheless, following our ASX Release of 23 January 2018, the major Rating Agencies revised their outlooks as follows:

- S&P revised the Group's outlook from "positive" to "stable" on 30 January 2018. At the same time, S&P affirmed the 'A-' issuer credit rating (ICR) on QBE Insurance Group Limited (the parent entity) as well as the 'A+' ICR and insurer financial strength (IFS) ratings on QBE's core operating entities.
- Moody's affirmed the 'Baa1' ICR of QBE Insurance Group Limited and changed the rating outlook to "negative" from "stable" on 5 February 2018. At the same time Moody's also affirmed the 'A1' IFS ratings of our main operating subsidiaries and changed the ratings outlooks to "negative" from "stable".
- Fitch placed the parent entity's Long-term Issuer Default Rating of 'A-' and its subsidiaries' 'A+' (Strong) IFS on Rating Watch Negative (RWN) on 1 February 2018. At the time of the announcement, it was Fitch's expectation that the RWN would be resolved after the publication of the company's detailed financial results on 26 February 2018.
- A.M. Best commented on 9 February 2018 that the credit ratings of QBE Insurance Group Limited and its main insurance subsidiaries remain unchanged but added that they will assess the impact of any announced capital management actions on prospective risk-adjusted capitalisation after the finalisation of 2017 year-end results on 26 February 2018.

During 2017, the Group undertook a number of debt capital management initiatives including retiring legacy grandfathered tier 1 debt and replacing this with new additional tier 1 debt, as well as accelerating the redemption of \$600 million of senior unsecured debt originally due to mature during the second quarter of 2018.

Each debt transaction is discussed separately overleaf.

The Group also established a A\$1 billion three-year Common Equity Repurchase Capital Return Program (CERCRP) or share buyback, with no more than A\$333 million to be spent in any one calendar year. At 31 December 2017, the Group had repurchased and cancelled 13 million shares at a cumulative cost of A\$139 million.

Capital summary

AS AT 31 DECEMBER	2017 US\$M	2016 US\$M
Net assets	8,901	10,334
Less: intangible assets	(3,079)	(3,627)
Net tangible assets	5,822	6,707
Add: borrowings	3,616	3,474
Total capitalisation	9,438	10,181

AS AT 31 DECEMBER	2017 ¹ US\$M	2016 ² US\$M
QBE's regulatory capital base	8,898	9,277
APRA's Prescribed Capital Amount (PCA)	5,426	5,281
PCA multiple	1.64	1.76

1 Indicative APRA PCA calculation at 31 December 2017.

2 Prior year APRA PCA calculation has been restated to be consistent with APRA returns finalised subsequent to year end.

During the first half of 2018, our focus will be on restoring the Group's PCA multiple closer to the middle of our benchmark PCA range of 1.6–1.8x. This initiative will be assisted by the Board's decision to pay a nominal final dividend for the 2017 financial year.

Key financial strength ratios

AS AT 31 DECEMBER	BENCHMARK		2017	2016
Debt to equity	25% to 35%	%	40.8	33.8
Debt to tangible equity		%	62.6	52.2
PCA multiple ¹	1.6x to 1.8x	x	1.64	1.76
Premium solvency ²		%	46.7	57.6
Probability of adequacy of outstanding claims	87.5% to 92.5%	%	90.0	89.5

1 Prior year APRA PCA calculation has been restated to be consistent with APRA returns finalised subsequent to year end.

2 Premium solvency ratio is calculated as the ratio of net tangible assets to adjusted net earned premium.

Borrowings

As at 31 December 2017, total borrowings stood at \$3,616 million, up \$142 million or 4% from \$3,474 million at 31 December 2016.

During the year, the Group was active in the debt capital markets, executing the following transactions:

- The issuance of \$300 million of senior unsecured debt securities due 21 October 2022. These securities were issued by way of the Group's \$4,000 million medium term note issuance program and in accordance with the Group's Green Bond Framework. This was the first green bond issued by an insurance company globally.
- Notified holders of our \$550 million perpetual capital securities of our intention to call these securities on their first call date. This transaction closed on 1 June 2017. Under a previous liability management exercise, QBE had already repurchased \$249 million of these securities.
- Purchased £10 million of our £325 million tier 2 subordinated debt securities due 24 May 2041. Under a previous liability management exercise, QBE had already repurchased £291 million of these securities.
- The issuance of \$300 million of senior unsecured debt securities due 25 May 2023. These securities were issued by way of the Group's \$4 billion medium term note issuance program.
- The issuance of \$400 million of additional tier 1 perpetual securities. These securities have a first call date on 16 May 2025 and were issued under the Group's \$4,000 million medium term note issuance program and in accordance with the Group's Gender Equality Bond Framework. These securities qualify as additional tier 1 capital in accordance with APRA rules and were the first additional tier 1 perpetual securities to be issued as a gender equality bond globally by any financial institution.
- Accelerated redemption on 29 December 2017 of \$600 million of senior unsecured debt securities due 1 May 2018.

Issuance of the two \$300 million tranches of senior unsecured debt securities and the \$400 million of additional tier 1 perpetual securities layered additional duration into both our first call and final maturity profiles. Importantly, these transactions also fully normalised the Group's first call maturity profile and annual funding requirements going forward, with 71% of our debt now having a first call date that extends more than five years from 31 December 2017.


At 31 December 2017, QBE's ratio of borrowings to shareholders' funds was 40.8%, up 7.0% from 31 December 2016 and temporarily outside of our benchmark range of 25–35%, reflecting the 2017 reported loss. Debt to tangible equity was 62.6%, up from 52.2% at 31 December 2016, having been adversely impacted by the second half catastrophe claims and a stronger US dollar.

Gross interest expense on long term borrowings for the year was broadly unchanged at \$212 million. The weighted average annual cash cost of borrowings outstanding at the balance sheet date reduced from 5.9% at 31 December 2016 to 5.8% at 31 December 2017.

As at 31 December 2017, the weighting of the Group's debt towards regulatory capital within the overall borrowing mix was unchanged at 83%, with incremental duration built into the term structure.

Borrowings maturity ¹

AS AT 31 DECEMBER	2017 %	2016 %
● Less than one year	–	9
● One to five years	29	27
● More than five years	71	64



¹ Based on first call date.

Borrowings profile

AS AT 31 DECEMBER	2017 %	2016 %
● Senior debt	17	17
● Subordinated debt	72	74
● Additional tier 1 securities	11	–
● Capital securities	–	9



Further details of borrowings are set out in note 5.1 to the financial statements.

Net outstanding claims liabilities

AS AT 31 DECEMBER	2017 US\$M	2016 US\$M	2015 US\$M	2014 US\$M	2013 US\$M
Net central estimate	14,029	12,693	14,119	15,595	16,643
Risk margin	1,239	1,088	1,260	1,353	1,565
Net outstanding claims	15,268	13,781	15,379	16,948	18,208
	%	%	%	%	%
Probability of adequacy of outstanding claims	90.0	89.5	89.0	88.7	90.7
Weighted average discount rate	1.7	1.5	1.9	1.7	2.8
Weighted average term to settlement (years)	3.1	2.9	3.0	2.8	3.0

As required by Australian Accounting Standards, net outstanding claims liabilities are discounted by applying sovereign bond rates as a proxy for risk-free interest rates and not the actual earning rate on our investments.

As at 31 December 2017, risk margins in net outstanding claims were \$1,239 million or 8.8% of the net central estimate of outstanding claims compared with \$1,088 million or 8.6% of the net central estimate of outstanding claims at 31 December 2016. Excluding a \$71 million positive foreign exchange impact, risk margins increased \$80 million compared with a \$132 million decrease in the prior year.

The increase in risk margins as a percentage of the net central estimate resulted in an increased PoA of 90%, up from 89.5% previously, despite slightly higher uncertainty associated with the 2017 large individual risk and catastrophe net claims reserves due to exhaustion of the Group's aggregate reinsurance.

Intangible assets

As at 31 December 2017, the carrying value of intangible assets (identifiable intangibles and goodwill) was \$3,079 million, down from \$3,627 million at 31 December 2016.

During the year, the carrying value of intangibles reduced by \$548 million, primarily due to a \$700 million write down in the carrying value of North American Operations' goodwill partially offset by a \$148 million foreign exchange impact with amortisation expense essentially offsetting net additions. Additions in the period comprised the capitalisation of expenditure in relation to various information technology projects across the Group.

At 31 December 2017, QBE reviewed all material intangibles for indicators of impairment, consistent with the Group's policy and the requirements of the relevant accounting standard. A detailed impairment test was completed in relation to our North American Operations' goodwill balance, which indicated a shortfall at the balance date of \$700 million compared with headroom of \$98 million at 31 December 2016. The valuation remains highly sensitive to a range of assumptions, particularly increases in the forecast combined operating ratio used in the terminal value calculation and changes in discount rate and long-term investment assumptions. The impairment charge primarily reflects an increase in the assumed long term combined operating ratio for North American Operations from 94.2% to 95.8%, consistent with our revised business plan and having regard to second half performance. It also reflects a reduction in projected investment income following the reinsurance of US commercial auto run-off liabilities.

Details of the sensitivities associated with this valuation are included in note 7.2.1 to the financial statements.

Investment performance and strategy

Our investment portfolio delivered a net return of 3.2% compared with 2.9% in the prior year. The key drivers of this comparatively strong return were the substantial tightening of credit spreads throughout the year coupled with a very solid performance from our growth asset exposures.

The positive macro and market environment in evidence throughout 2017 has delivered robust, synchronised global growth and healthy corporate earnings, supporting further tightening in credit spreads and thus mark to market gains on our substantial corporate bond holdings. By way of illustration, US AAA-A 1–3 year corporate bond spreads over Government Bonds have narrowed from around 70bps to 40bps in 2017, and are now close to pre-global financial crisis lows.

The same positive risk sentiment has seen our equity holdings generate strong returns, complemented by property and infrastructure assets as a result of both income and asset revaluations.

Returns have been boosted not just by solid underlying asset class returns but also by tactical positioning in growth assets, duration and spread duration, which has seen us more meaningfully exposed ahead of periods of outperformance.

Exposure to growth assets peaked at 13.2% of total investment assets in April; however, after an especially strong performance it has been reduced to 10.2% at the end the year.

In aggregate our growth asset portfolio delivered a return of 13.3% in 2017 and our fixed income portfolio 2.1%.

In 2018, we expect a continuation of robust global growth and limited inflation pick-up creating an environment where central banks will proceed with further withdrawal of monetary stimulus in an orderly and well telegraphed manner.

We therefore retain a modestly positive outlook for growth assets and consider that an exposure of around 10% of total assets strikes an appropriate balance between confidence in growth prospects and acknowledgement of the relatively high level of valuations across many asset classes.

We foresee an environment of steadily rising bond yields and are therefore likely to manage the duration of the fixed income portfolio between 1.5 and 2.0 years throughout 2018.

As at 31 December 2017, the running yield of the fixed Income portfolio was 1.99%.

Total net investment income

FOR THE YEAR ENDED 31 DECEMBER	POLICYHOLDERS' FUNDS		SHAREHOLDERS' FUNDS		TOTAL	
	2017 US\$M	2016 US\$M	2017 US\$M	2016 US\$M	2017 US\$M	2016 US\$M
Income on growth assets	192	45	141	41	333	86
Fixed interest, short-term money and cash income	332	341	201	220	533	561
Gross investment income ¹	524	386	342	261	866	647
Investment expenses	(13)	(15)	(8)	(9)	(21)	(24)
Net investment income	511	371	334	252	845	623
Foreign exchange gain (loss)	(33)	40	–	85	(33)	125
Other income (expenses)	(3)	(4)	3	2	–	(2)
Net investment income and other income	475	407	337	339	812	746

1 Includes total realised and unrealised gains on investments of \$226 million (2016 \$109 million) comprising gains on investments supporting policyholders' funds of \$127 million (2016 \$62 million) and shareholders' funds of \$99 million (2016 \$47 million).

Gross and net investment yield

FOR THE YEAR ENDED 31 DECEMBER	YIELD ON INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		YIELD ON INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
	2017 %	2016 %	2017 %	2016 %	2017 %	2016 %
Gross investment yield ¹	3.2	2.5	3.6	2.5	3.4	2.5
Net investment yield ²	3.1	2.4	3.5	2.5	3.3	2.4
Net investment income and other income yield ³	3.0	2.6	3.5	3.3	3.2	2.9

1 Gross investment yield is calculated with reference to gross investment income as a percentage of average investment assets backing policyholders' or shareholders' funds as appropriate.

2 Net yield is calculated with reference to gross investment income less investment management expenses as a percentage of average investment assets backing policyholders' or shareholders' funds as appropriate.

3 Net investment income and other income yield is calculated with reference to net investment and other income as a percentage of average investment assets backing policyholders' or shareholders' funds as appropriate.

Total investments and cash

AS AT 31 DECEMBER	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
	2017 US\$M	2016 US\$M	2017 US\$M	2016 US\$M	2017 US\$M	2016 US\$M
Cash and cash equivalents	368	438	204	409	572	847
Short-term money	2,228	2,215	1,234	1,739	3,462	3,954
Government bonds	3,589	3,621	1,987	2,375	5,576	5,996
Corporate bonds	8,523	6,952	4,720	4,387	13,243	11,339
Infrastructure debt	361	290	201	173	562	463
Unit trusts	18	19	11	12	29	31
Strategic equities	–	–	85	118	85	118
Other developed market equities	280	289	155	172	435	461
Emerging market equity	71	21	39	13	110	34
Emerging market debt	–	191	–	114	–	305
High yield debt	–	127	–	75	–	202
Infrastructure assets	575	154	319	91	894	246
Private equity	49	7	27	4	76	11
Alternatives	–	117	–	70	–	186
Unlisted property trusts	696	644	386	384	1,082	1,028
Investment properties	10	9	5	5	15	14
Total investments and cash	16,768	15,094	9,373	10,141	26,141	25,235

Interest bearing financial assets

S&P SECURITY GRADING

AS AT 31 DECEMBER	2017 %	2016 %
AAA	15	16
AA	34	37
A	39	36
<A	12	11

Currency mix of investments

AS AT 31 DECEMBER	MARKET VALUE OF GROWTH ASSETS		MARKET VALUE OF TOTAL INVESTMENTS AND CASH	
	2017 %	2016 %	2017 %	2016 %
US dollar	53	49	29	32
Australian dollar	32	28	31	31
Sterling	5	11	18	18
Euro	10	12	10	8
Other	–	–	12	11

Final dividend

Our dividend policy is designed to ensure that we reward shareholders relative to cash profit and maintain sufficient capital for future investment and growth of the business.

The final dividend for 2017 is four Australian cents per share, down 88% from the 2016 final dividend of 33 Australian cents per share, reflecting the very significant impact of catastrophe claims which gave rise to a \$632 million loss after tax on a cash basis during the second half of the year.

The dividend will be 30% franked and is payable on 20 April 2018. The dividend reinvestment programs remain at a nil discount with any demand for shares under the Dividend Reinvestment Plan to be satisfied by acquiring shares on-market.

Inclusive of A\$139 million of funds used to buy back and cancel QBE shares, the payout for the 2017 full year is A\$495 million, down 33% from A\$741 million in 2016.

Closing remarks

There are some clear operational and financial priorities for the Group in 2018:

- Deliver a 2018 full year combined operating ratio within the recently announced target range of 95.0–97.5%.
- Roll-out and fully embed the cell performance review discipline in all the divisions.
- Execute on profit improvement plans in North American Operations.
- Drive the necessary actions to improve profitability in Asia Pacific Operations.
- Further improve on the strong underwriting results achieved in European and Australian & New Zealand Operations.
- Manage the successful exit from Latin America.
- Increase the Group's PCA multiple within our benchmark PCA range of 1.6–1.8x.
- Return gearing closer to our benchmark debt to equity range of 25–35% through a combination of retained earnings growth and other capital management initiatives.
- Deliver continued strong divisional cash remittances to the Group head office in 2018.

Michael Ford
Group Chief Financial Officer

Divisions at a glance

Consistent with our objective of reducing complexity and simplifying the portfolio, we have decided to exit our Latin American Operations which will see QBE reduce its geographic footprint and focus its ambition on being an “international” as distinct from a “global” insurer, with meaningful operations in the major insurance market hubs.

North American Operations

North American Operations is an integrated specialist insurer and reinsurer, offering commercial, personal and specialty lines capabilities to meet the evolving needs of its customers. Leveraging global strength and local expertise, North American Operations delivers end-to-end solutions through a limited and preferred network of agents and brokers.

Gross written premium

US\$ million
4,556 ↗ 1%
from 2016¹

Net earned premium²

US\$ million
3,541 ↗ 7%
from 2016

Combined operating ratio^{2,5}

109.1% 98.5%
in 2016

Insurance (loss) profit margin²

(6.7)% 4.7%
in 2016

European Operations

European Operations' insurance business provides a wide range of commercial and specialty products and risk management solutions across the globe through offices in the UK, Europe and Canada as well as through our Lloyd's syndicates. QBE Re is a global, multi-line reinsurance business with offices in London, Dublin, Brussels, Bermuda and New York.

Gross written premium

US\$ million
4,049 ↘ 1%
from 2016

Net earned premium

US\$ million
3,212 ↗ 3%
from 2016⁴

Combined operating ratio⁵

95.2%³ 90.7%⁴
in 2016

Insurance profit margin

10.4%³ 10.1%⁴
in 2016

Australian & New Zealand Operations

A market leading position in commercial insurance and a targeted presence in personal lines, including home, motor and CTP. Our strategy is focused on growing market share in SME and building a world-class claims service and pricing capability to deliver attractive and sustainable returns, underpinned by strong financial discipline and a distinctive culture.

Gross written premium

US\$ million
4,024 ↗ 2%
from 2016

Net earned premium

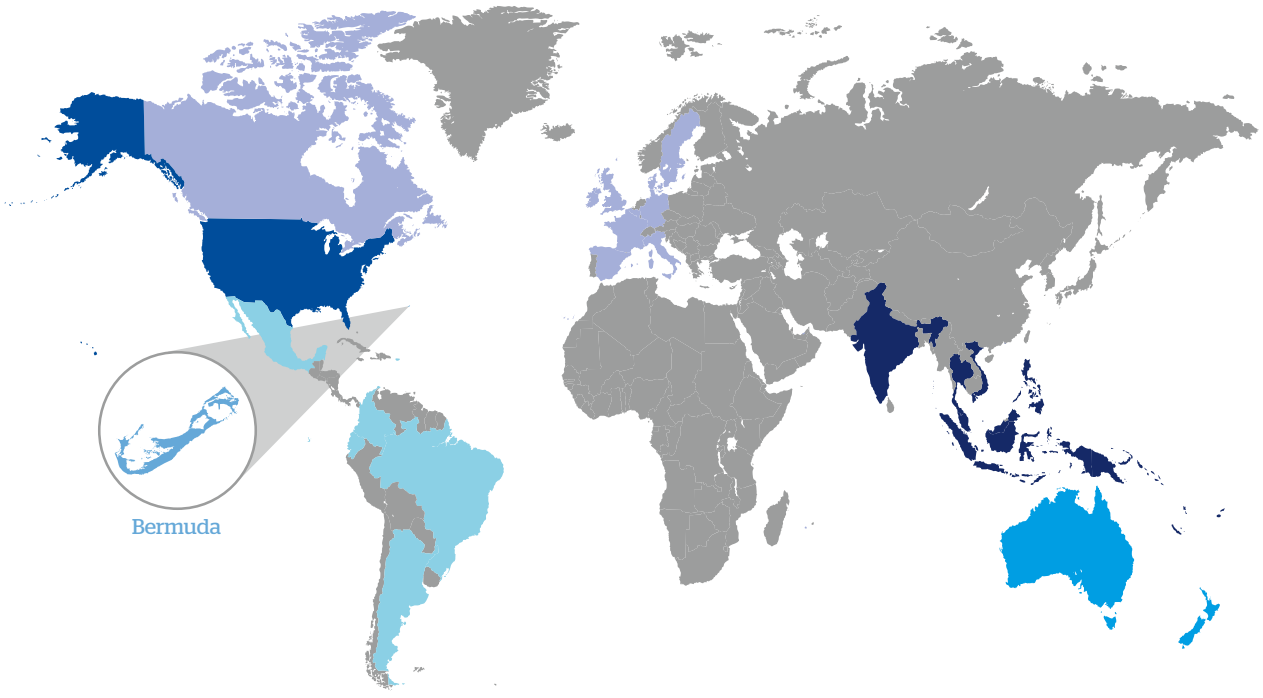
US\$ million
3,480 ↗ 2%
from 2016

Combined operating ratio⁵

92.0% 92.4%
in 2016

Insurance profit margin

12.6% 12.3%
in 2016



Asia Pacific Operations

With a presence in multiple markets across Asia and the Pacific, QBE provides commercial, personal and specialist insurance to customers in some of the world's highest-potential economies.

Gross written premium

US\$ million
740 ⬆️ 3% from 2016

Net earned premium

US\$ million
653 ⬆️ 6% from 2016

Combined operating ratio ⁵

115.5% 95.6% in 2016

Insurance (loss) profit margin

(14.2)% 5.5% in 2016

Latin American Operations

Latin American Operations has a presence in Argentina, Ecuador, Colombia, Brazil, Puerto Rico and Mexico. With a customer centric focus, the division is progressing QBE's Corporate and Specialty strategy by leveraging global broking relationships.

Gross written premium

US\$ million
863 ⬆️ 0% from 2016

Net earned premium

US\$ million
715 ⬆️ 0% from 2016

Combined operating ratio ⁵

113.1% 102.9% in 2016

Insurance (loss) profit margin

(6.9)% 5.5% in 2016

Equator Re

Equator Re is instrumental in managing the Group's exposure and reinsurance risk appetites and plays a pivotal role in optimising capital across the Group. In doing so, Equator Re works closely with the divisions to bridge the gap between their risk appetites and that of the Group.

Gross written premium

US\$ million
1,580 ⬆️ 17% ⁶ from 2016

Net earned premium ⁶

US\$ million
847 ⬆️ 81% from 2016

Combined operating ratio ^{5, 6}

140.9% 70.2% in 2016

Insurance (loss) profit margin ⁶

(38.1)% 35.0% in 2016

1 Excludes \$142 million of Latin American Operations premium income fronted on behalf of Equator Re in 2016.
2 Excludes transactions to reinsure US liabilities.
3 Excludes one-off adverse impact on the Group's underwriting result due to the Ogden decision in the UK.

4 Excludes transactions to reinsure UK liabilities.
5 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims.

6 Adjusted for LPT transactions with North American Operations.

North American Operations business review

Gross written
premium (US\$M)

4,556

↑ 1% from 1
2016

Net earned
premium² (US\$M)

3,541

↑ 7% from
2016

Underwriting
result² (US\$M)

(313)

↓ 385M from
2016

Insurance (loss)
profit² (US\$M)

(236)

↓ 391M from
2016

Combined
operating ratio^{2,3}

109.1%
2016 98.5%

Insurance (loss)
profit margin²

(6.7)%
2016 4.7%

Unprecedented catastrophe activity, increased attritional weather claims and an average Crop result following an outstanding 2016 overshadowed further operational progress in North America.

Russ Johnston

Chief Executive Officer • North American Operations

2017 Overview

North American Operations is a specialist insurance and reinsurance franchise focused on four business units: Property & Casualty (P&C), Specialty, Crop and Assumed Reinsurance, with the latter a component of QBE's global reinsurance business headquartered in London.

Record catastrophe frequency and severity (including increased attritional weather claims) coupled with flat premium rates, rendered 2017 an especially challenging year for both QBE and the North American insurance industry more broadly. Given a sustained soft premium rating environment, it has become increasingly important to drive continued improvement in how we define, target, select and price risk while driving greater efficiency and enhanced customer experience.

In 2017, we took several important actions to embed our strategy to be an integrated specialist insurer:

- consolidated and redefined our appetite to focus on "middle market" business in P&C;
- partnered with Arrowhead to enhance our service proposition in small commercial;
- redefined our distribution support to be more focused on our limited and preferred distribution partners; and
- further strengthened our management team while building a national platform.

North America has established a strong Specialty business with diversification across core segments of accident and health and management and professional lines. Specialty results were adversely impacted by prior accident year claims development, primarily related to accident and health, directors and officers and certain programs that have since been terminated. Notwithstanding adverse weather conditions, our Crop business achieved a solid result. P&C was impacted by significant catastrophe claims and challenges in commercial auto, while results in our Reinsurance business were significantly impacted by catastrophe claims and adverse prior accident year claims development in the casualty portfolio.

During 2017, we completed a further loss portfolio transfer (LPT) of discontinued programs to mitigate the risk of substantial adverse claims development. Together with the LPT undertaken in 2016, we have removed in excess of \$850 million of potentially volatile claims liabilities from our balance sheet. The LPTs, coupled with a further \$114 million of reserve strengthening, provide us with a strong foundation for improved profitability and reduced earnings volatility as we progress into 2018.

Operating and financial performance

Underwriting performance

The LPT transaction reduced net claims incurred by \$311 million and net earned premium by \$300 million. In addition to reducing the level of uncertainty in the net discounted central estimate, the LPT adversely impacted North America's combined operating ratio by 0.6% (with a 2.4% positive impact on the net claims ratio more than offset by a 3.0% adverse impact on the combined commission and expense ratio).

1 Excludes \$142 million of Latin American Operations premium income fronted on behalf of Equator Re in 2016.

2 Adjusted for transactions to reinsure liabilities.

3 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims.

To assist year on year comparability, the underwriting performance commentary hereafter refers to the 2017 and 2016 results excluding the impact of the LPT transaction.

North America reported a combined operating ratio of 108.8%, up from 97.8% in the prior year. The underwriting result includes a benefit of \$11 million or 0.3% of net earned premium due to higher risk-free rates used to discount net outstanding claims compared with a benefit of \$21 million or 0.6% in the prior year. Excluding this benefit, the combined operating ratio was 109.1%, up materially from 98.5% a year earlier.

Gross and net large individual risk and catastrophe claims amounted to \$726 million and \$418 million respectively driven by Hurricanes Harvey, Irma and Maria and California wildfires. Total catastrophe activity, which also includes hail and convective storm activity during the first half, contributed 9.2% to the combined operating ratio compared with only 3.7% in 2016. Large individual risk and catastrophe claims retained in excess of divisional aggregate reinsurance added 6.9% to the combined operating ratio.

Current accident year underwriting profitability in our key segments remains strong. The Crop business achieved an average underwriting result with modest growth in policy count, coverage and higher commodity prices contributing to gross written premium growth of 14%. We continue to develop our leading Specialty franchise with premium growth of 24% during the year. Within P&C, program premium contracted due to the termination of a heavily catastrophe exposed and underperforming program as well as the termination of commercial auto business as part of the 2016 LPT. The commercial insurance portfolio underwent heavy remediation including the non-renewal of underperforming segments such as commercial auto and corporate primary accounts that was partially offset by growth in targeted industry verticals.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER	2017 ¹		2016 ¹		2015 ²	2014 ²	2013 ²	
	2017	Adjusted	2016	Adjusted				
Gross written premium	US\$M	4,556	4,556	4,647	4,647	4,961	5,310	5,951
Gross earned premium	US\$M	4,622	4,622	4,657	4,657	4,930	5,457	6,225
Net earned premium	US\$M	3,241	3,541	2,731	3,318	3,666	4,471	5,030
Net incurred claims	US\$M	2,439	2,750	1,528	2,131	2,323	3,023	3,804
Net commission	US\$M	556	556	564	564	635	698	795
Expenses	US\$M	550	548	556	551	678	788	1,011
Underwriting result	US\$M	(304)	(313)	83	72	30	(38)	(580)
Net claims ratio	%	75.3	77.7	56.0	64.2	63.4	67.6	75.6
Net commission ratio	%	17.1	15.6	20.7	17.0	17.3	15.6	15.8
Expense ratio	%	17.0	15.5	20.4	16.6	18.5	17.6	20.1
Combined operating ratio	%	109.4	108.8	97.0	97.8	99.2	100.8	111.5
Adjusted combined operating ratio ³	%	109.7	109.1	97.7	98.5	99.8	100.4	—
Insurance (loss) profit margin	%	(7.0)	(6.7)	6.1	4.7	2.5	0.2	(10.6)

1 Adjusted for transactions to reinsure liabilities.

2 Comparability of prior period data is reduced due to the sale of M&LS.

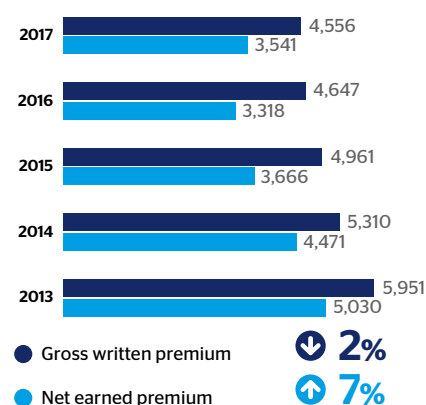
3 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims. Management-basis results were not reported in 2013.

Premium income

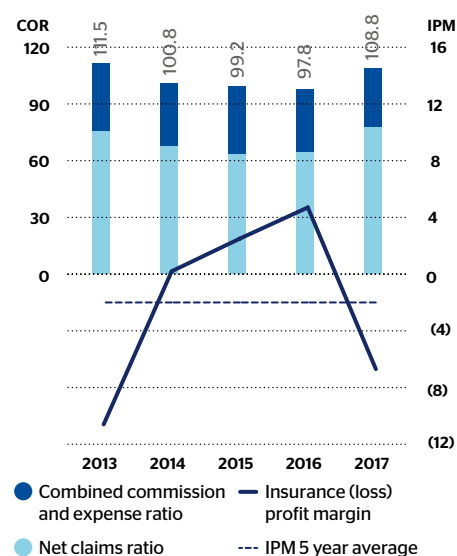
Headline gross written premium declined 2% to \$4,556 million from \$4,647 million in the prior year but was up 1% excluding Latin American business fronted on behalf of Equator Re in 2016. Average premium rates across the portfolio increased 0.7% compared to flat in the prior year. Although better than the prior year, average premium rates were still below underlying claims inflation.

Growth in Specialty continued with gross written premium up 24% relative to the prior year. New business continued to grow, albeit at a reduced level, with growth across the portfolio including errors and omissions and transactional liability as well as from the addition of new specialty programs to the portfolio. Crop premium increased 14% compared to 2016, reflecting a modest increase in policy count, higher commodity prices and increased coverage.

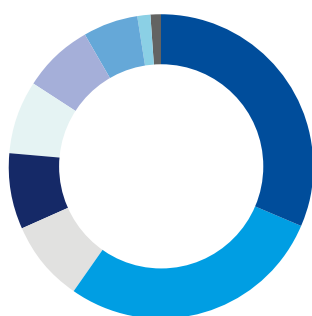
Gross written premium and net earned premium (US\$M)



Combined operating ratio (COR) and insurance (loss) profit margin (IPM) (%)



Gross earned premium by class of business



	2017 %	2016 %
● Agriculture	31.6	28.6
● Commercial & domestic property	28.2	32.3
● Motor & motor casualty	8.8	10.9
● Public/product liability	7.9	7.6
● Workers' compensation	7.7	8.4
● Professional indemnity	7.6	5.1
● Accident & health	5.9	5.3
● Marine energy & aviation	1.3	1.1
● Financial & credit	1.0	0.8

P&C premium declined 12% driven by continued underwriting action in underperforming areas including the mid-year termination of a severely underperforming and heavily property catastrophe exposed program, coupled with new business shortfalls, primarily in the program business. The commercial insurance portfolio also contracted due to competitive property premium rates and corrective underwriting actions in commercial auto, including the 2016 decision to exit mono-line commercial auto insurance.

Net earned premium increased by 7% to \$3,541 million from \$3,318 million in the prior year, reflecting significantly reduced reinsurance spend, particularly in Crop.

Claims expense

North American Operations reported a claims ratio of 77.7%, up from 64.2% in the prior year, reflecting record catastrophe activity, a more normal Crop result and a heightened frequency of weather-related attritional claims.

Including Hurricanes Harvey, Irma and Maria, the Californian wildfires and first half hail and convective storm activity, the net cost of large individual risk and catastrophe claims contributed 11.7% to the net claims ratio compared with only 6.4% in 2016.

The attritional claims ratio increased to 58.3% from 52.0% in the prior year, largely due to a more normal Crop result after an outstanding 2016. Excluding Crop, the attritional claims ratio increased 1.6%, reflecting the competitive pricing landscape coupled with heightened weather-related claims frequency as well as the increased contribution from Specialty business that ordinarily operates at a higher attritional claims ratio.

The claims ratio was also impacted by 3.2% or \$114 million as a result of claims reserve strengthening in certain portfolios including commercial casualty (particularly in Assumed Re), management liability and a now-terminated specialty program, partially offset by favourable experience in Crop. This compares with 3.6% or \$121 million of adverse prior accident year claims development in 2016.

Commission and expenses

North America's commission ratio decreased to 15.6% from 17.0% in the prior year, reflecting a significant increase in low commission paying Crop business coupled with a lower proportion of higher commission paying program business and profit share arrangements in our P&C business.

The expense ratio improved to 15.5% from 16.6% in the prior year, reflecting a focus on efficiency that saw costs stable relative to net earned premium growth of 7%. In June 2017, we commenced transitioning the administration of the small commercial book to Arrowhead to leverage its expertise and technology platform. The transition enabled a significant reduction in headcount and will eventually facilitate the decommissioning of a number of legacy policy and claims administration platforms.

Outlook

While the significant weather events of 2017 had a material impact on the industry, the North American market is unfortunately only experiencing a moderate degree of stabilisation of rates in specific classes rather than the broader market response we were hoping for. Although we are disappointed the market hasn't responded in a more robust manner, we believe our strategy of focusing on specific sectors and using data and analytics to improve risk selection, pricing and deliver exceptional claims outcomes positions us to improve our results in 2018 against that backdrop.

Having stabilised the premium base and resumed targeted growth across industry verticals, further expense management efforts are underway including streamlining and modernising our technology and operating infrastructure consistent with a more simplified business strategy.

European Operations business review

Gross written premium (US\$M)

4,049

↓ 1% from 2016

Net earned premium (US\$M)

3,212

↕ 3% from 2016

Underwriting result⁴ (US\$M)

213

↕ 7% from 2016

Insurance profit⁴ (US\$M)

335

↕ 7% from 2016

Combined operating ratio⁵

95.2%⁴

2016 90.7%³

Insurance profit margin

10.4%⁴

2016 10.1%³

European Operations delivered a very good underwriting result considering the high level of catastrophe and large risk claims, combined with the longstanding depressed trading conditions in many areas of the business.

Richard Pryce

Chief Executive Officer • European Operations

2017 overview

As reported at the half year, trading conditions continued to moderate and, consequently, we recorded a further average renewal rate reduction of 1.1% compared with a reduction of 2.4% in the prior year. Adjusting for the change in the discount rate on UK personal injury claims (the Ogden decision) the average rate decline in 2017 was 0.2%.

Since the catastrophe activity in the second half, we have witnessed improved pricing and terms and conditions in some areas of the business, most notably US property classes (insurance and reinsurance) with critical catastrophe exposures. Regardless of the class, our underwriting teams are committed to repricing business that is either loss affected or poorly performing. We are determined to display professional and proportionate leadership to produce the required level of return.

Following the consultation announced in February, the UK Government has committed to change the way in which personal injury compensation awards are calculated. Whilst we are still waiting for the draft legislation, there are clear indications that the rate will be set between 0% and 1%. In anticipation of this, we have adjusted the central estimate rate assumption to 0.25% which resulted in a slightly reduced adverse financial impact of \$141 million for the full year compared with the \$156 million impact recorded at the half year.

Brexit plans remain challenging but on track. Having announced our intention to establish a new Belgian-based insurer and reinsurer in June, we submitted our formal application to the National Bank of Belgium in October and remain committed to having the new company operational in the final quarter of 2018.

As ever we remain focused on our customer engagement activities across underwriting, claims and risk management and this discipline is being evidenced by our new business success.

Our data and analytics capability developed significantly during 2017, and is now creating value through claims ratio improvement. We have increased our focus on underwriting projects to complement our more established claims activities, including our recently announced and exciting partnership with Cytora (an artificial intelligence company providing insurance solutions) that will further enhance our underwriting capability in 2018 through initiatives aimed at enhancing risk identification and selection. In addition, we continue to monitor numerous Insurtech initiatives that may reshape aspects of the industry in the coming years.

1 Up 0.4% on a constant currency basis.

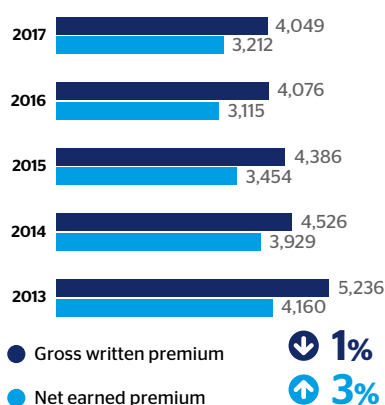
2 Up 4% on a constant currency basis.

3 Adjusted for transactions to reinsure UK liabilities.

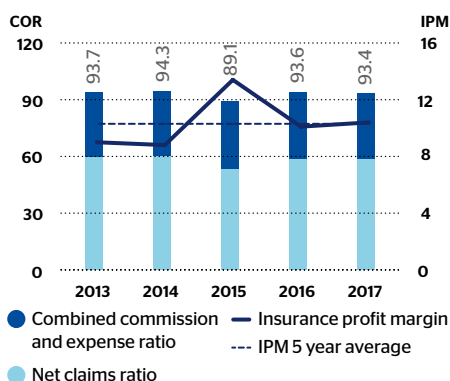
4 Excludes a \$141 million one-off adverse impact on the underwriting result due to the Ogden decision in the UK.

5 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims.

Gross written premium and net earned premium (US\$M)



Combined operating ratio (COR) and insurance profit margin (IPM) (%)



Operating and financial performance

Underwriting performance

Following indications from the UK Ministry of Justice, we have reassessed the UK bodily injury discount rate (the Ogden decision) to 0.25%, compared with the -0.75% announced in February and used in the determination of our half year results.

The 2017 and 2016 profits in the table below are presented on an adjusted basis after excluding the estimated impact of Ogden and the transactions undertaken to reinsure UK long-tail liabilities in 2016. Unless otherwise stated, the profit and loss and underwriting commentary following refers to the results on this basis.

Excluding the beneficial impact of higher risk-free rates used to discount net outstanding claims, the combined operating ratio increased to 95.2% from 90.7% in the prior year, primarily reflecting a reduced level of positive prior accident year claims development coupled with increased catastrophe experience.

Positive prior accident year claims development reduced to \$141 million from \$273 million in the prior year. We experienced adverse prior accident year claims development in the financial lines portfolio which, combined with one-off US long-tail liability deterioration and the impact of adjusting the periodic payment order rate to 0.25% during the second half, contributed to reduced overall positive prior accident year claims development.

Our longstanding commitment to underwriting discipline and prudent exposure management has been tested more than ever during the last 12 months of heightened catastrophe activity and it is pleasing to record a relatively modest financial impact due to these events.

Insurance profit for the year was \$335 million, up 7% from \$314 million in the prior year with the insurance profit margin increasing slightly to 10.4% from 10.1% previously.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER	2017		2016		2015		2014	
	2017	2017 ¹ Adjusted	2016	2016 ² Adjusted	2015	2015	2014 ³ Adjusted	2013
Gross written premium	US\$M 4,049	4,049	4,076	4,076	4,386	4,526	5,236	
Gross earned premium	US\$M 4,010	4,010	3,878	3,878	4,338	4,805	5,146	
Net earned premium	US\$M 3,210	3,212	2,949	3,115	3,454	3,929	4,160	
Net incurred claims	US\$M 2,024	1,885	1,658	1,826	1,844	2,362	2,486	
Net commission	US\$M 615	615	574	574	634	718	768	
Expenses	US\$M 499	499	516	516	599	626	646	
Underwriting result	US\$M 72	213	201	199	377	223	260	
Net claims ratio	% 63.1	58.7	56.2	58.6	53.4	60.1	59.7	
Net commission ratio	% 19.2	19.2	19.4	18.4	18.4	18.3	18.5	
Expense ratio	% 15.5	15.5	17.5	16.6	17.3	15.9	15.5	
Combined operating ratio	% 97.8	93.4	93.2	93.6	89.1	94.3	93.7	
Adjusted combined operating ratio ⁴	% 99.6	95.2	90.2	90.7	89.7	88.8	—	
Insurance profit margin	% 6.0	10.4	10.7	10.1	13.4	8.8	9.0	

- 1 Excludes a \$141 million one-off adverse impact on the underwriting result due to the Ogden decision in the UK.
- 2 Adjusted for transactions to reinsure UK liabilities.
- 3 Adjusted for transactions to reinsure Italian and Spanish medical malpractice liabilities.
- 4 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims. Management-basis results were not reported in 2013.

Premium income

Headline gross written premium fell by less than 1% to \$4,049 million from \$4,076 million in the prior year but is up 0.4% on a constant currency basis. Pleasingly, areas targeted for premium growth such as short-term life reinsurance in QBE Re and primary property and casualty insurance in Continental Europe continued their growth trajectory.

Our customer commitment activities helped to deliver slightly improved policy retention levels despite intense competition. In response to deteriorating market conditions, new business volumes were lower than the prior year but more than planned.

Net earned premium grew 3% to \$3,212 million from \$3,115 million in the prior year but was up 4% on constant currency basis.

Claims expense

The net claims ratio of 58.7% was broadly unchanged from the prior year.

The net claims ratio benefited from positive prior accident year claims development of \$141 million or 4.4% of net earned premium, a reduction from \$273 million or 8.8% in the prior year.

European Operations' attritional claims ratio increased to 49.6% from 48.5% in the prior year. The year-on-year deterioration reflects higher underlying attritional claims activity in short-tail classes as well as business mix changes coupled with temporary impacts including the Ogden decision, additional one-off reinsurance expense and the earn-out of unearned premium impacted by the post-Brexit collapse in sterling. We have commenced adjustments to the property portfolio to reverse this trend.

As expected, the attritional claims ratio improved materially during the second half as the post-Brexit foreign exchange impact on unearned premium earned out during the first half.

Despite the significant large individual risk and catastrophe claims activity during the year, the net cost remained within our planned allowances.

Higher risk-free rates used to discount net outstanding claims liabilities benefited the underwriting result by \$57 million or 1.8% of net earned premium compared with an adverse impact of \$89 million or 2.9% in the prior year.

Commission and expenses

The net commission ratio increased to 19.2% from 18.4% in the prior year, reflecting ongoing commission pressure in the London market insurance operations. Additional one-off reinsurance costs accounted for a further 0.3% of the increase.

The expense ratio improved again to 15.5% from 16.6% in the prior year, due to strict cost control coupled with modest net earned premium growth.

Outlook

Whilst the pricing outlook for 2018 is marginally more positive for most portfolios, we have not yet seen the significant shift in premium rates predicted by many after the exceptional 2017 catastrophe activity. It seems that any meaningful pricing correction will be for loss impacted insurance lines and will be less pronounced for QBE Re than anticipated.

Regardless of the market conditions, we remain committed to disciplined pricing and prudent risk selection across the entire portfolio. Moreover, we will be mindful of the cost of distribution, particularly for London Market business.

Delivering a sustainable Brexit solution remains a priority for the leadership team during 2018. As we cannot be certain of an acceptable political outcome, we plan to have our new European company established and trading in time for 2019 renewals.

Elsewhere, we will ensure that we are closely aligned and engaged with our customers in all areas, especially in this time of heightened industry uncertainty. We aim to be active and visible across the industry in all our key geographies. Our extended distribution network will be more valuable than ever as we seek to secure quality new business and mitigate the increasing costs of conducting business in the London market.

Finally, we expect to see more positive progress from our data science activities in both underwriting and claims management which will both improve customer experience and benefit our margin.

Gross earned premium by class of business



	2017 %	2016 %
Commercial & domestic property	27.6	27.3
Public/product liability	18.2	18.7
Marine energy & aviation	14.2	14.8
Professional indemnity	13.6	13.8
Motor & motor casualty	13.2	13.6
Workers' compensation	4.7	5.1
Accident & health	3.5	2.4
Other	2.9	2.3
Financial & credit	2.1	2.0

Australian & New Zealand Operations business review

Gross written premium (US\$M)

4,024

2% from 2016

Net earned premium (US\$M)

3,480

2% from 2016

Underwriting result (US\$M)

283

13% from 2016

Insurance profit (US\$M)

438

5% from 2016

Combined operating ratio⁴

92.0%
2016 92.4%

Insurance profit margin

12.6%
2016 12.3%

Premium rate increases, tightened terms and conditions, enhanced underwriting discipline and claims management initiatives contributed to an improved performance, including a 2.5%¹ reduction in our attritional claims ratio.

Pat Regan

Former Chief Executive Officer • Australian & New Zealand Operations

2017 overview

We took decisive action in the second half of 2016 and throughout 2017 to address deterioration in performance and implemented a comprehensive remediation plan covering specific actions for each of our 50 business “cells”. A strong governance framework has supported the execution of our plan with each cell regularly reviewed to ensure the remediation actions are being implemented and are generating the desired outcome.

Remediation progress has been encouraging. Pricing initiatives have delivered an average premium rate increase (excluding CTP) of 6.1% across our portfolio compared with 0.2% in the prior year, with higher rate increases achieved across our short-tail personal, commercial lines and workers’ compensation portfolios. Underwriting discipline has been reinforced through the continued tightening of policy terms and conditions (for example increased policy deductibles for clients with poor claims history) and improved risk selection. We have also started to observe benefits from our claims management initiatives including greater use of preferred suppliers and an increased focus on salvage and subrogation.

Strong distribution partnerships have enabled us to lead the market in remediation initiatives. Despite double digit rate increases across numerous portfolios, premium retention has remained broadly stable at around 82% and is a testament to the strength of our franchise. We have decisively reduced exposure to those risks for which we have limited appetite in selected lines such as commercial property.

There is ongoing interest in affordability and reform across all levels of Government. In NSW, the new Government has revisited reforms to CTP and the Emergency Services Levy, the ACCC is reviewing affordability of insurance in Northern Australia and the Federal Government has commenced a Royal Commission into financial services.

Operating and financial performance

Underwriting performance

Australian & New Zealand Operations reported a combined operating ratio of 91.9%, down from 92.7% in the prior year.

Excluding the impact of changes in risk-free rates used to discount net outstanding claims, the combined ratio improved to 92.0% from 92.4% in the prior year, reflecting an improvement in the attritional claims ratio partially offset by an increase in the expense ratio largely due to a reduction in managed fund fee income.

The underwriting result benefited from \$158 million of positive prior accident year claims development equating to 4.5% of net earned premium, broadly in line with the favourable claims development reported in 2016.

Our Australian business experienced a high level of weather-related catastrophe claims from Cyclone Debbie and significant storm frequency, albeit that the net cost of large individual

- 1 Excluding lenders’ mortgage insurance (LMI).
- 2 Down 1% on a constant currency basis; however, up 1% excluding the impact of regulatory changes to NSW CTP and the Emergency Services Levy.
- 3 Down 1% on a constant currency basis.
- 4 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims.

risk and catastrophe claims was in-line with expectations due to divisional aggregate reinsurance recoveries.

Our lenders' mortgage insurance (LMI) business reported a combined operating ratio of 50.7%, up from 34.9% in the prior year, largely reflecting an increase in the net claims ratio to 33.0% from 21.2% previously. The net claims ratio deteriorated due to a moderate increase in arrears rates, primarily related to properties located in mining towns in Western Australia and Queensland, coupled with an increase in the propensity for claims in arrears to generate claims (a reduced "cure" rate) and an increase in average claims severity. The commission ratio increased to 4.5% from 1.8% in the prior year, reflecting a lower exchange commission following the non-renewal of our external quota share reinsurance treaty.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2017	2016	2015	2014	2013
Gross written premium	US\$M	4,024	3,933	3,787	4,392	4,805
Gross earned premium	US\$M	4,135	3,924	3,753	4,386	4,626
Net earned premium	US\$M	3,480	3,410	3,282	3,834	4,028
Net incurred claims	US\$M	2,168	2,172	2,054	2,242	2,347
Net commission	US\$M	525	511	481	532	572
Expenses	US\$M	504	477	461	562	623
Underwriting result	US\$M	283	250	286	498	486
Net claims ratio	%	62.3	63.7	62.6	58.4	58.2
Net commission ratio	%	15.1	15.0	14.7	13.9	14.2
Expense ratio	%	14.5	14.0	14.0	14.7	15.5
Combined operating ratio	%	91.9	92.7	91.3	87.0	87.9
Adjusted combined operating ratio ¹	%	92.0	92.4	91.1	85.4	—
Insurance profit margin	%	12.6	12.3	14.2	17.7	17.2

¹ Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims. Management-basis results were not reported in 2013.

Premium income

Gross written premium increased 2% to \$4,024 million from \$3,933 million in the prior year.

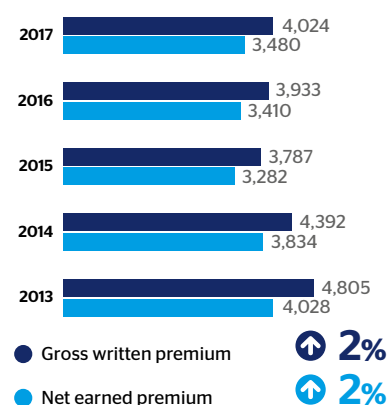
Gross written premium decreased 1% on a constant currency basis. Healthy premium rate increases across the majority of the portfolio were more than offset by the impact of regulatory changes to the NSW CTP scheme (which led to material premium rate reductions) and the Emergency Services Levy coupled with remediation activity in our workers' compensation and commercial property portfolios.

Pricing initiatives resulted in an average premium rate increase (excluding CTP) of 6.1% for business renewed in 2017 compared with an average rate increase of only 0.2% last year. Higher rate increases have been achieved in many of our short-tail lines of business with a 9.7% rate increase in commercial property, 8.1% in workers' compensation and 8.4% in commercial motor. Importantly and despite our focus on portfolio remediation, premium retention levels remained steady throughout the year at around 82%.

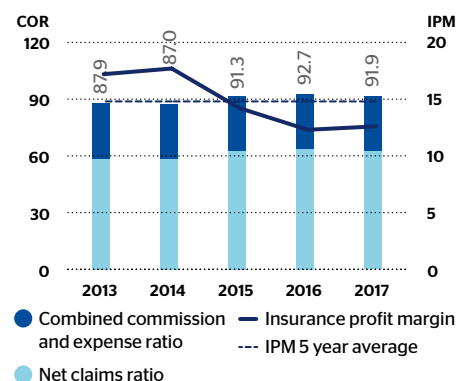
Although retention was relatively stable, new business volumes were 18% below 2016 levels, particularly in short-tail personal, commercial lines and workers' compensation, reflecting our unwavering commitment to underwriting discipline and premium rates which more accurately reflect the level of risk.

Net earned premium fell 1% relative to the prior year on a constant currency basis due to the purchase of additional reinsurance from the Group's captive reinsurer, Equator Re.

Gross written premium and net earned premium (US\$M)



Combined operating ratio (COR) and insurance profit margin (IPM) (%)



Gross earned premium by class of business



	2017 %	2016 %
Commercial & domestic property	32.8	33.3
Motor & motor casualty	28.0	25.6
Financial & credit	9.4	11.0
Public/product liability	7.9	7.9
Workers' compensation	6.9	7.4
Agriculture	5.3	5.1
Accident & health	4.6	4.4
Marine energy & aviation	2.7	2.8
Professional indemnity	2.3	2.3
Other	0.1	0.1

Claims expense

Australian & New Zealand Operations' net claims ratio decreased to 62.3% from 63.7% in the prior year, primarily due to a further material improvement in the attritional claims ratio.

The attritional claims ratio improved to 58.4% from 60.2% in the prior year, driven by NSW CTP, trade credit and a broad-based improvement in the profitability of most of our short-tail personal and commercial lines which was partially offset by a cyclical deterioration in LMI. Excluding LMI, the attritional claims ratio improved by 2.5% compared with the prior year.

Although lower than the prior year, gross catastrophe claims were higher than expected due to Cyclone Debbie, the February storms in NSW and storm activity in Victoria and NSW in December. The gross cost of large individual risk claims improved relative to the prior year reflecting the benefit of remediation activities, most notably with respect to commercial property. The net cost of large individual risk and catastrophe claims improved to 4.1% of net earned premium compared with 4.4% in the prior year, reflecting enhanced divisional aggregate reinsurance protection.

The underwriting result benefited from positive prior accident year claims development of \$158 million or 4.5% of net earned premium, broadly in line with \$147 million or 4.3% in 2016. Continued positive claims development reflects currently lower inflation and frequency experience than is factored into the reserving assumptions for our long-tail products including NSW CTP, workers' compensation, liability and professional indemnity coupled with benefits from our claims management initiatives.

Risk-free rates used to discount net outstanding claims liabilities increased slightly over the year resulting in a \$2 million claims benefit compared with a \$9 million charge in the prior year.

Commission and expenses

Australian & New Zealand Operations' commission ratio increased slightly to 15.1% from 15.0% in the prior year, reflecting minor movements in product mix.

The expense ratio increased to 14.5% from 14.0% in the prior year. On a constant currency basis, underwriting expenses were \$13 million higher than the prior year driven by an investment in claims and underwriting initiatives coupled with reduced workers' compensation managed fund fee income following the non-renewal of our Victorian WorkSafe contract and changes to our NSW managed fund contract.

Outlook

The insurance market will remain competitive; however, the premium rate cycle is hardening as our competitors respond to higher claims costs and continuing low investment returns. We anticipate premium rate increases at least in line with claims inflation and in some products at levels above inflation.

We anticipate a further improvement in our attritional claims ratio during 2018 through increasingly targeted rate increases and portfolio remediation actions, including benefits emerging from our investment in pricing capability and the utilisation of improved rate adequacy tools and monitoring across the business.

We will maintain our focus on expense management and have established an operational excellence program to improve the end-to-end efficiency of our core processes and automate and digitise activities where feasible.

Asia Pacific Operations business review

Gross written
premium (US\$M)

740

↓ 3% from 1
2016

Net earned
premium (US\$M)

653

↑ 6% from 2
2016

Underwriting
result (US\$M)

(100)

↓ 127M from
2016

Insurance (loss)
profit (US\$M)

(93)

↓ 127M from
2016

Combined
operating ratio³

115.5%
2016 95.6%

Insurance (loss)
profit margin

(14.2)%
2016 5.5%

Following the formation of Asia Pacific Operations in August, the newly formed executive team has implemented plans to improve underwriting performance through more robust risk selection, pricing and underwriting standards. Efficiency initiatives have also been implemented to reduce costs in 2018.

Jason Brown

Chief Executive Officer • Asia Pacific Operations

2017 overview

Asia Pacific's underwriting profitability deteriorated significantly during 2017, reflecting the competitive market landscape coupled with a lapse in underwriting discipline that led to an increase in exposure to higher hazard risks, particularly in property and marine in Singapore and Indonesia as well as workers' compensation in Hong Kong.

In response to the poor first half performance, in August 2017 the decision was taken to reposition Emerging Markets as two standalone operating divisions (Latin American Operations and Asia Pacific Operations) to more naturally support and align with the geographical model applicable elsewhere in the QBE Group and to ensure an appropriate level of management focus on remediation initiatives. Our governance and Board structures have been adjusted to support this change. Consistent with this evolution, the leadership team has been strengthened under the new CEO with the appointment of a dedicated Chief Underwriting Officer, an experienced Chief Operating Officer and a new Executive Committee formed to focus on performance improvement plans and operational efficiency.

A review of the business has identified numerous underperforming portfolios and profit improvement plans are in place. Underwriting actions ranging from rate increases to exiting unprofitable sub-segments have been initiated. Underwriting appetite and authorities have been reset and greater rigour put in place on high hazard grade risks to improve underwriting quality. The new Group underwriting standards are also being actively implemented throughout the Asia Pacific Operations. In addition, our plan to exit Thailand has progressed with the sale to a third party agreed and expected to close during the first half of 2018.

Remediation plans have impacted growth with gross written premium down 3% on the prior year. Following an \$18 million prior accident year reserve strengthening relating to the Hong Kong workers' compensation portfolio recognised in the interim result, a comprehensive review of claims reserves identified the need for additional prior accident year reserve strengthening of \$19 million during the second half.

Operating and financial performance

Underwriting performance

Gross written premium decreased 3% during 2017. More selective underwriting of Hong Kong workers' compensation business coupled with remediation actions undertaken in specific loss making commercial lines across Asia Pacific more than offset positive underlying growth in personal lines distributed through agents and strategic partnerships.

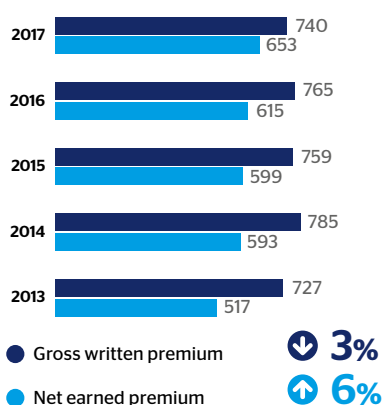
Net earned premium, however, grew 6% due to the earning of premium growth in prior financial years coupled with a more efficient reinsurance structure that resulted in lower reinsurance costs.

1 Down 3% on a constant currency basis.

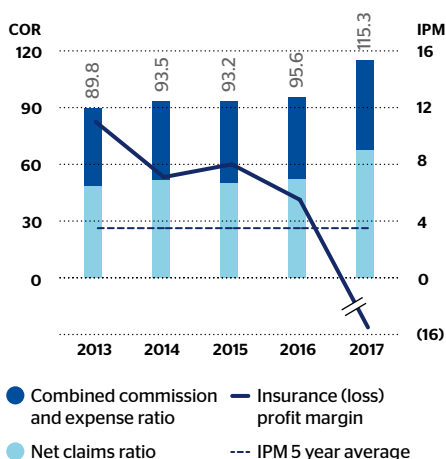
2 Up 7% on a constant currency basis.

3 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims.

Gross written premium and net earned premium (US\$M)



Combined operating ratio (COR) and insurance (loss) profit margin (IPM) (%)



Asia Pacific Operations recorded a combined operating ratio of 115.3% with an underwriting loss of \$100 million, reflecting a heightened level of medium sized attritional claims in property and marine, particularly in Singapore and Indonesia, as well as Hong Kong workers' compensation which generated an underwriting loss of \$53 million. This included a \$37 million charge to strengthen prior accident year claims reserves following increased claims frequency and severity in certain industry sub-segments such as construction as well as the higher incidence of medium-large claims which adversely impacted the attritional claims ratio. Whilst there was a major typhoon in August (Typhoon Hato) and several large property claims, the combined net impact of these claims was not significant overall due to strengthened reinsurance protection.

The Pacific Islands reported a strong underwriting result underpinned by a combined operating ratio of 83.4% compared with 88.9% in the prior year.

With the creation of a standalone Asia Pacific Operations, one-off restructuring expenses were incurred which adversely impacted the 2017 expense ratio.

Although premium growth is likely to be subdued in the near term on the back of remediation initiatives, we remain committed to profitable growth over the long term, underpinned by improved underwriting discipline, operational efficiency and our digital proposition to our customers.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2017	2016	2015	2014	2013
Gross written premium	US\$M	740	765	759	785	727
Gross earned premium	US\$M	779	748	737	720	643
Net earned premium	US\$M	653	615	599	593	517
Net incurred claims	US\$M	439	321	298	306	250
Net commission	US\$M	145	132	130	122	106
Expenses	US\$M	169	135	130	127	108
Underwriting result	US\$M	(100)	27	41	38	53
Net claims ratio	%	67.2	52.2	49.8	51.6	48.4
Net commission ratio	%	22.2	21.4	21.7	20.5	20.5
Expense ratio	%	25.9	22.0	21.7	21.4	20.9
Combined operating ratio	%	115.3	95.6	93.2	93.5	89.8
Adjusted combined operating ratio ¹	%	115.5	95.6	93.2	93.5	—
Insurance (loss) profit margin	%	(14.2)	5.5	8.0	7.1	11.0

1 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims. Management-basis results were not reported in 2013.

Premium income

Gross written premium fell 3% to \$740 million from \$765 million in the prior year.

Premium income contracted in most countries and portfolios due to remediation initiatives including more selective underwriting in Hong Kong workers' compensation and property and marine coupled with lower retention and new business volumes in Thailand following the sale announcement.

Premium rate reductions averaged 2.3% across Asia Pacific compared with 0.1% in the prior year.

The overall contraction in gross written premium was weighted towards the second half which reduced by 4% compared with the prior year, as remediation actions started to take effect.

Notwithstanding the contraction in gross written premium, net earned premium grew 6% to \$653 million from \$615 million in the prior year, reflecting the earning of premium on multi-year workers' compensation business in Hong Kong, strong prior year growth in Papua New Guinea and lower reinsurance costs.

Claims expense

The net claims ratio deteriorated to 67.2% from 52.2% in the prior year, primarily due to both a higher attritional claims ratio and adverse prior accident year claims development.

Adverse prior accident year development amounted to \$35 million compared with \$6 million of favourable development in 2016 which added 6.3% to the claims ratio compared with the prior year. Adverse prior accident year development was driven by the \$37 million charge in the Hong Kong workers' compensation portfolio.

The attritional claims ratio deteriorated to 56.0%, up 9.1% from 46.9% in 2016. The review of Hong Kong workers' compensation reserves resulted in a strengthening of current accident year claims assumptions which contributed 2.7% to the attritional claims ratio deterioration. The ratio was also adversely impacted by a higher incidence of medium sized claims in property and marine classes, mainly in Hong Kong, Singapore and Indonesia, which were partially offset by better claims experience in the Pacific Islands.

Despite Typhoon Hato and several large property claims, the net cost of large individual risk and catastrophe claims reduced to \$19 million from \$22 million in the prior year, reflecting the benefits of enhanced reinsurance protection.

Commission and expenses

The net commission ratio increased to 22.2% from 21.4% in the prior year, reflecting higher growth achieved with our agency and strategic bancassurance partners as we continue to strengthen our proposition within certain segments such as small medium enterprise (SME).

The net underwriting expense ratio increased to 25.9% from 22.0% in the prior year, primarily reflecting the write-off of deferred acquisition costs due to the contraction in gross written premiums coupled with around \$8 million of restructuring costs associated with the separation of Asia Pacific from Emerging Markets.

In targeting a sustainable profitable performance, adjustments to Asia Pacific Operations' operating structure were necessary to drive cost efficiencies and improve underwriting profitability. We are confident these changes will result in efficiency savings that will emerge in the coming financial years.

Outlook

2018 will be a year of reset for Asia Pacific Operations. We will continue to reshape the portfolios to improve underwriting profitability, particularly in Hong Kong workers' compensation and Indonesian and Singaporean marine, while maintaining moderate to high growth in selected profit pools including bancassurance and affinity business as well as professional lines.

Catastrophe and high hazard risks will be actively managed through more disciplined underwriting standards, risk selection and pricing reviews.

Aligning with the QBE Group strategy, we remain focused on strategic initiatives to drive meaningful operational efficiencies, including a leaner corporate overhead structure, and will prioritise investment only in areas capable of achieving appropriate returns.

While market pricing is expected to remain competitive, we will continue to work with our partners to achieve appropriate pricing in QBE's preferred segments.

Gross earned premium by class of business



	2017 %	2016 %
Commercial & domestic property	28.6	27.6
Workers' compensation	20.2	20.7
Marine energy & aviation	15.5	18.1
Motor & motor casualty	10.6	10.7
Accident & health	9.3	9.3
Public/product liability	6.2	6.2
Professional indemnity	4.8	4.7
Financial & credit	3.5	2.6
Other	1.3	0.1

Latin American Operations business review

Gross written
premium (US\$M)

863

↻ 0% from 1
2016

Net earned
premium (US\$M)

715

↻ 0% from 2
2016

Underwriting
result (US\$M)

(94)

↘ 73M from
2016

Insurance (loss)
profit (US\$M)

(49)

↘ 88M from
2016

Combined
operating ratio³

113.1%

2016 102.9%

Insurance (loss)
profit margin

(6.9)%

2016 5.5%

A heightened incidence of large individual risk and catastrophe claims coupled with deterioration in legacy portfolios and adverse prior accident year claims development contributed to a disappointing result.

Carola Fratini

Chief Executive Officer • Latin American Operations

2017 overview

In August 2017, the decision was taken to reposition Emerging Markets as two standalone operating divisions (Latin American Operations and Asia Pacific Operations) to more naturally support and align with the geographical model applicable elsewhere in the QBE Group and to ensure an appropriate level of management focus on remediation initiatives. Our governance and Board structures have been adjusted to support this change with Carola Fratini appointed as CEO, Latin American Operations.

Although the average premium rate increase across the portfolio was 10.1%, up from 4.1% in 2016, pricing conditions remain competitive and vary significantly by country and by class of business. More importantly, significant premium rate increases are necessary to combat typically very high levels of inflation and, in this context, the overall average portfolio premium rate increase is dominated by inflation adjustments to the relatively large Argentine motor business. Pricing conditions deteriorated in Brazil and Ecuador while improving modestly in Colombia, Mexico and Puerto Rico.

During 2017, Latin America Operations experienced a heightened level of claims activity reflecting a combination of increased frequency of medium-sized individual risk and weather-related catastrophe claims (most notably Hurricane Maria), exacerbated by adverse experience in legacy portfolios, particularly Colombian SOAT. On a positive note, corporate and specialty business has continued to grow, and in this context, QBE brand awareness and relations with major distribution partners continue to strengthen.

Recognising the poor underwriting results, some firm remediation actions have already been taken such as the decision to exit our loss-making and volatile Chilean business in May 2017, and a more recent decision to exit the historically unprofitable Colombian SOAT business. At the same time, we are strengthening underwriting controls and discipline, with emphasis on underperforming classes and regions such as non-SOAT business in Colombia, Brazilian travel, Ecuadorian motor and commercial business in Mexico.

1 Up 4% on a constant currency basis.

2 Up 5% on a constant currency basis.

3 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims.

Operating and financial performance

Underwriting performance

On a constant currency basis, gross written and net earned premium increased by 4% and 5% respectively, driven by inflationary growth in Argentina and growth in Brazil partly offset by the economic slowdown in Ecuador, the mid-year disposal of the Chilean business and remediation initiatives more broadly.

Latin America reported a combined operating ratio of 113.2%, up significantly from 102.9% in the prior year. The deterioration in the underwriting result reflected adverse prior accident year claims development in the Colombian liability portfolio coupled with heightened large individual risk and catastrophe claims activity and a deterioration in the attritional claims ratio.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2017	2016	2015 ¹	2014 ¹	2013 ¹
Gross written premium	US\$M	863	867	969	1,006	1,098
Gross earned premium	US\$M	835	840	950	986	1,060
Net earned premium	US\$M	715	713	837	876	902
Net incurred claims	US\$M	461	400	490	572	519
Net commission	US\$M	186	180	206	232	240
Expenses	US\$M	162	154	171	144	161
Underwriting result	US\$M	(94)	(21)	(30)	(72)	(18)
Net claims ratio	%	64.5	56.1	58.5	65.3	57.5
Net commission ratio	%	26.0	25.2	24.7	26.5	26.7
Expense ratio	%	22.7	21.6	20.4	16.4	17.8
Combined operating ratio	%	113.2	102.9	103.6	108.2	102.0
Adjusted combined operating ratio ²	%	113.1	102.9	103.6	108.2	—
Insurance (loss) profit margin	%	(6.9)	5.5	2.7	(0.5)	0.8

¹ Excludes Argentine workers' compensation business which was sold in 2015.

² Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims. Management-basis results were not reported in 2013.

Premium income

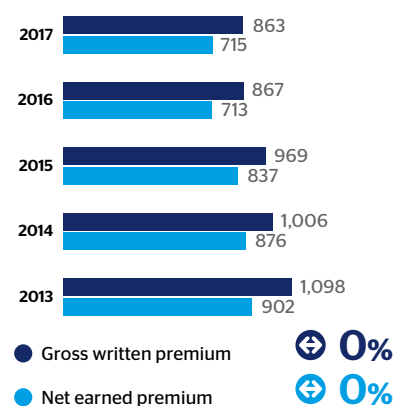
Latin America's gross written premium was broadly flat at \$863 million compared with \$867 million in the prior year.

On a constant currency basis, gross written premium increased by 4%, well down from the 16% constant currency growth recorded in 2016, and below the 10.1% average premium rate increase experienced.

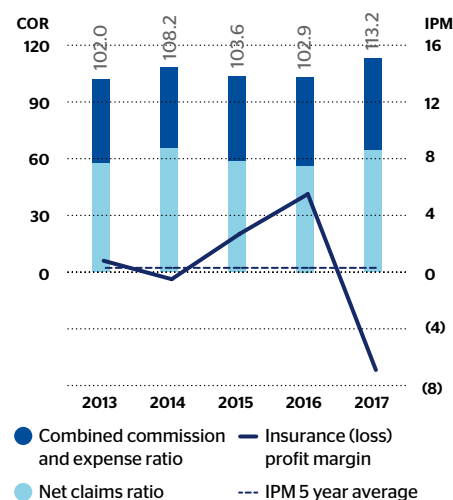
Strong inflationary growth in Argentine motor and to a lesser degree Brazil, was largely offset by a significant recession-driven contraction in Ecuador and the mid-year sale of the Chilean operation which impacted the top-line by \$24 million. Premium income was broadly flat in Mexico, Colombia and Puerto Rico. Growth in Brazil was driven by motor affinity business with a new partner as well as commercial lines.

Net earned premium increased 5% on a constant currency basis, reflecting gross written premium growth coupled with reduced reinsurance spend following the renegotiation and restructuring of the Group's reinsurance protections effective 1 January 2017.

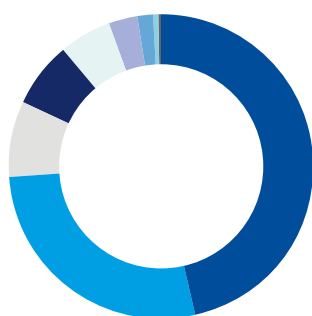
Gross written premium and net earned premium (US\$M)



Combined operating ratio (COR) and insurance (loss) profit margin (IPM) (%)



Gross earned premium by class of business



	2017 %	2016 %
Motor & motor casualty	46.6	45.1
Commercial & domestic property	27.3	28.8
Accident & health	8.1	8.4
Marine energy & aviation	6.9	5.8
Public/product liability	5.8	5.0
Life	2.9	3.6
Agriculture	1.6	2.3
Financial & credit	0.6	0.7
Professional indemnity	0.2	0.2
Other	0.0	0.1

Claims expense

Latin America's net claims ratio deteriorated to 64.5% from 56.1% in the prior year, reflecting adverse prior accident year claims development coupled with heightened large individual risk and catastrophe claims activity and a deterioration in the attritional claims ratio.

The underwriting result was impacted by \$14 million of adverse prior accident year claims experience which increased the net claims ratio by 2.0%, primarily due to Colombia (SOAT and liability business), compared with \$11 million of favourable development in 2016 which benefited the claims ratio by 1.6%.

The attritional claims ratio increased to 53.6% from 51.9% in the prior period, largely due to adverse experience in Colombian SOAT, increased frequency of medium-sized claims in Mexico and competitive pricing pressure in Brazilian travel insurance and Ecuadorian motor, partially offset by improvement in the Argentine motor portfolio.

The combined net cost of large individual risk and catastrophe claims increased to 3.5% of net earned premium from 2.2% in the prior period. Catastrophe claims increased to 2.7% of net earned premium from 1.9% a year earlier, notwithstanding 2016 including significant costs associated with the earthquake in Ecuador. Catastrophe activity included flood losses in Argentina and Chile (prior to sale), two earthquakes in Mexico and of course Hurricane Maria which devastated Puerto Rico. Large individual risk claims increased to 0.8% of net earned premium from 0.3% in the prior year, most notably due to large fire claims in Mexico.

Commission and expenses

Latin America's commission ratio increased to 26.0% from 25.2% in the prior year, mostly due to business mix changes and one-off costs related to Brazilian affinity businesses.

The underwriting expense ratio also increased to 22.7% from 21.6% in the prior period, reflecting higher staff costs in Argentina (driven by inflation and mandatory union salary increases) along with one-off provisioning including restructuring costs related to the establishment of a standalone Latin American Operations, doubtful debts, software impairments and property revaluation taxes.

Outlook

Following the completion of a strategic review, we have decided to exit the Latin American region as part of a broader strategy to simplify the Group's geographic footprint and improve the quality and consistency of our results.

Equator Re business review

Gross written
premium¹ (US\$M)

1,580

↑ 17% from 1
2016

Net earned
premium¹ (US\$M)

847

↑ 379M from
2016

Underwriting
result¹ (US\$M)

(350)

↓ 487M from
2016

Insurance (loss)
profit¹ (US\$M)

(323)

↓ 487M from
2016

Combined
operating ratio^{1,2}

140.9%

2016 70.2%

Insurance (loss)
profit margin¹

(38.1)%

2016 35.0%

During a year of extreme catastrophe activity, QBE's operating divisions benefited from material recoveries under reinsurance protections purchased from Equator Re. The external reinsurance purchased by Equator Re on behalf of the Group responded to limit the impact of this claims activity on the Group result.

Jim Fiore

Group Chief Reinsurance Officer & President • Equator Re

2017 overview

2017 was the costliest year on record for natural catastrophes, resulting in a net cost to the global insurance and reinsurance industry of \$135 billion³. Consistent with global reinsurance peers, our underwriting result was materially impacted with Equator Re reporting its second ever underwriting loss, the first being in 2011.

The divisions received excess of loss premium rate reductions averaging 0–5% on non-loss affected portfolios. Despite softer excess of loss reinsurance pricing and some divisions opting for higher retentions, premium income increased overall reflecting additional divisional proportional purchases.

Equator Re continues to play an important role in bridging the gap between the Group risk appetite and that of each of the operating divisions. During 2016, the Group announced its ambition to reduce external reinsurance spend without materially increasing exposure. This was partly achieved by Equator Re retaining proportional business that had previously been ceded externally such as North American Crop. At the same time, Equator Re increased its participation on numerous internal divisional quota share treaties.

Supporting divisional growth ambitions has been a focus of Equator Re in recent years and this is perhaps best demonstrated by Equator Re's recent facilitation of the Group's multinational product offering. QBE's underwriters all over the globe are now able to offer multinational insurance solutions, comfortable in the knowledge that there is an efficient and robust infrastructure equipped to transact and support this complex product offering.

The captive continues to play a pivotal role in optimising the Group's capital requirements. During 2017, Equator Re facilitated the loss portfolio transfer (LPT) of \$436 million of North American legacy reserves to a third party. The LPT generated a net gain for the Group and removes the potential for further adverse prior accident year claims development in relation to these portfolios, while freeing up capital for redeployment elsewhere.

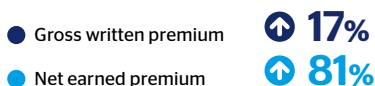
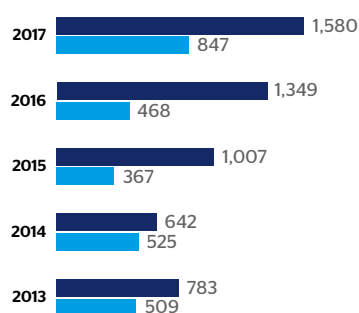
To assist year on year comparability, the commentary hereafter refers to the 2017 and 2016 results excluding the impact of LPT transactions.

1 Adjusted for LPT transactions with North American Operations.

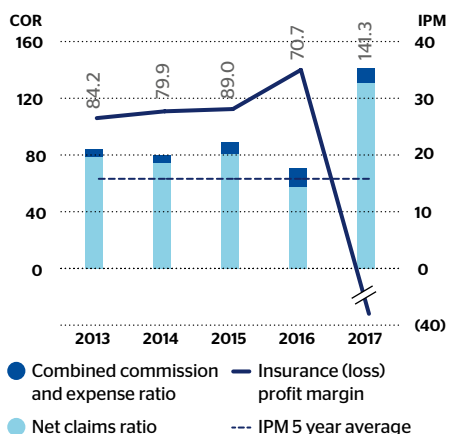
2 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims.

3 Source: Munich Re, 4 January 2018.

Gross written premium and net earned premium (US\$M)



Combined operating ratio (COR) and insurance (loss) profit margin (IPM) (%)



Operating and financial performance

Underwriting performance

Equator Re reported a combined operating ratio of 141.3%, up from 70.7% in the prior year. Excluding the impact of movements in risk-free rates used to discount net outstanding claims liabilities, the combined operating ratio was 140.9%, up from 70.2% in the prior year.

Equator Re's underwriting result was heavily impacted by adverse catastrophe experience as well as higher than expected large individual risk claims. The Group's external reinsurance programs responded with significant recoveries limiting the severity of the gross claims experience.

Adjusting for large individual risk and catastrophe claims retained by Equator Re in excess of the Group's aggregate reinsurance protections, the underlying combined operating ratio would have been around 89%. Relative to 2016, this underlying increase partly reflects the increase in proportional business which typically operates at a higher combined operating ratio than Equator Re's excess of loss business.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER	2017		2016 ¹		2015	2014	2013
	2017	Adjusted	2016	Adjusted			
Gross written premium	US\$M 1,580	1,580	1,532	1,349	1,007	642	783
Gross earned premium	US\$M 1,614	1,614	1,429	1,246	994	764	802
Net earned premium	US\$M 732	847	651	468	367	525	509
Net incurred claims	US\$M 982	1,107	453	268	297	389	400
Net commission	US\$M 74	74	50	50	17	18	21
Expenses	US\$M 16	16	13	13	13	13	8
Underwriting result	US\$M (340)	(350)	135	137	40	105	80
Net claims ratio	% 134.2	130.7	69.6	57.3	80.9	74.2	78.6
Net commission ratio	% 10.1	8.7	7.7	10.7	4.6	3.3	4.1
Expense ratio	% 2.2	1.9	2.0	2.8	3.5	2.4	1.5
Combined operating ratio	% 146.5	141.3	79.3	70.7	89.0	79.9	84.2
Adjusted combined operating ratio ²	% 146.1	140.9	78.9	70.2	89.9	75.0	—
Insurance (loss) profit margin	% (42.8)	(38.1)	24.9	35.0	28.1	27.7	26.5

1 Adjusted for LPT transactions with North American Operations and related external LPT of same portfolio.

2 Combined operating ratio adjusted to exclude the impact of changes in risk-free rates used to discount net outstanding claims. Management-basis results were not reported in 2013.

Premium income

Gross written premium increased 17% to \$1,580 million, largely driven by an increase in proportional business.

Net earned premium grew 81% to \$847 million. Growth in proportional income, which is mostly retained by Equator Re, coupled with savings associated with the renewal of the core external reinsurance programs, was partly offset by an increase in the external whole account quota share reinsurance to 35% from 30% previously.

Claims expense

Equator Re's net claims ratio was driven by significant catastrophe activity coupled with increased large individual risk claims incidence and higher attritional claims from increased proportional business.

Net large individual risk and catastrophe claims totalled \$734 million or 86.6% of net earned premium compared with \$119 million or 25.3% in 2016. This includes gross claims of \$433 million in relation to hurricanes Harvey, Irma and Maria, which devastated the Americas in September 2017, as well as \$86 million from Cyclone Debbie, which impacted the Queensland coast in March 2017.

The net claims ratio also includes 11.5% or \$97 million of adverse prior accident year claims development which compares with positive development of 11.9% or \$56 million in the prior year. The adverse claims development largely relates to reduced recoveries on prior year aggregate reinsurances.

Heightened catastrophe claims activity has resulted in a material increase in Equator Re's claims reserves. To maintain a strong claim reserving probability of adequacy, the result also includes a risk margin strengthening of \$28 million.

Commission and expenses

Notwithstanding the significant increase in proportional business which is subject to higher commission charges relative to non-proportional business, the commission ratio improved to 8.7% from 10.7% in the prior year. Higher gross commission expense was more than offset by additional reinsurance commissions following an increase in cessions under the external whole account quota share to 35% from 30% in 2016.

Equator Re's expense ratio improved to 1.9% from 2.8% in the prior year, reflecting the significant growth in net earned premium.

Outlook

After several years of premium rate softening and following the significant catastrophe activity of 2017, the market has begun an orderly correction. Whilst a more aggressive hardening of reinsurance rates may have been expected given the size of the insured losses, the more subdued price correction reflects the continued over supply of capital and the dispersion of the cost of catastrophe claims, much of which was retained by the primary market through multiple events with significant retentions.

During the January 2018 renewal period there has been a general, albeit modest, increase in pricing across a wide range of classes (not just property catastrophe classes where loss impacted covers saw more significant increases). This should allow for an improved market in 2018.

Most of Equator Re's excess of loss business was renewed in January 2018 with rate and/or attachment point increases achieved in conjunction with improved underwriting actions in each of our divisions. At the same time, Equator Re will not incur significantly higher reinsurance costs in 2018 reflecting the fact that 50% of the core catastrophe and per risk treaties and 100% of the aggregate cover was placed for two years commencing in January 2017.

Risk - our business

The importance of a robust approach to the identification, measurement and management of risk increases in uncertain times, particularly in a year like 2017 which saw QBE impacted by significantly increased natural catastrophe claims.

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 Strategy and is supported by frameworks for each risk class, including strategic, insurance, operational, credit, market and liquidity risks. All risk categories are managed through Board governance, an approved risk appetite set by the Board, scenario analysis and stress testing and robust capital management. The ERM framework is applied across the Group and provides a sound foundation for reducing uncertainty and volatility in business performance.

Business performance oversight

The Group's 2017 underwriting result was disappointing, with the main drivers being: weather-related catastrophe claims including hurricanes Harvey, Irma and Maria; Cyclone Debbie; the Californian wildfires; a large number of smaller weather-related claims in North America; and a deterioration in our Hong Kong workers' compensation portfolio.

It is widely recognised that continued climate change will lead to increasingly unpredictable and potentially more severe weather events with potentially significant economic and social consequences. As well as the physical risks associated with climate change, we are also cognisant of potential transitional risks (e.g. legal, policy, investment) due to the global shift towards a lower-carbon economy. In response, we have established a cross-functional Climate Change Working Group to coordinate our approach to managing climate-related risks and opportunities. We welcome the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) recommendations released in June 2017 and are currently reviewing our readiness to disclose in line with them.

Our comprehensive reinsurance program was tested by the level of catastrophe claims during 2017. QBE employs sophisticated exposure modelling techniques to support our reinsurance

strategy and purchasing decisions. This modelling is subject to continuous review and development, including back-testing of our models against experience.

The underperformance in QBE's Emerging Markets foreshadowed during the first half was unacceptable. In response to this, Asia Pacific was split out as a separate division to allow management to focus on remediation activities to restore profitability and a recently completed strategic review of QBE's Latin American Operations has determined that we will exit these markets in order to simplify the Group's risk profile and geographic footprint.

Risk appetite

Our risk appetite forms the basis of QBE's ERM framework and represents the level of risk that the Board and management are prepared to accept in pursuit of the organisation's objectives. Risk appetite is aligned to, and is considered in, all strategic and business planning decisions QBE makes and we monitor our exposures against the risk appetite on an ongoing basis. We continue to actively manage our approach to risk appetite through regular review of risk tolerance, monitoring of exposure and experience compared with appetite, and market based reviews.

Governance

The Board plays a significant role in the ERM framework. The Board is responsible for ensuring that an effective risk management strategy is implemented and for defining the risk appetite boundaries within which risk must be managed. The Board is supported by the Board Risk and Capital Committee which meets at least quarterly and is responsible for overseeing active and appropriate management of risks according to the stated risk appetite, strategy and business plans.

QBE manages risk in accordance with the "three lines of defence" governance model. The first line is responsible for managing the risk that arises as a result of activities undertaken in our risk-taking businesses. The second line

includes the risk management and compliance functions which are responsible for the maintenance and monitoring of risk management frameworks, as well as the measurement and reporting of risk performance and compliance. The third line is provided by the internal audit function, which is responsible for providing independent assurance to the Board and its various audit and risk committees that risk management and internal control frameworks are working as designed. Having defined responsibilities across all three lines of defence ensures that QBE adopts a coordinated approach to risk management and that accountabilities are clear for our staff.

Risk culture

QBE defines risk culture as observable patterns of behaviour in the way employees perform their work and the judgements they take, as it relates to risk. Risk culture is an integral component of QBE's ERM framework and, like other components of the framework, we continuously enhance our risk culture approach. We are currently focusing on achieving greater alignment between risk culture, the wider organisational culture and conduct risk, as well as further embedding first line accountability for risk culture, including through remuneration and reward. This is in addition to our ongoing initiatives to maintain a strong risk culture across the Group.

Stress and scenario testing

We use stress and scenario testing to better understand our risk profile under a range of different scenarios. Assessing the impact of extreme but plausible events helps us to better prepare for such situations and ensures that our risk exposure is acceptable to the Board. QBE uses a range of modelling techniques to estimate potential losses, manage exposure and assist in making decisions regarding risk management and coverage. This capability is critical to managing our exposure to possible events, such as natural catastrophes and economic shocks.

Emerging risks

We recognise that the risk environment changes and evolves over time. Existing risks develop in new or unexpected ways and new risks, which are usually characterised by incomplete but developing knowledge, materialise. QBE operates emerging risk forums across the Group to identify and monitor these emerging risks, analyse their potential impact and develop strategies to mitigate or exploit opportunities.

Capital management

Capital management is another key component of the ERM framework and aims to achieve the appropriate balance between our risk appetite and the amount of capital required to support each of our businesses. QBE uses a number of capital management tools to support the assessment of risk and allocation of capital including:

- QBE's Economic Capital Model – QBE's internal model, developed to measure overall exposure to risk as well as exposure to each of our main categories of risk, provides a quantitative base for us to understand, monitor and manage our exposures. We also use the model to make better business decisions, assess economic capital requirements and measure performance on a risk-adjusted basis.
- Analysis of regulatory and rating agency capital models – to better understand how regulatory and rating agencies assess the impact of our strategic decisions on our risk profile

and capital requirements, we conduct financial modelling analysis with reference to the requirements of the various capital environments in which QBE operates.

- A number of bespoke risk assessment tools – we use catastrophe models, scenario analysis, stress tests and reverse stress tests to evaluate business plans and support our capital plan.

Another key capital management tool is QBE's Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is supported by both the Economic Capital Model and scenario analysis, and is used to:

- manage the capital held by QBE;
- monitor the risk profile against appetite;
- ensure the risks taken by QBE are commensurate with required returns;
- allocate capital to operating entities for planning and performance monitoring purposes; and
- analyse alternative reinsurance options and regulatory and rating agency submissions.

Investment, market, credit and liquidity risk

QBE actively manages its exposures to investment, market and credit risks that arise inherently from the management of a global insurance operation, including risks generated through:

- the management of a global investment portfolio;
- regular insurance activities and exposure to reinsurance counterparties; and
- global treasury operations, including exposures to foreign exchange movements, collateral management and bank counterparty risks.

Risks to earnings due to material market movements, risk concentrations and changes to credit quality are identified, measured and controlled. These are subject to risk management frameworks and oversight within defined Board-approved risk appetites that are monitored through limits structures and specific delegated authorities.

QBE's liquidity risk framework is designed to ensure that QBE has sufficient high-quality liquid assets at all times, including at times of severe stress, to meet our liabilities as they fall due. Liquidity risk is monitored against specified limits within the Board-approved risk appetite and supporting processes ensure that contingency plans are in place to address crisis situations.

Regulatory risk

As a global insurance group, QBE is subject to oversight by approximately 30 prudential regulatory regimes around the world, as well as extensive legal and regulatory requirements and obligations, industry codes and business and ethical standards across its business activities. To manage the regulatory and compliance risk we face as a global organisation, we combine local expertise with a globally consistent compliance framework. We continue to monitor regulatory developments in each of the markets the Group operates in.

Board of Directors



W. Marston (Marty) Becker JD, BSBA

Chairman

Marty was appointed as an independent non-executive director of QBE in 2013 and Chairman in April 2014. Marty is a member of the Audit, Investment, People & Remuneration, Risk & Capital, and Operations & Technology Committees. Marty previously served as President and CEO of Alterra Capital Holdings Limited and is on the Board of Governors of West Virginia University. Marty has over 36 years' experience in general insurance, reinsurance, investment banking and private equity and has held various insurance and reinsurance executive positions.



Patrick (Pat) Regan BSc, FCA

Group Chief Executive Officer

Pat joined QBE in 2014 and was appointed Group Chief Executive Officer in 2018. He was previously appointed CEO, Australian & New Zealand Operations in 2016 and, prior to this, he held the position of Group Chief Financial Officer. Prior to joining QBE, Pat was the Chief Financial Officer at Aviva Plc in London. Pat has more than 28 years of financial and management experience of which around 20 years is in insurance and financial services. Pat was previously the CFO/COO of Willis and has held several roles at RSA and AXA.



Stephen Fitzgerald B Ec

Independent non-executive director

Stephen was appointed as an independent non-executive director of QBE in 2014. He is Chairman of the Investment Committee and a member of the Risk & Capital, and Operations & Technology Committees. Stephen is Chairman of Affirmative Investment Management. Previously, Stephen was a member of the Board of Guardians of the Future Fund (Australia's Sovereign Wealth Fund), and Chairman of Goldman Sachs, Australia and New Zealand. He also served on the Goldman Sachs Partnership Committee.



John M. Green B JURIS/LLB, FAICD, SF FIN

Deputy Chairman

John became an independent non-executive director of QBE in 2010. As well as Deputy Chairman, he is Chairman of the People & Remuneration Committee, Deputy Chairman of the Investment, and Operations & Technology Committees and a member of the Risk & Capital, and Audit Committees. Currently, John is also a non-executive director of Challenger. Previously he was on the Board of WorleyParsons, and had 30 years' experience in the financial services and other sectors as an investment banker and, earlier, a lawyer. He is also a novelist and co-founder of book publisher Pantera Press.



Kathryn (Kathy) Lisson B. Sc (Honours)

Non-executive director

Kathy was appointed as a non-executive director in September 2016. Kathy is Chairman of the Operations & Technology Committee, and a member of the Audit Committee. Until 2016, Kathy was a partner of Ernst & Young LLP, where she led the firm's Canadian Insurance Advisory practice, and before that she was the COO for QBE European Operations. Previously, Kathy held senior roles at Price Waterhouse and Bank of Montreal in Canada, and at Barclays Bank and Brit Insurance Holdings in the UK.



Sir Brian Pomeroy MA, FCA

Independent non-executive director

Sir Brian was appointed as an independent non-executive director of QBE in 2014. Sir Brian is Chairman of the Audit Committee and a member of the Investment and Risk & Capital Committees. He was formerly a non-executive member of the Board of the Financial Conduct Authority in the UK, a nominated member of the Council of Lloyd's of London and a non-executive director on QBE's European regulated boards. He was the senior partner of Deloitte Consulting in the UK until 1999.



Jann Skinner B Com, FCA, FAICD

Independent non-executive director

Jann was appointed as an independent non-executive director of QBE in 2014. Jann is Deputy Chairman of the Audit Committee and the Risk & Capital Committee and a member of the People & Remuneration Committee. Jann was a non-executive director on QBE's Australian regulated boards, where she was also Chairman of the Audit and Risk & Capital Committees. She has over 30 years' professional accounting experience and was an audit partner at PricewaterhouseCoopers.



Rolf Tolle Dipl. Pol

Independent non-executive director

Rolf was appointed as an independent non-executive director in March 2016. Rolf is the Chairman of the Risk & Capital Committee and a member of the People & Remuneration and the Audit Committees. He has many years' experience in specialist insurance and reinsurance businesses, having held senior positions in a number of global companies.



Michael (Mike) Wilkins (AO) B Com, MBA, FCA, FAICD

Independent non-executive director

Mike was appointed as an independent non-executive director of QBE in November 2016. Mike is Deputy Chairman of the People & Remuneration Committee and a member of the Audit, and Operations & Technology Committees. He was the Managing Director and CEO of Insurance Australia Group Limited until November 2015. He has more than 30 years of experience in financial services, including serving as Managing Director and CEO of Promina Group Limited and Managing Director of Tyndall Australia Limited. He is currently a non-executive director of AMP Limited and Medibank Private Limited. Previously he held non-executive roles at Maple-Brown Abbott Limited and Alinta Limited.

John Neal

Former Group Chief Executive Officer

John joined QBE in 2003 and was appointed Group CEO in 2012. Prior to this, John held the position of CEO of Global Underwriting Operations as well as several leadership positions in QBE European Operations, most recently as Chief Underwriting Officer. John has over 30 years' experience in the insurance industry and, before joining QBE, was the CEO of Ensign. John developed Ensign to become the UK's leading commercial motor insurance brand. QBE acquired Ensign in 2003. John stepped down as Group CEO on 31 December 2017.

Margaret Leung B Ec

Retired independent non-executive director

Margaret Leung served as an independent non-executive director of QBE from 2013 until her retirement on 20 March 2017. Margaret was the Deputy Chairman of the Remuneration Committee and a member of the Audit Committee. Margaret is a director of Chong Hing Bank, Hong Kong Exchanges and Clearing Limited, Sun Hung Kai Properties, Li & Fung Ltd and First Pacific Company Limited. Margaret was previously the CEO of Hang Seng Bank Limited and director of China Construction Bank Corporation.

Group Executive Committee



Patrick (Pat) Regan BSc, FCA

Group Chief Executive Officer

Pat joined QBE in 2014 and was appointed Group Chief Executive Officer in 2018. He was previously appointed CEO, Australian & New Zealand Operations in 2016 and, prior to this, he held the position of Group Chief Financial Officer. Prior to joining QBE, Pat was the Chief Financial Officer at Aviva Plc in London. Pat has more than 28 years of financial and management experience of which around 20 years is in insurance and financial services. Pat was previously the CFO/COO of Willis and has held several roles at RSA and AXA.



Michael Ford BCom, MBA, FCA, FCPA

Group Chief Financial Officer

Michael joined QBE in September 2017 in the role of Group Chief Financial Officer. Before joining QBE, Michael was the Deputy Chief Financial Officer for the Commonwealth Bank of Australia (CBA). He joined CBA in 2005 and held a number of senior financial roles before his appointment as Deputy CFO in 2011. Prior to this, he held senior financial roles at National Australia Bank's wealth management division, and Lendlease Group. Michael is a Chartered Accountant.



Vivek Bhatia BEng, MBA, CFA

Chief Executive Officer, Australian & New Zealand Operations

Vivek joined QBE in February 2018 in the role of CEO, Australian & New Zealand Operations. Before joining QBE, Vivek was inaugural CEO and MD of icare, the NSW Government public financial corporation managing the state's insurance and care schemes. Earlier in his career Vivek was the CEO of Wesfarmers Insurance in Australia. He has also co-led McKinsey & Co's Asia Pacific Restructuring & Transformation practice.



Jason Brown B ECON, ACA

Chief Executive Officer, Asia Pacific Operations

Jason joined QBE in 2002 and was appointed CEO, Asia Pacific Operations in August 2017. Prior to this, Jason held the position of Group Chief Risk Officer and was previously Chief Risk Officer for Australian & New Zealand Operations. Earlier in his career Jason was a Principal at Ernst & Young in both assurance and consulting in Australia and the UK. Jason is a Chartered Accountant and has been involved in the financial services industry for more than 25 years.



Liam Buckley B BUS (ACC), CA

Interim Group Chief Risk Officer

Liam joined QBE in 2014 as Group Head of Internal Audit and was appointed Interim Group Chief Risk Officer in August 2017. Prior to joining QBE, Liam held roles at Commonwealth Bank of Australia, Macquarie Group and Vodafone Australia. He commenced his career in professional services with roles in Australia and Asia at PwC and Deloitte. Liam is a Chartered Accountant and has more than 25 years' professional experience across a broad range of industries.

**Russell (Russ) Johnston** BSc, BF**Chief Executive Officer, North American Operations**

Russ joined QBE in May 2016 in the role of CEO, North American Operations. Russ has more than 25 years' experience in the insurance industry in North America, and has held a range of senior business and operational roles since joining American International Group (AIG) in 1990. Most recently, Russ was President of AIG Casualty in the Americas, with responsibility for all AIG's US, Canada, Bermuda and London based US Casualty underwriters.

**David McMillan** BA, MBA, FCMA**Group Chief Operations Officer**

David joined QBE in September 2017 in the role of Group Chief Operations Officer. Prior to joining QBE, David was the CEO Europe and India and Chairman of Global Health Insurance for Aviva plc. Earlier in his career at Aviva, David was CEO of UK General Insurance. David joined Aviva in 2002 following almost ten years with the management consulting arm of PricewaterhouseCoopers.

**Margaret Murphy****Group Chief Human Resources Officer**

Margaret joined QBE in October 2016 in the role of Group Chief Human Resources Officer. Prior to this, she was the Chief of Staff to the Group HR Director at Barclays plc. After starting her career with the London Underground, Margaret worked with companies including Inchcape, BAT and J Sainsbury before spending 10 years working with Barclays. Her penultimate role at Barclays was as HR Director for Global Functions, where she led a team of 70 HR professionals providing services to over 14,000 people.

**Richard Pryce** B HIS (HONS)**Chief Executive Officer, European Operations**

Richard joined QBE in 2012 and was appointed CEO, European Operations in 2013. Richard began his insurance career with R.W. Sturge syndicate at Lloyd's where he became Claims Director. In 1996, Richard moved to Ockham as Professional Lines Class Underwriter for Syndicate 204. Richard went on to run ACE's Financial Lines business in London before becoming President of ACE Global Markets in 2003 and ACE UK in 2007. He has worked in the London insurance market for 35 years and is currently a non-executive director of the Lloyd's Franchise Board

Corporate governance statement

QBE Insurance Group Limited (QBE) is committed to the highest standards of corporate governance. The QBE Group has a vision and six ONE QBE values that recognise its customers, people, shareholders and the community. QBE believes that a culture that rewards transparency, integrity and performance will promote its long-term sustainability and the ongoing success of its business.

This Corporate Governance Statement relates to the 2017 financial year, and should be read in conjunction with QBE's 2017 Annual Report and the 2017 Sustainability Report. This Corporate Governance Statement has been approved by the Board and is dated 26 February 2018.

Board and management

Board functions

The Board charter sets out the matters expressly reserved for the Board and those delegated to its Committees and management. In accordance with its charter, the Board:

- oversees corporate governance;
- selects and supervises the Group Chief Executive Officer;
- provides direction to management;
- approves the strategies and major policies of the QBE Group;
- monitors performance against plan;
- considers regulatory compliance;
- monitors people-related strategies (including people development and succession planning);
- reviews information technology and other resources; and
- ensures that an effective risk management strategy is established and maintained.

The Board reviews strategy on an ongoing basis. To help the Board maintain its understanding of the business and to effectively assess management, directors receive regular presentations from the divisional chief executive officers and other senior managers of the various divisions on relevant topics including budgets, three-year business plans and operating performance. The Board receives updated forecasts during the year. The non-executive directors also have contact with senior executives at numerous times and in various forums during the year.

Visits by non-executive directors to the QBE Group's offices in key locations are encouraged. The Board meets regularly in Australia and, due to QBE's substantial overseas operations, usually spends time in the United Kingdom and the United States each year.

The Board visited the QBE Group's operations in New York in June and December and in London in October 2017. Delegations from the Board also visited Miami in June 2017 to meet with and receive presentations from local management.

Each formal Board meeting normally considers reports from the Group Chief Executive Officer and the Group Chief Financial Officer, together with other relevant reports. The non-executive directors regularly meet in the absence of management. The Chairman and Group Chief Executive Officer in particular, and directors in general, have substantial contact outside Board and Committee meetings.

Details of the number of Board meetings held during the 2017 financial year and attendance by directors are set out in the Directors' Report.

The Board delegates responsibility to the Group Chief Executive Officer for management of the business on a day-to-day basis.

Senior management functions

Management's responsibilities are to:

- develop a draft strategy, make recommendations to the Board and implement the Board approved strategy subject to market conditions;
- prepare annual budgets and three-year business plans;
- carry on day-to-day operations within the Board approved annual budget and three-year business plans subject to market conditions;
- design and maintain internal controls;
- set up and keep under review an effective risk management and compliance management system, and monitor and manage all material risks consistent with the strategic objectives, risk appetite statements and policies approved by the Board;
- inform the Board of material matters, and keep the Board and market fully informed about material continuous disclosure issues; and
- ensure succession plans exist for all senior management positions other than the Group Chief Executive Officer.

QBE has operated under an extensive written system of delegated authorities for many years. In particular, a written delegated authority with specified limits is approved by the Board each year to enable the Group Chief Executive Officer to conduct the QBE Group's business in accordance with detailed budgets and business plans. This authority deals with topics such as underwriting, reinsurance protection, claims, investments, acquisitions and expenses. The Group Chief Executive Officer delegates his authority to management throughout the QBE Group on a selective basis, taking into account expertise and past performance. Compliance with delegated authorities is monitored by management and adjusted as required for actual performance, market conditions and other factors. Management and the QBE Group's internal audit teams review compliance with delegated authorities and any breach can lead to disciplinary procedures, including dismissal.

Chairman

The independent Chairman of the Board of QBE is Marty Becker, who was appointed in April 2014. In his role as Chairman, Mr Becker is responsible for ensuring that the Board functions as an effective and cohesive group. Mr Becker works closely with the Group Chief Executive Officer to determine the strategic direction for QBE and to establish high standards of governance and leadership.

Committees

The Board is supported by several Committees which meet regularly to consider audit, risk management, investments, remuneration, technology, operations and other matters. The main Committees of the Board are the Audit, Investment, People & Remuneration, Nomination, Risk & Capital and Operations & Technology Committees. Further sub-committees of the Board may be convened to confer on particular issues from time to time. Any non-executive director may attend a Committee meeting. The Committees have free and unfettered access to QBE's senior managers and may consult external advisers at QBE's cost, including requiring their attendance at Committee meetings, with the consent of the Chairman. A report on each Committee's last meeting is provided to the next Board meeting.

Each Committee comprises at least three independent directors and each Committee Chairman is an independent or non-executive director who is not the Chairman of the Board (excluding the Nominations Committee, the Chairman of which is Mr Becker). Each Committee operates under a written charter approved by the Board. These charters are available at www.qbe.com. The membership of each Committee is provided on our website at www.qbe.com and details of the number of Committee meetings held during the 2017 financial year and attendance by Committee members at Committee meetings are set out in the Directors' Report.

Further information regarding the Committees can be found throughout this Corporate Governance Statement.

Company Secretary

The Company Secretary acts as secretary to the Board and all of the Committees and is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. All directors have direct access to the Company Secretary.

The Company Secretary's role is described in the Board charter and includes communication with regulatory bodies and the Australian Securities Exchange (ASX), all statutory and other filings, assisting with good information flows within the Board and its Committees and between non-executive directors and senior management, as well as facilitating induction and professional development as required. The Company Secretary may also provide guidance to directors in respect of legal and regulatory responsibilities.

Board skills and experience

Directors are selected to achieve a broad range of skills, experience and expertise complementary to the QBE Group's insurance activities. At the date of this Corporate Governance Statement, the Board comprised nine directors, being an independent Chairman, seven other non-executive directors, and the Group Chief Executive Officer.

The Board has a skills matrix covering the range of competencies and experience of each director. When the need for a new director is identified, the required experience and competencies of the new director are considered in the context of this matrix and any gaps that may exist.

The Board's skills matrix is below.

SKILLS	INDUSTRY
Financial literacy	General insurance
Legal	Reinsurance
Governance	Investment banking
Strategy	Private equity
Commercial expertise	Financial services
Risk management	Accounting
Government relations	Investments
Executive leadership	
Digital technology	
Cyber security	
IT risks	
Data analytics	

Details of individual directors, including their qualifications and experience, independence status and the period of office serving on the Board, are set out in the Board of Directors section and can also be found on the QBE website at www.qbe.com.

Corporate governance statement CONTINUED

Independence of the Board

The majority of the Board are independent directors, applying the “independence” definition of the ASX Corporate Governance Council. When applying this definition, the Board has determined that an independent director’s relationship with QBE as a professional adviser, consultant, supplier, customer or otherwise is not material unless amounts paid under that relationship exceed 0.1% of QBE’s revenue. The roles of QBE’s Chairman and Group Chief Executive Officer are also not exercised by the same individual.

Directors are required to advise the Board on an ongoing basis of any interest they have that they believe could conflict with QBE’s interests. If a potential conflict does arise, either the director concerned may choose not to, or the Board may decide that he or she should not, receive documents or take part in Board discussions whilst the matter is being considered.

Tenure

The mere fact that a director has served on the QBE Board for a lengthy period of time does not, of itself, suggest a lack of independence; however, the Board has agreed that an independent director’s term should be approximately 10 years. The Board considers that a mandatory limit on tenure would deprive the QBE Group of valuable and relevant corporate experience in the complex world of international general insurance and reinsurance. The tenure of each director is set out in the Board of directors section and can also be found on the QBE website at www.qbe.com.

QBE’s constitution provides that no director, except the Group Chief Executive Officer, shall hold office for a continuous period in excess of three years or past the third AGM following a director’s appointment, whichever is the longer, without submission for re-election. Under QBE’s constitution, there is no maximum fixed term or retirement age for non-executive directors.

Board selection process

The Board has a Nomination Committee which meets regularly during the year around the time of the Board meetings. The Committee assists the Board in appointing directors so that the Board as a whole has the necessary range of skills, knowledge and experience to be effective. The Nomination Committee is comprised of all the non-executive directors of the Board and is chaired by Mr Becker.

A formal process for the selection and appointment of directors is undertaken by the Nomination Committee and Board. Before the Board appoints a new director or puts forward a candidate for election, appropriate background checks are undertaken. External consultants may be employed, where necessary, to search for prospective directors. Candidates are assessed against the required skills and on their qualifications, backgrounds and personal qualities. In addition, candidates must have the required time to commit to the position. The Board regularly reviews the mix of skills that is required. Under QBE’s Constitution, the size of the Board is limited to 12 directors. The Board considers that a maximum of 12 will reflect the largest realistic size of the Board that is consistent with:

- maintaining the Board’s efficiency and cohesion in carrying out its governance duties on behalf of shareholders;
- reducing the risk of a director being insufficiently involved and informed in the business of QBE; and
- providing individual directors with greater potential to contribute and participate.

QBE also provides shareholders with all material information in its possession that is relevant to a decision on whether or not to elect or re-elect a director through a number of channels, such as the Notice of Meeting, director biographies and other information contained in the Annual Report.

The Board adopted revised non-executive director nomination, performance evaluation and tenure guidelines in September 2014. The Board believes that orderly succession and renewal contributes to strong corporate governance and is achieved by careful planning and continual review. As an ongoing evaluation, the Board regularly discusses its make up in relation to the mix of skills, diversity and geographic location of directors to meet the needs of QBE.

Director induction and training

Upon appointment, each non-executive director (and senior executive) is provided with a written agreement which sets out the terms of their appointment. Directors also attend induction sessions upon their appointment, where they are briefed on QBE’s history and vision, strategy, financials, and risk management and governance frameworks.

The Board ensures it has the information it requires to be effective including, where necessary, independent professional advice. A non-executive director may seek such advice at QBE’s cost with the consent of the Chairman. Directors are also provided with ongoing professional development and training programs to enable them to develop and maintain their skills and knowledge at QBE’s cost, with the consent of the Chairman.

Performance evaluation and remuneration

Performance evaluation – Board and directors

The Chairman oversees the performance of the Board, its Committees and each director. The Board regularly reviews its performance through internal and external assessments, and recommendations for either improvement or increased focus are agreed and then implemented.

In 2017, a Board evaluation was undertaken using the services of external consultants. The review covers the performance of the Board and its Committees. The result of the review was reported to the Chairman and discussed in detail by the Board.

Performance evaluation – senior management

The People & Remuneration Committee oversees the performance of senior management. In addition, the Board continually monitors the performance of senior management through regular contact and reporting.

In 2017, QBE continued to use a balanced scorecard of individual key performance indicators (KPIs) to ensure that a broader view of performance and specific strategic priorities are considered when assessing performance and incentive outcomes. Other than as set out in the Remuneration Report, senior management have 20% of their Executive Incentive Plan outcome determined with reference to individual KPIs.

The scorecard is aligned to QBE's business plans and measures objectives which support QBE's strategy in 2017. The Remuneration Report sets out a summary of the key objectives and outcomes for the Group Chief Executive Officer for 2017, John Neal. The Group Chief Executive Officer's scorecard was formulated initially through a discussion between the Group Chief Executive Officer and the Chairman and was approved by the Board. The scorecards for the rest of senior management (which are consistent with and support the scorecard for the Group Chief Executive Officer) were approved by the People & Remuneration Committee.

The 2017 objectives for senior management were used to measure their performance for the 2017 year. These performance evaluations occurred in 2018.

People & Remuneration Committee

The Board has a People & Remuneration Committee which meets at least quarterly to assist it in overseeing major remuneration practices of the QBE Group. The People & Remuneration Committee is comprised of independent directors and is chaired by John M Green. With effect from 1 January 2018, the scope of the People & Remuneration Committee was expanded to include key people items to bring more focus on QBE's people strategy. The name of the Committee has therefore been changed to the People & Remuneration Committee to reflect this broader scope.

Remuneration policies and practices

Details of QBE's policies and practices regarding the remuneration of executives and non-executive directors (being Key Management Personnel) are set out in the Remuneration Report.

Other than meeting statutory superannuation requirements, QBE does not have in place any retirement benefit schemes for non-executive directors.

QBE's trading policy for dealing in securities of QBE Insurance Group Limited or other entities outlines QBE's approach to derivatives or otherwise limiting the economic risk of participating in an equity-based remuneration scheme. The trading policy is available at www.qbe.com.

Group governance

Group governance framework

The Board approved a new framework in 2013, which has continued to evolve. The framework includes, in particular:

- revised roles for the boards of divisional holding companies and divisional insurers; and
- divisions having committees similar to the QBE Board.

There is now a greater liaison between the QBE Board and the divisional holding boards. The QBE Board also meets separately with local independent directors at least once a year. These changes followed a review of governance at QBE Group and divisional levels.

Group guidelines

In February 2018, the QBE Group released its updated Code of Ethics and Conduct. The code was reviewed and updated to take into account QBE's changing business environment, approach and strategy and emerging regulatory and compliance issues.

The code applies to all employees as well as our directors, agents and contractors. Also in February 2018, we changed the provider of our current whistleblowing system and released the new system across the majority of QBE. The new system is known as the QBE ethics hotline and reflects our commitment to develop a "speak up" culture and ensure disclosures made by our employees are taken seriously and employees protected.

Director conduct is covered by both the Code of Ethics and Conduct and the non-executive directors' nomination, performance evaluation and tenure guidelines. These guidelines cover director conduct, particularly in regard to tenure, performance and evaluation. The guidelines are available at www.qbe.com.au

The QBE Group has global policies in key compliance areas, including anti-bribery and anti-corruption, sanctions, whistleblowing and diversity and inclusion. In 2017, we adopted new global policies in work, health and safety and privacy and introduced standards for gifts and entertainment across our Group Head Office. In recognition of the importance of protecting customer data across the QBE Group, we appointed a Group Privacy Officer. Our global approach in key compliance areas recognises that our employees (including our contractors, directors and agents) are key to maintaining a compliant and ethical approach to our business practices. Most global policies are supported by Group guidelines that provide additional information and guidance to support our employees.

In Australia, QBE complies with the General Insurance Code of Practice; a self-regulated code developed by the Insurance Council of Australia relating to the provision of products and services to customers of the general insurance industry in Australia. QBE's Australian business is also a member of the Financial Ombudsman Service; an ASIC approved external dispute resolution body which deals with general insurance disputes between consumers and insurers.

Continuous disclosure

The Board adopted a revised continuous disclosure policy in February 2015, which is available at www.qbe.com.

QBE takes its continuous disclosure obligations seriously and issues market releases during the year to satisfy those obligations. All ASX announcements are set out on QBE's website at www.qbe.com.

Corporate governance statement CONTINUED

Diversity and inclusion

QBE has a strong commitment to diversity and to offer a dynamic workplace culture; one that values and leverages the ideas, capabilities and experiences of our global workforce. We believe this strengthens our ability to deliver on our business goals, particularly as it relates to innovation, performance and our focus on customers.

QBE's global diversity and inclusion policy, sets out principles that highlight how we guide our actions and ensure dignity and respect in the workplace and proactive diversity management across the QBE Group:

- harness our global workforce to drive innovation and creativity working together to garner a better understanding of our customer, shareholder and community needs;
- openly embrace the unique diversity, skills and qualities of all our employees and encourage an environment that is open to learning, is culturally sensitive, flexible, safe, and attractive as an employer;
- promote a high level of engagement and performance by ensuring all employees have equal access to the opportunity to learn, develop and grow, acknowledging our employees have a wealth of knowledge, skills and ideas to contribute; and
- ensure we demonstrate appropriate workplace behaviours and take accountability to eliminate all forms of unlawful discrimination.

Reporting to the QBE People & Remuneration Committee of the Group Board and discussions with the Group Executive Committee who represent the Global Diversity & Inclusion Council as well as divisional leadership teams drives accountability and focus on diversity and inclusion priorities, a summary of which are shown below:

AREA OF FOCUS	ACHIEVEMENTS IN 2017
Upskilling of leaders promoting inclusive capabilities	<ul style="list-style-type: none"> • Enhanced tools and resources made available for people leaders focused on eliminating bias in decision making helping with day to day recruitment, onboarding, performance management and career conversations and general leadership of high performing teams. Workshops and online tools introduced via a People Leader Hub – promoting an objective, consistent and fair employee experience globally. • Continued investment in development of leaders through the Global Leadership Academy: an additional 222 employees globally attended the programs, of which 43% were female. A total of 2,573 employees have participated in the Academy since its introduction in 2013 (42% being female).
Diversity in leadership representation	<ul style="list-style-type: none"> • Female representation at senior levels (Levels 0-3) increased a further 2% over the year, reaching 30% (see Table A). <ul style="list-style-type: none"> – 41% of all senior placements were female (42% of external hires were female; 38% of all promotions were female) • A new global process was introduced for recruiting senior roles (L0-1 and key L2 roles) that requires an equal number of female and male candidates to be shortlisted for each vacant role.
Strong pipeline of diverse talent	<ul style="list-style-type: none"> • Focus on empowering employees' access to career development by enhancing our employment practices and offerings: <ul style="list-style-type: none"> – new promotion process introduced in North America to support career progression for key talent; – enhanced talent review process with the introduction of discussions centred around mix of gender, age and diversity of background to address business needs in European Operations; and – new digital learning and development initiatives including a global learning management system, Learn@QBE and a career portal. • A number of QBE divisions proactively partnered with external companies to enhance our ability to attract a more diverse mix of candidates, e.g. Partnership with Vercida – diversity and inclusion jobs board in our European Operations and working in partnership with Career Trackers in Australia looking to increase our internship opportunities for Indigenous Australians.
Customer satisfaction and retention	<ul style="list-style-type: none"> • Aiming to enhance our diverse customer experience, we proactively evaluate advertising and marketing content aimed at customers across QBE globally for gender bias ensuring inclusive language is used prior to publication. • Launched the world's first Gender Equality Additional Tier 1 ("AT1") bond, enabling institutional investors to invest in supporting organisations that champion gender equality – aligning with QBE's own commitments.

AREA OF FOCUS

ACHIEVEMENTS IN 2017

Higher engagement of all employees

- Overall engagement score of 67% and enablement score of 69% was achieved with a strong survey response rate of 82% in 2017. We also introduced a Diversity & Inclusion Index – achieving a score of 73%. This result indicates employees feel they are treated respectfully and fairly and are supported in achieving work-life-balance.
- Promoting a “speak up” culture that ensures a safe environment to raise concerns – we introduced a global whistleblower policy and ethics hotline together with global education and training.

Gender balance at Board and senior management levels

QBE's workforce as at 31 December 2017 is made up of 53% (7,427) women and 47% (6,713) men.

Details of gender representation across management levels together with targets set for achievement by 2020 are set out below:

Table A

GENDER REPRESENTATION	GENDER TARGET BY 2020	ACTUAL 31 DECEMBER 2017	ACTUAL 31 DECEMBER 2016	BASELINE 31 DECEMBER 2015
QBE Board	30%	22%	27%	22%
Group Executive positions (Level 0)		11%	11%	10%
Level 1		22%	22%	20%
Level 2		22%	22%	21%
Level 3		32%	30%	29%
Women in management (Total % of Levels 0, 1, 2 &3)	35%	30%	28%	27%
Women in workforce		53%	53%	53%

In addition to QBE's commitment to diversity and achieving our gender targets, QBE became a signatory to the United Nations Women's Empowerment Principles in 2017. The Principles offer a framework and goals which we aim to leverage as we continue to transform our behaviours and practices, guiding our future focus.

For additional information on our approach and progress, see QBE's 2017 Sustainability Report. QBE also makes an annual filing to comply with the Workplace Gender Equality Act (WGEA) in Australia disclosing our performance against the "Gender Equality Indicators". Both the 2017 Sustainability Report and 2017 WGEA Report can be found at www.qbe.com.

Respecting the rights of shareholders

QBE respects the rights of its shareholders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.

QBE aims to provide shareholders with up-to-date information. QBE also provides regular communications to shareholders and other stakeholders through a number of publications including the Annual Report, Half Year Report and Sustainability Report. Hard copies of these documents are sent to shareholders who have opted to receive these in printed form. All reports are available at www.qbe.com. The website also provides information about QBE's history, vision and corporate governance, as well the biographies about directors and the QBE Group executives.

QBE provides shareholders the option to receive all communications from QBE and its share registry electronically, and encourages shareholders to do so where possible. Shareholders can discuss their shareholding with either the shareholder services department or the share registry, both located in Sydney.

QBE welcomes shareholder participation at its Annual General Meeting (AGM), either in person or by proxy. The AGM is held in Sydney each year and webcast to shareholders that are unable to attend in person. Shareholders are also encouraged to provide questions or comments ahead of the meeting, and ask any direct questions to the Chairman or the external auditor at the AGM. All resolutions in the Notice of Meeting have explanatory notes. The shareholder communication guidelines are available at www.qbe.com.

QBE has a comprehensive investor relations program that facilitates effective communication with its investors. The Group Chief Executive Officer, Group Chief Financial Officer, Group Chief Risk Officer, Group Chief Operations Officer, Group General Counsel and Company Secretary, Global Head of Investor Relations, divisional chief executives and divisional finance officers generally deal with analysts, investors, media, rating agencies and others, taking account of regulatory guidelines including those issued by the ASX on continuous disclosure. The presentations on the 30 June and 31 December results and other major presentations are sent to the ASX before the presentations commence and are available promptly on the QBE Group's website. The 30 June and 31 December presentations are also webcast live and subsequently archived on the QBE Group's website.

Corporate governance statement CONTINUED

Financial and other reporting

Audit Committee

The Board has an Audit Committee which meets at least quarterly to support the Board in overseeing the effectiveness of the QBE Group's financial reporting and risk management framework. In particular, the Audit Committee oversees and monitors the integrity of the QBE Group's financial reporting. The Audit Committee is comprised of non-executive directors, a majority of whom are independent directors, and is chaired by Sir Brian Pomeroy.

CEO and CFO declaration

Prior to the Audit Committee's review and the Board's approval of the 2017 Annual Report, the Group Chief Executive Officer and Group Chief Financial Officer provided a declaration to the Board that, in their opinion, the financial records were properly maintained, that the financial statements complied with the appropriate accounting standards and that they gave a true and fair view of the financial position and performance of the QBE Group. The declaration also provides that the opinion of the Group Chief Executive Officer and Group Chief Financial Officer was based on a sound system of risk management and internal control which is operating effectively.

External auditor independence

QBE firmly believes that the external auditor must be, and must be seen to be, independent. The external auditor confirms its independence and the Audit Committee confirms this by separate enquiry. The Audit Committee meets with the external auditor in the absence of management as part of each Committee meeting. The external auditor attends the AGM and a representative is available to answer questions from shareholders relevant to the audit.

The Audit Committee has free and unfettered access to the external auditor. The external auditor, the Group Head of Internal Audit and the Group Chief Actuary have free and unfettered access to the Audit Committee.

QBE has issued an internal guideline on external auditor independence. Under this guideline, the external auditor is not allowed to provide the excluded services of preparing accounting records, financial reports or asset or liability valuations. Furthermore, it cannot act in a management capacity, as a custodian of assets or as a share registry.

The Board believes some non-audit services are appropriate given the external auditor's knowledge of the QBE Group. QBE may engage the external auditor for non-audit services other than excluded services subject to the general principle that fees for non-audit services should not exceed 50% of all fees paid to the external auditor in any one financial year. External tax services are generally provided by an accounting firm other than the external auditor.

The Audit Committee approves the audit plan each year and receives information on the external auditor's fees. QBE also considers the terms of engagement of the external auditor every few years. The *Corporations Act 2001* and Australian professional auditing standards require rotation of the lead engagement partner after five years. The lead engagement partner of the external auditor was last rotated in 2014.

In the event that the Audit Committee thought it appropriate to change the firm undertaking QBE's external audit, it would conduct an appropriate competitive tender process.

Actuarial review

It is a longstanding practice of the directors to ensure that the QBE Group's insurance liabilities are assessed by actuaries. The central estimate of QBE Group's insurance liabilities, comprising outstanding claims and premium liabilities, is determined by experienced internal actuarial staff. Actuarial staff form an independent view, separate from management, of both the central estimate and the probability of adequacy of outstanding claims and premium liabilities. At 31 December 2017, close to 100% of QBE's outstanding claims central estimate was also reviewed by external actuaries.

Internal audit

A global internal audit function is critical to the risk management process. QBE's internal audit function reports to the Group Chief Financial Officer and the Audit Committee on the monitoring of the QBE Group's worldwide operations. Internal audit provides independent assurance that the design and operation of the controls across the QBE Group are effective. The internal audit function operates under a written charter from the Audit Committee. Other governance documents include a reporting protocol, internal audit manual, internal audit issue rating system, internal audit opinion levels and internal audit timetables. A risk-based internal audit approach is used so that higher risk activities are reviewed more frequently.

Risk management

QBE is in the business of managing risk. The Board and management are fully committed to ensuring that a disciplined approach to managing risk delivers leading practice and that QBE Group's risk management processes and systems are robust and independent. QBE's risk framework supports its businesses across all divisions and provides a sound foundation for reducing uncertainty and volatility in business performance.

Risk & Capital Committee

The Board monitors the QBE Group's performance and, as such, plays a significant role in ensuring that an effective risk management strategy is established and maintained. The Board has a Risk & Capital Committee which meets at least quarterly to support the Board in overseeing the effectiveness of QBE Group's risk and capital management frameworks. The proper oversight of these frameworks supports strategic objectives, informs business plans and ensures that current and future risks are identified, assessed and monitored in line with risk appetite. Under its charter, the Risk & Capital Committee is required to review the risk framework periodically to confirm it continues to be sound. This review was undertaken during 2017 as part of the annual refresh of the Risk Management Strategy.

The Risk & Capital Committee is comprised of independent directors and is chaired by Rolf Tolle and was chaired by Jann Skinner until 31 December 2017. The Risk & Capital Committee has access to the Group Chief Risk Officer and other relevant senior management.

Economic, social and environmental risk

Information about how QBE approaches sustainability and the management of environmental, social and governance (ESG) issues can be found in the 2017 Sustainability Report available at www.qbe.com.

Further details of how QBE manages risk are set out in the Group Chief Risk Officer's Report. An overview of QBE's risk management framework, including QBE's key economic material risks and how these are mitigated, is also set out in note 4 to the Financial Report.

Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2017

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at the end of, or during, the year ended 31 December 2017.

Directors

The following directors held office during the whole of the financial year and up to the date of this report:

Marty Becker (Chairman)
 Stephen Fitzgerald
 John M Green (Deputy Chairman)
 Kathryn Lisson
 Sir Brian Pomeroy
 Patrick Regan
 Jann Skinner
 Rolf Tolle
 Michael Wilkins AO

Ms Margaret Leung and Mr John Neal were directors from the beginning of the year until 30 March 2017 and 31 December 2017, respectively.

Consolidated results

	STATUTORY RESULT	
	2017 US\$M	2016 US\$M
Gross written premium	14,191	14,395
Gross earned premium revenue	14,446	14,276
Net earned premium	12,041	11,066
Net claims expense	(8,537)	(6,442)
Net commission	(2,116)	(2,034)
Underwriting and other expenses	(1,961)	(1,922)
Underwriting result	(573)	668
Net investment income on policyholders' funds	475	407
Insurance (loss) profit	(98)	1,075
Net investment income on shareholders' funds	337	339
Financing and other costs	(305)	(294)
Losses on sale of entities	(6)	–
Unrealised losses on assets held for sale	–	(3)
Share of net losses of associates	(1)	–
Amortisation and impairment of intangibles	(752)	(45)
(Loss) profit before income tax	(825)	1,072
Income tax expense	(428)	(228)
(Loss) profit after income tax	(1,253)	844
Net loss attributable to non-controlling interests	4	–
Net (loss) profit after income tax	(1,249)	844

Result

The net loss after tax for the year ended 31 December 2017 was \$1,249 million compared with a net profit of \$844 million last year.

Net earned premium of \$12,041 million was up 9% compared with \$11,066 million last year, mainly due to reduced reinsurance expense. Excluding the impact of transactions in both years to reinsure legacy portfolios (2017 \$415 million; 2016 \$570 million), the increase mainly reflected the benefit of the renegotiation and restructuring of the Group's 2017 reinsurance protections.

The Group's underwriting loss was \$573 million compared with a profit of \$668 million last year, giving rise to a combined operating ratio of 104.8% compared with 94.0% last year. As previously advised to the market, the statutory underwriting result was materially impacted by the Ogden decision in the UK (\$141 million). The net claims ratio increased significantly to 70.9% from 58.2% in the prior year, also reflecting an unprecedented level of natural catastrophe claims, a higher attritional claims ratio and reduced favourable prior accident year claims development. These were partially offset by a benefit from higher risk-free rates used to discount net outstanding claims.

The combined commission and expense ratio improved to 33.9% from 35.8% last year. Higher commission rates in European Operations were more than offset by favourable business mix changes in North American Operations including a significant increase in lower commission paying Specialty and Crop business. Despite a reduction in workers' compensation managed fee income in Australian & New Zealand Operations, the underwriting expense ratio improved as a result of costs increasing by an overall 2% compared with 9% net earned premium growth.

Net investment income was \$812 million compared with \$746 million last year, including foreign exchange losses of \$33 million compared with foreign exchange gains of \$125 million last year. The overall net return was 3.2%, slightly above target reflecting fixed income gains associated with credit spread compression and strong returns on growth/risk assets.

The Group's effective tax rate was materially distorted by the write down of the deferred tax asset in North American Operations due to the reduction in the US corporate tax rate to 21% and significant catastrophe claims in both North American Operations, where an already substantial deferred tax asset precluded the further recognition of tax losses, and in Equator Re.

Dividends

The directors announce a final dividend of four Australian cents per share, down from the final dividend of 33 Australian cents per share for 2016. The dividend will be franked at 30%. The total dividend payout is A\$356 million, compared with A\$741 million for 2016, or around 61% of cash profit. Further details in relation to dividends paid during the year are set out on page 140 of this Annual Report.

Our objective is to deliver a stable and growing dividend to our shareholders. Our current dividend policy sets the full year dividend payout ratio at up to 65% of cash profit.

Activities

The principal activities of QBE during the year were underwriting general insurance and reinsurance risks, management of Lloyd's syndicates and investment management.

Presentation currency

The Group has presented the Financial Report in US dollars because a significant proportion of its underwriting activity is denominated in US dollars. The US dollar is also the currency that is widely understood by the global insurance industry, international investors and analysts.

Operating and financial review

A review of the Group's operations during the year and the results of those operations is set on pages 4 to 43 of this Annual Report. These pages also deal with the Group's operations, financial position, business strategies and prospects for future financial years.

Outstanding claims liability

The net central estimate of outstanding claims is determined by the Group Chief Actuary after consultation with internal and external actuaries. The assessment takes into account the statistical analysis of past claims, allowance for claims incurred but not reported, reinsurance and other recoveries and future interest and inflation factors.

As in previous years, the directors consider that substantial risk margins are required over the actuarial net central estimate to mitigate the inherent uncertainty in the net central estimate. The probability of adequacy of the outstanding claims liability at 31 December 2017 was 90.0% compared with 89.5% last year. The Australian Prudential Regulation Authority (APRA) prudential standards provide a capital credit for outstanding claims in excess of a probability of adequacy of 75%.

Group indemnities

Article 78 of the company's constitution provides that the company indemnifies past and present directors, secretaries or other officers against any liability incurred by that person as a director, secretary or other officer of the company or its subsidiaries. The indemnity does not apply to any liability (excluding legal costs):

- owed to the company or a related body corporate (e.g. breach of directors' duties);
- for a pecuniary penalty under section 1317G or a compensation order under sections 1317H or 1317HA of the *Corporations Act 2001* (or a similar provision of the corresponding legislation in another jurisdiction); or
- that is owed to someone other than the company or a related body corporate and which did not arise out of conduct in good faith.

The indemnity extends to legal costs other than where:

- in civil proceedings, one or more of the above exclusions apply;
- in criminal proceedings, the person is found guilty;
- the person is liable in proceedings brought by the Australian Securities and Investments Commission (ASIC), a corresponding regulator in another jurisdiction or a liquidator (unless as part of the investigation before proceedings are commenced); or
- the court does not grant relief after an application under the *Corporations Act 2001* or corresponding legislation in another jurisdiction.

In addition, a deed exists between the company and each director which includes an indemnity in similar terms to article 78 of the company's constitution.

Directors' and officers' insurance

QBE pays a premium each year in respect of a contract insuring directors, secretaries, senior managers and employees of the Group together with any natural person who is either a trustee or a member of a policy committee for a superannuation plan established for the benefit of the Group's employees against liabilities past, present or future. The officers of the Group covered by the insurance contract include the directors listed on pages 46 and 47, the Group Company Secretary, Carolyn Scobie, and Deputy Company Secretary, Peter Smiles.

In accordance with normal commercial practice, disclosure of the amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

No such insurance cover has been provided for the benefit of any external auditor of the Group.

Directors' Report CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

Significant changes

There were no significant changes in the Group's state of affairs during the financial year other than as disclosed in this Annual Report.

Likely developments and expected results of operations

Likely developments in the Group's operations in future financial years and the expected results of those operations have been included in the review of operations on pages 4 to 43 of this Annual Report.

Events after balance date

After 31 December 2017, the Group Board authorised a plan for the sale of operations in Argentina, Brazil, Colombia, Ecuador and Mexico. Sale agreements were subsequently entered into in late February 2018 with completion expected by the end of 2018, subject to regulatory approvals. The estimated aggregate consideration is \$409 million, subject to closing adjustments, resulting in an estimated gain on disposal of around \$100 million before reclassification of foreign currency translation reserve. After the reclassification of foreign currency translation reserve from equity to retained earnings through profit or loss, the estimated loss on disposal is around \$110 million.

Other than the plan to dispose of these operations and the declaration of the final dividend, no matter or circumstance has arisen since 31 December 2017 that, in the opinion of the directors, has significantly affected or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial periods.

Australian Government Royal Commission – banking, superannuation and financial services

In late 2017 the Australian Government announced a Royal Commission into the banking, superannuation and financial services industries. The aim of the Royal Commission is to ensure that the Australian financial system is working efficiently and effectively. QBE will provide all necessary support to the Royal Commission as requested.

Material business risks

As a global insurance and reinsurance business, QBE is subject to a substantial variety of business risks. The Board believes that effective management of these risks is critical to delivering value for QBE's stakeholders. It is QBE's policy to adopt a rigorous approach to managing risk throughout the Group. Risk management is a continuous process and an integral part of QBE's governance structure, QBE's broader business processes and, most importantly, QBE's culture.

Some of the material business risks that QBE faces include strategic, insurance, credit, market, liquidity, operational and group risks. Explanations of these risks and their mitigations are set out in detail in note 4 to the financial statements which we recommend you read. Further details of how QBE manages risk are set out in the Chief Risk Officer's Report on pages 44 to 45 of this Annual Report and the section of the Corporate Governance Statement addressing the ASX Corporate Governance Council's Principle 7: Recognise and Manage Risk on page 57 of this Annual Report.

The Group makes judgements and estimates in respect of the reported amounts of certain assets and liabilities, the most significant of which are in relation to the determination of the net outstanding claims liability, the application of the liability adequacy test and the valuation of deferred tax assets and goodwill in North American Operations. More detail of each of these is included in notes 2.3, 2.5.1, 6.2.3 and 7.2.1 respectively.

Meetings of directors

	FULL MEETINGS OF DIRECTORS ¹		MEETINGS OF NON-EXECUTIVE DIRECTORS		MEETINGS OF COMMITTEES													
					AUDIT		INVESTMENT		REMUNERATION		RISK & CAPITAL		GOVERNANCE & NOMINATION		OPERATIONS & TECHNOLOGY		SUB-COMMITTEES ²	
	H	A	H	A	H	A	H	A	H	A	H	A	H	A	H	A	H	A
Marty Becker	11	11	9	9	5	5	4	4	4	4	6	6	1	1	5	5	2	2
Stephen Fitzgerald	11	10	9	9	–	–	4	4	–	–	6	6	1	1	5	5	–	–
John M Green	11	11	9	9	5	5	4	4	4	4	6	6	1	1	5	5	2	2
Margaret Leung	2	2	1	1	1	1	–	–	1	1	–	–	–	–	–	–	–	–
Kathryn Lisson	11	9	9	9	5	5	–	–	–	–	–	–	1	1	5	5	–	–
John Neal ³	11	9	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2	2
Sir Brian Pomeroy	11	11	9	9	5	5	–	–	–	–	6	6	1	1	–	–	2	1
Patrick Regan ³	11	11	–	–	–	–	–	–	–	–	–	–	–	–	–	–	2	2
Jann Skinner	11	11	9	9	5	5	–	–	4	4	6	6	1	1	–	–	2	2
Rolf Tolle	11	11	9	9	–	–	4	4	4	4	6	6	1	1	–	–	–	–
Michael Wilkins	11	11	9	9	5	5	–	–	4	4	–	–	1	1	5	5	2	2

H number of meetings held while a Board or Committee member.

A number of meetings attended while a Board or Committee member.

1 Includes meetings in the UK and the US.

2 Ad hoc committees of the Board were convened during the year in relation to the financial results and other reporting matters.

3 Messrs Neal and Regan attended Audit, Investment, Operations & Technology and Risk & Capital Committee meetings by invitation, not being members of these committees. Mr Neal also attended Remuneration Committee meetings by invitation, not being a member of that Committee.

Further meetings occurred during the year, including meetings of the Chairman and Group Chief Executive Officer and meetings of the directors with management. From time to time, directors attend meetings of committees of which they are not currently members.

Directorships of listed companies held by the members of the Board

From 1 January 2015 to 26 February 2018, the directors also served as directors of the following listed entities:

	POSITION	DATE APPOINTED	DATE CEASED
John M Green			
WorleyParsons	Director	11 October 2002	25 October 2016
Challenger Limited	Director	6 December 2017	–
Margaret Leung			
China Construction Bank Corporation	Director	12 December 2013	17 June 2016
Chong Hing Bank Limited	Director and Deputy Chairman	14 February 2014	–
First Pacific Company Limited	Director	21 December 2012	–
Hong Kong Exchanges and Clearing Limited	Director	24 April 2013	–
Li & Fung Ltd	Director	1 April 2013	–
Sun Hung Kai Properties Limited	Director	1 March 2013	–
Michael Wilkins			
AMP Limited	Director	12 September 2016	–
Medibank Private Limited	Director	25 May 2017	–

Qualifications and experience of directors

The qualifications and experience of each director are set out on pages 46 to 47 of this Annual Report.

Qualifications and experience of company secretaries

Carolyn Scobie, BA, LLB, MA, AGIA and ACIS

Ms Scobie is Group General Counsel and Group Company Secretary. Prior to joining QBE, Ms Scobie was Group General Counsel at the ASX-listed multinational Goodman Group for 17 years, where she ran a multi-disciplinary legal team working on matters across 16 countries and over 800 entities. Ms Scobie has extensive experience in compliance, regulatory matters, litigation and managing the complexity of multiple jurisdictions.

Peter Smiles, LLB, MBA, AGIA and ACIS

Mr Smiles is Deputy Company Secretary of QBE Insurance Group Limited and a company secretary of various QBE subsidiaries in Australia. He has 26 years of insurance experience, which includes 19 years as a corporate lawyer. Prior to commencing employment with QBE in 2002, Mr Smiles worked for the NRMA Insurance Group in various corporate roles. In addition to his current company secretarial duties, he acts as a corporate lawyer advising QBE Group head office departments and Asia Pacific offices.

Directors' interests and benefits

Ordinary share capital

Directors' relevant interests in the ordinary share capital of the company at the date of this report are as follows:

DIRECTOR	NUMBER OF SHARES HELD
Marty Becker	125,973
Stephen Fitzgerald	42,973
John M Green	37,258
Kathryn Lisson	16,333
Sir Brian Pomeroy	17,009
Patrick Regan	754,378
Jann Skinner	45,000
Rolf Tolle	34,158
Michael Wilkins	21,722

Options and conditional rights

At the date of this report, Patrick Regan had 581,339 (2016 903,008) conditional rights to ordinary shares of the company. No executives hold options at the date of this report. Details of the schemes under which options and rights are granted are provided in the Remuneration Report and in note 8.4 to the financial statements.

The names of all persons who currently hold options granted under the Employee Share and Option Plan (the Plan) and conditional rights to ordinary shares of the company are entered in the registers kept by the company pursuant to section 168 of the *Corporations Act 2001*.

Loans to directors and executives

Information on loans to directors and executives is set out in the Remuneration Report.

Environmental regulation

While the Group is not currently required to report under any significant environmental regulations under either Commonwealth, State or Territory legislation, operational greenhouse gas emissions data is disclosed in the 2017 Sustainability Report.

Remuneration Report

To our shareholders,

On behalf of the Board, I present QBE's Remuneration Report for 2017.

In 2017 we introduced a new Executive Incentive Plan (EIP) that combined STI and LTI into a single, simpler incentive plan, aiming to provide a better correlation between performance and shareholder outcomes.

Incentive outcomes reflect performance

2017 was a challenging year for QBE and for you, our shareholders. Severe weather-related catastrophes coupled with a material decline in the performance of our emerging markets businesses meant we recorded a loss. This is clearly very disappointing.

We have recently reviewed the EIP and believe its incentive outcomes for 2017, the first year of its operation, do reflect shareholder outcomes appropriately.

In line with the plan's design, the overall Group performance has significantly impacted the incentives for the entire executive team. Executives linked to the underperforming businesses in emerging markets and North American Operations either received no incentive award or a very significantly reduced award.

Importantly, where businesses performed well, incentives have been awarded to reflect the executives' contribution and outcomes. This is evident in higher, though below-target, EIP awards to executives in European Operations and Australian & New Zealand Operations.

As you know, John Neal recently stepped down as our Group Chief Executive Officer. As a result of the disappointing financial performance of the Group, John's EIP has also been significantly impacted. The Board has awarded John an EIP award of \$613,000 (A\$800,000), which is 15.6% of his target award. Of this, 20% is payable in cash and 80% in equity which vests progressively over the next four years.

Increasing shareholder alignment through more meaningful equity awards

Where EIP awards have been made, with a significant proportion paid in deferred equity, we are building meaningful levels of employee share ownership. In addition, feedback from executives is that they regard the potential in the new plan as more tangible than before. This is important in attracting and retaining the talent we need, and in aligning their interests further with shareholders.

The EIP is adaptable to changes in our business strategy and the operating environment

When we introduced the EIP last year, we noted it allowed us more flexibility in adapting to the evolution of our strategy and changing business conditions.

Our Group Chief Executive Officer, Pat Regan, has set a new program of work to simplify QBE, improve performance and reduce volatility. The key elements of this program are set out in Pat's CEO Report on page 6 of the Annual Report.

So as to align the EIP with Pat's new program, we have combined the 15% strategic priorities with the 20% balanced scorecard and will now align 35% of the EIP towards strategic performance objectives. The KPIs for this 35% are designed to create long-term value for shareholders and to be measurable.

2018 performance targets

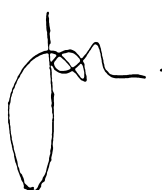
Remuneration Reports only require disclosures for the prior year. For added transparency, QBE also chooses to disclose its key remuneration targets for the coming year, namely those related to COR and cash ROE.

It is QBE's view that managing catastrophe risk is a core part of our business. Consequently, we do not normalise or adjust incentive outcomes for catastrophe losses.

For COR, the target range for 2018 incentives is 93.0–99.0%. As is usual, our range for the COR incentive is wider than the target we announce to the market, i.e. the target of 95.0–97.5% on page 8 of the Annual Report. Consistent with how we report COR to the market, this measure excludes the impact of changes in risk-free rates used to discount net outstanding claims.

The cash ROE target range for 2018 remains at 7.0–11.0%, the same range we set for 2017. Cash ROE uses cash profit after tax, the same basis used to determine shareholder dividends. As occurred for the 2017 incentive, we normally add back any losses due to unplanned amortisation or impairment of intangible assets. This practice keeps executives accountable for the management of intangibles. As in past years, cash ROE is adjusted (up or down, as the case may be) for 50% of the impact of unbudgeted discount rate movements.

We always welcome your feedback.



John M Green
Chairman, People & Remuneration Committee
Group Deputy Chairman

Remuneration Report content

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This Remuneration Report sets out QBE's remuneration framework and provides detail of remuneration outcomes for key management personnel (KMP) for 2017 and how this aligns with QBE's performance.

Accounting standards define KMP as those executives and non-executive directors with the authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly.

The 2017 Remuneration Report has been prepared and audited in accordance with the disclosure requirements of the *Corporations Act 2001*.

Remuneration Report CONTINUED

1. THE LINK BETWEEN STRATEGY AND OUR REMUNERATION FRAMEWORK

At QBE our purpose is to give people the confidence to achieve their ambitions, both personally and professionally. To continue to play this role in our industry and maintain our position as market leaders, we must ensure our executive remuneration framework reflects QBE's desire to attract, inspire and develop the best people – people who can create shareholder value whilst prudently managing risk and maintaining strong corporate governance and, importantly, be accountable for the success of our Group.

In early 2018 we commenced reshaping the Group's strategic focus to make QBE simpler and more efficient. Key elements of this program are set out on page 9 of the Annual Report with 2018 remuneration outcomes to be linked to this revised strategy.

OUR PURPOSE

We give people the confidence to achieve their ambitions

QBE GROUP STRATEGY

Our strategic imperatives for 2017 were supportive of our vision.



OUR VISION

To be the insurer that builds the strongest partnership with customers

OUR REMUNERATION PRINCIPLES

QBE's remuneration strategy is designed to attract, motivate and retain QBE's executives by providing market competitive remuneration aligned with the creation of sustained shareholder value.



HOW THE REMUNERATION FRAMEWORK SUPPORTS THE STRATEGY

Simple and clear

A simple and clear view of how delivery of our strategy impacts incentive outcomes for our executives.

Adaptable to changes in our strategy and external environment

Annual performance targets aimed at delivering our long-term objectives are adaptable to the evolution of our strategy, changes to business cycles and the external operating environment.

Measures that are correlated with performance

Measures that focus on profitability, management of the balance sheet and our longer-term strategic priorities enable remuneration outcomes to reflect a holistic view of performance.

Encourages our executives to think and act like business owners

A significant portion of incentives are paid in equity which focuses executives on creating shareholder value, managing risk and being accountable for the long-term success of QBE.

CHANGES IN 2017

Single, simpler incentive plan

The EIP combines STI and LTI into a single, simpler incentive plan which we believe provides better correlation to performance and shareholder outcomes and is more tangible for our executives.

Broader view of performance

The EIP balances long-term performance, (through a material equity component), with QBE's in-year financial performance, progress against objectives, and performance against a balanced scorecard of individual KPIs relevant to each executive's role.

Enhanced share ownership requirement

To ensure a significant exposure to QBE's share price is maintained, the Minimum Shareholding Requirement (MSR) for executives has been increased.

Reduced quantum

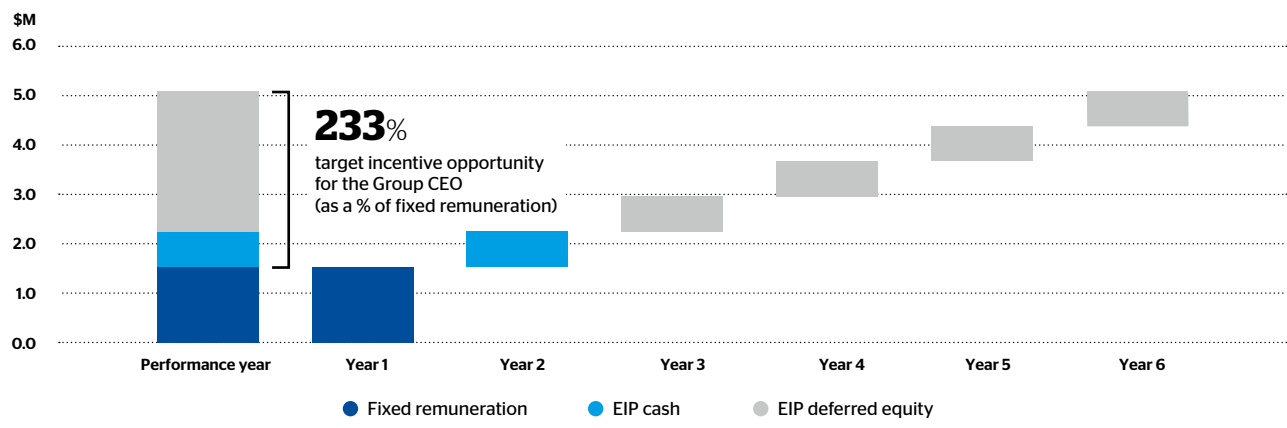
Recognising that the EIP awards are determined on one-year performance measures rather than three and therefore more tangible to our executives, the overall incentive opportunity has been reduced.

2. KEEPING EXECUTIVES' AND SHAREHOLDERS' INTERESTS ALIGNED

2.1 Executive remuneration framework

QBE's executive remuneration structure comprises a mix of fixed and at-risk remuneration, being the EIP. The EIP is an annual award of cash and deferred equity that vests progressively over a five-year period. The EIP reflects in year performance, progress against longer term strategic imperatives, and focuses executives on building strong shareholder returns. The EIP enables executives to build up a significant shareholding in QBE, with a significant proportion of awards deferred in conditional rights to QBE shares (80% in the case of the Group Chief Executive Officer (Group CEO)). Further details of the EIP are found in section 5.2 of the Remuneration Report.

The below figure sets out the remuneration framework for the Group CEO for on-target performance, and how the remuneration vests over time.



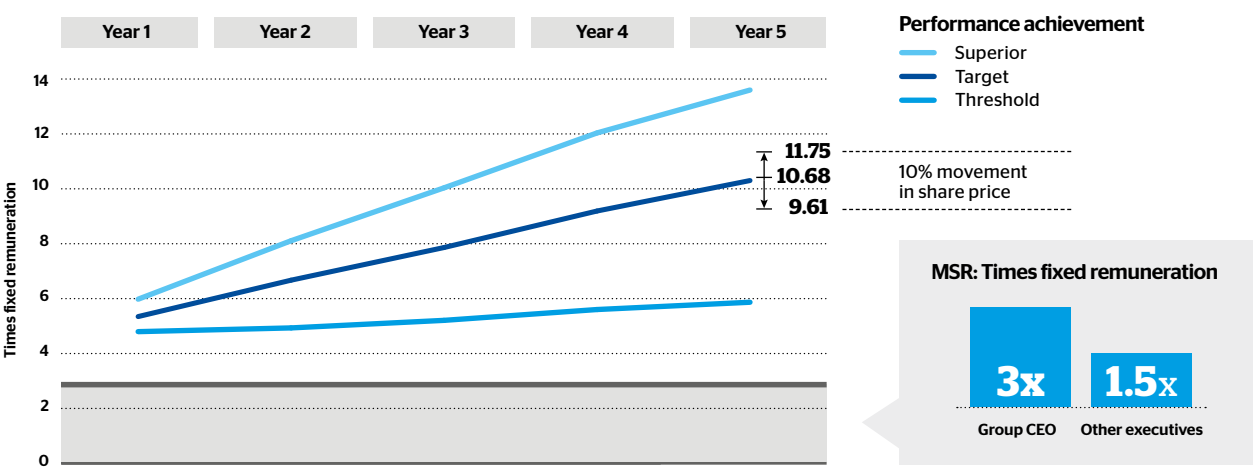
2.2 Building share ownership

Executive share ownership is enabled through a significant portion of the EIP being granted in deferred equity. This allows executives to build up their shareholding over time so that they have significant exposure to QBE's share price.

The figure below illustrates how the new Group CEO's shareholding, as a multiple of fixed remuneration, would build up if annual business plans are met. This shows that the Group CEO's shareholding could build up to more than 10 times his fixed remuneration over a five year period. With a shareholding at this level, a 10% movement in share price would equate to a year's fixed remuneration – creating meaningful reward for long-term sustainable performance and value creation, as well as a consequence for poor performance.

To ensure that the exposure to QBE's share price is maintained over the long-term, a minimum shareholding requirement is applied. The MSR for the Group CEO and other executives is shown on the right of the figure. This minimum holding is to be maintained for as long as the executive remains at QBE. New executives are required to build their minimum shareholding over three years from becoming an executive.

The illustration is based on the Group CEO's current shareholding and assumes he will retain all shares other than those needed to cover tax obligations. For simplicity, the illustration also assumes no change in salary, dividends or share price from 31 December 2017 (A\$10.68).



Remuneration Report CONTINUED

2.3 EIP performance measures

The EIP performance measures have been determined taking a holistic view of performance, balancing focus on in-year financial performance and balance sheet management with longer-term value creation and risk management. We believe these measures appropriately balance alignment with shareholders and rewarding performance within the control of our people.

The figure below sets out the 2017 EIP performance measures for the Group CEO and executives.

Financial performance

Cash return on equity (ROE)

Definition

Net cash profit divided by average shareholders' funds. In accordance with existing policy, and while we maintain an unmatched asset-liability position with regards to duration, an adjustment for 50% of the impact of unbudgeted movements in discount rates will apply.

Rationale

Cash ROE is a measure of how effectively we are managing shareholders' investment in QBE and for the EIP will generally be measured on the same basis as that used to determine shareholder dividends. As a principle, losses due to unbudgeted amortisation/ impairment of intangibles will, other than in exceptional circumstances, be added back to cash ROE so that executives remain accountable for the management of intangible assets.

Combined operating ratio (COR)

Definition

Net claims, commissions and expenses as a percentage of net earned premium. Consistent with how we report COR to the market, this is measured excluding the impact of changes in risk-free rates used to discount net outstanding claims.

Rationale

COR was introduced for 2017 as it is the most relevant measure of the profitability of our insurance operations and therefore overall performance. It is widely used externally for non-life insurance companies.

Divisional executives have an additional performance measure, being COR for their respective division.

Adjustments

Any other items (such as material acquisitions or divestments) not included in the business plan and deemed appropriate by the Remuneration Committee¹.

The Board retains an overarching discretion to adjust formulaic outcomes upwards or downwards to properly reflect performance.

Strategic priorities

The strategic priorities are linked to annual milestones in achieving our longer-term strategic priorities that in turn lead to value creation in future years. These measures account for 15% of the EIP outcome. For 2017 the strategic priorities were:

Operational efficiency

Measured by expense savings generated through operational excellence, automation and sourcing capability.

Claims excellence

Measured by savings generated through leveraging and improving our global claims capabilities and insights through data analytics.

Strategic priorities for divisional executives are measured at the divisional level.

Individual balanced scorecard

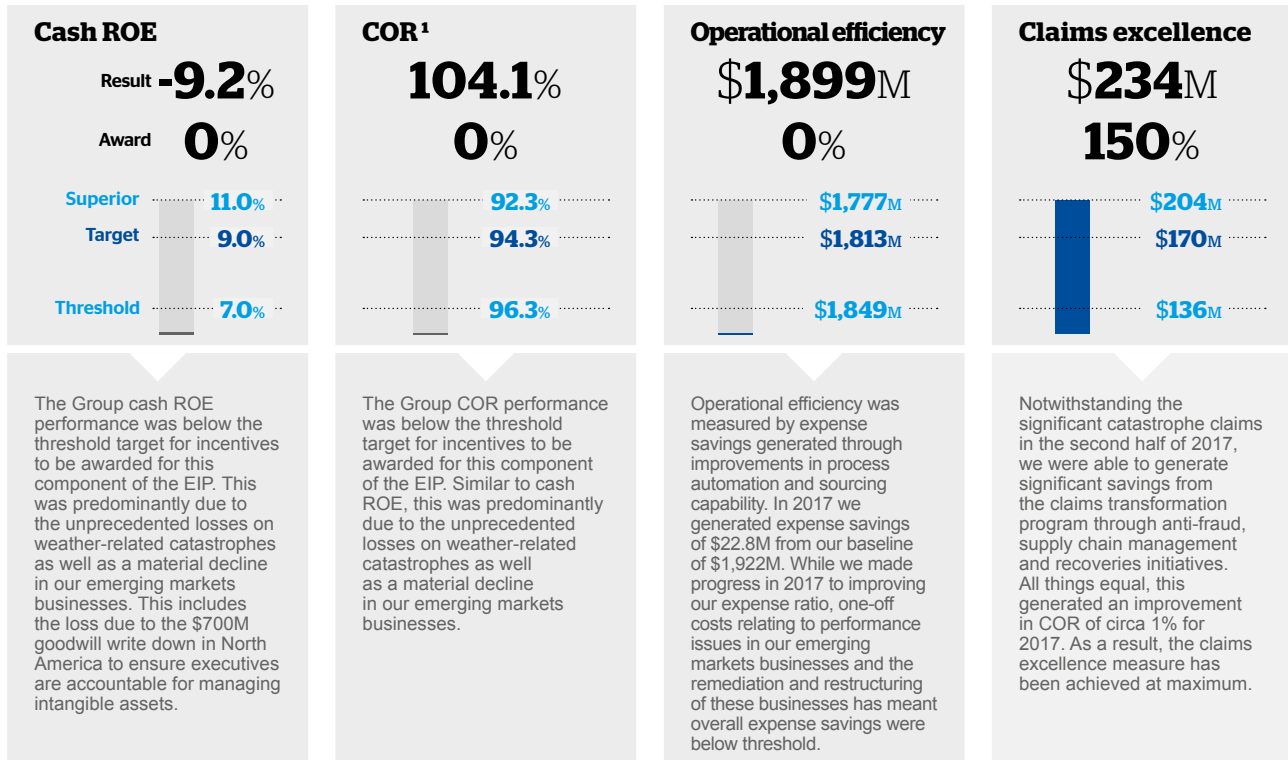
The balanced scorecard comprises of financial and non-financial KPIs that are relevant to the executive's role and aligned to QBE's strategy in 2017. This measure accounts for 20% of the EIP outcome. Further details of the balanced scorecard for the former Group CEO are found in section 3.1 of the Remuneration Report.

¹ For 2017, the Committee was named the Remuneration Committee. With effect from 2018, the name of the Committee has been changed to the People & Remuneration Committee. See section 5.3 of the Remuneration Report for further detail.

3. GROUP CHIEF EXECUTIVE OFFICER AND KMP PERFORMANCE SNAPSHOTS

3.1 Former Group Chief Executive Officer

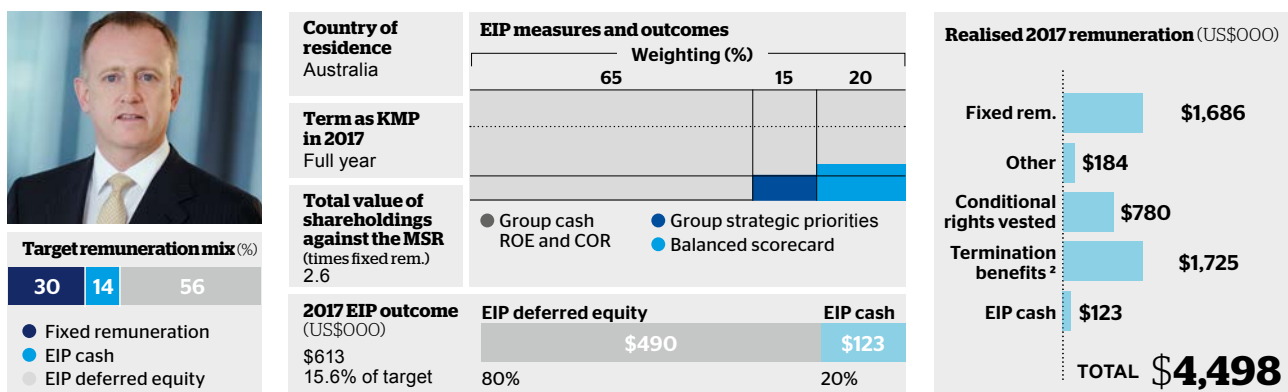
2017 Group performance



1 Statutory COR has been adjusted for the impact of changes to the Ogden tables in the UK beyond the provisions included in the business plan and for the impact of changes in risk-free rates used to discount net outstanding claims liabilities.

John Neal

Former Group Chief Executive Officer
Former Executive Director



2 Details of John Neal's termination benefits are outlined on the following page of the Remuneration Report.

QBE is required to disclose actual remuneration outcomes in the financial period under review. The realised 2017 remuneration figures above include the accrued EIP cash award for the 2017 financial year and the value of any conditional rights granted in prior years that vested during 2017. The value of vested conditional rights awards has been calculated using the closing share price on the vesting date.

These figures are different from those shown in the statutory table in section 6.1 of the Remuneration Report. For example, the statutory table includes an apportioned accounting value for all unvested conditional rights held during the year, which remains subject to performance and service conditions and consequently may or may not ultimately vest.

Remuneration Report CONTINUED

Balanced scorecard

The balanced scorecard comprises financial and non-financial KPIs that are relevant to the executive's role and aligned to the QBE value creation model. The table below sets out a summary of the key objectives for the former Group CEO for 2017.

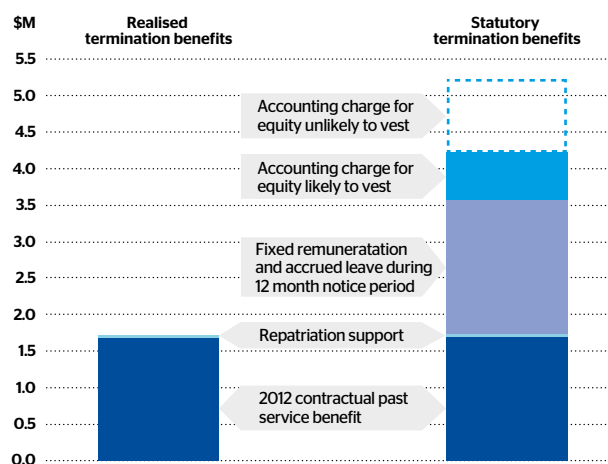
VALUE CREATION COMPONENT	2017 OBJECTIVES	OUTCOMES
Customer focus	Drive customer-centric thinking across QBE to improve business retention	Some progress made
Leadership in our core business	Progress growth initiatives and embed data and analytics in decision making	Progress on future strategy was limited given the challenges of 2017
Operational excellence - global reach and scale	Achieve savings through expense management, claims transformation, reduced reinsurance costs and improved technology	Good progress on claims initiatives Progress on expenses although these were impacted by one-off costs at the Group level QBE Ventures successfully launched and two Insurtech partnerships confirmed
Financial strength and flexibility	Maintain balance sheet strength and efficient use of capital	Balance sheet remains strong Dividends adversely impacted by catastrophe environment
World class talent and leadership	Strengthen leadership capability, succession plans and drive increased engagement and diversity in our workforce	Some progress made with new executive appointments confirmed Progress made on gender diversity targets

Termination benefits

Mr Neal's formal termination date after serving his notice period is 31 December 2018. During this period he will receive his usual fixed remuneration but will not participate in the 2018 EIP. He is not required to perform any duties but remains available to do so if requested by the Chairman.

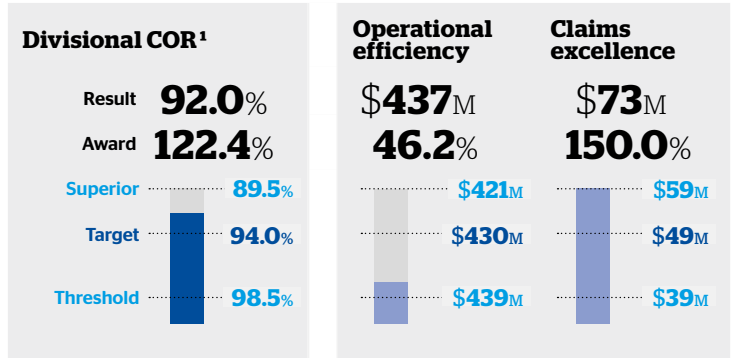
The entitlements to Mr Neal on termination are in accordance with his employment contract and incentive plan rules and meet the requirements of the *Corporations Act 2001*.

In accordance with his employment contract on becoming Group CEO in 2012, Mr Neal will receive a payment on termination for past service with the QBE Group (deferred bonus). This was disclosed to shareholders at the time of his appointment and in the Remuneration Report each year since. This contractual obligation was calculated on the basis of three weeks' salary for each year of service, capped at 12 months' salary (\$1,686,000). Mr Neal will also receive repatriation support of \$39,000. We consider these two amounts to represent Mr Neal's realised remuneration on termination.



3.2 Divisional executives

2017 Australian & New Zealand Operations performance



¹ COR has been adjusted for the impact of changes in risk-free rates used to discount net outstanding claims liabilities.

Patrick Regan

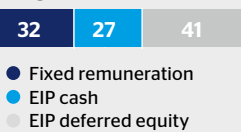
Chief Executive Officer Australian & New Zealand Operations
Former Group Chief Financial Officer

Executive Director
Group Chief Executive Officer from 1 January 2018

Patrick Regan was confirmed in the role of Chief Executive Officer, Australian & New Zealand Operations in December 2016 having performed this role on an interim basis since August 2016. In addition, Mr Regan was in the role of Group Chief Financial Officer until 3 September 2017.

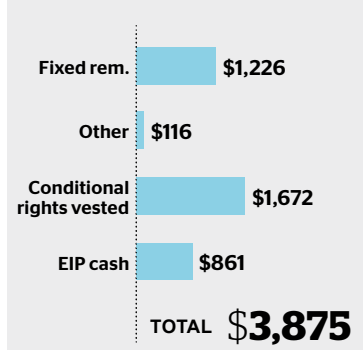


Target remuneration mix (%)



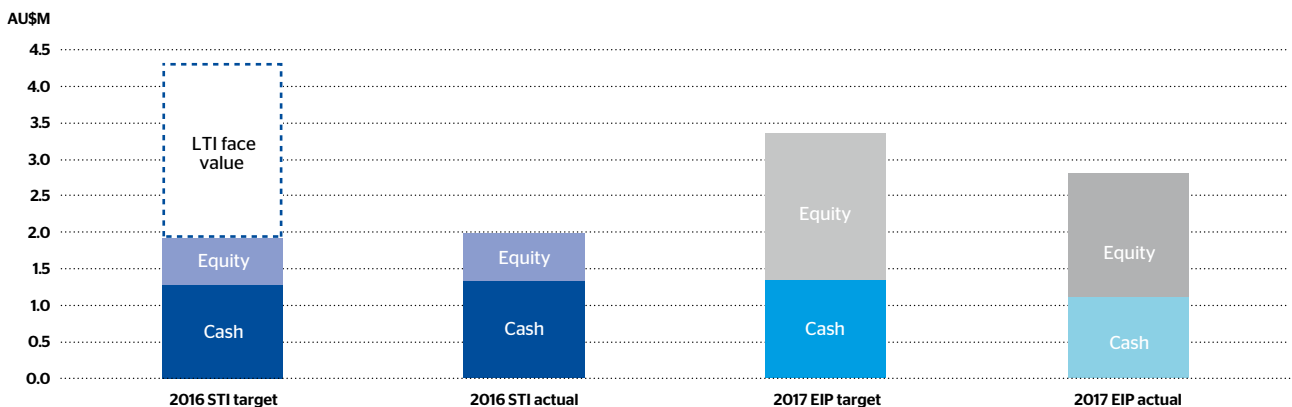
Country of residence	EIP measures and outcomes			
	Weighting (%)			
Australia	30	35	15	20
Term as KMP in 2017	Full year			
Total value of shareholdings against the MSR (times fixed rem.)	5.6			
2017 EIP outcome (US\$000)	EIP deferred equity		EIP cash	
\$2,152 83.6% of target	\$1,291 60%		\$861 40%	

Realised 2017 remuneration (US\$000)



Year-on-year comparison of incentive targets and outcomes

The figure below shows a year-on-year comparison of incentive targets and outcomes for Patrick Regan in 2016 and 2017. In combining STI and LTI into a single incentive plan, the face-value of his LTI award was discounted to reflect the fact EIP is determined using one-year performance measures rather than three. While the EIP award for 2017 is higher than the combined STI and LTI outcomes for 2016, the cash portion is materially lower meaning a greater proportion is received in equity. This is an important feature of EIP. To illustrate, the value of Mr Regan's holding of shares and deferred STI awards attained through his QBE remuneration reduced by A\$1,450,000 during 2017 due to the falling share price. The alignment of Mr Regan's remuneration to share price performance will increase even further under the EIP.



Remuneration Report CONTINUED

2018 Group Chief Executive Officer remuneration arrangements

Patrick Regan was appointed to succeed John Neal as Group CEO with effect from 1 January 2018, following a four month leadership transition. Mr Regan remains on the Board as an executive director. The below outlines the 2018 remuneration package for the new Group CEO.

FIXED REMUNERATION

Base salary of A\$2,000,000 per annum

An increase to the Group CEO's base salary of \$100,000 (gross) will be considered by the Board at each of the first two anniversaries of his commencement as Group CEO.

EIP OPPORTUNITY

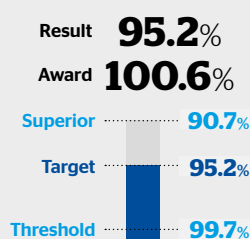
Target opportunity: 233% Maximum opportunity: 350%

Potential EIP award of 233% of base salary. Outperformance in respect of these objectives may result in a potential maximum EIP award of 350%. 20% of any EIP award is delivered in cash and 80% is deferred as conditional rights to QBE shares.

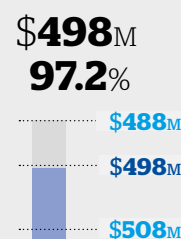
2017 European Operations performance



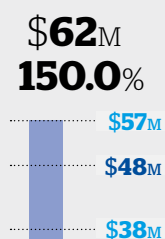
Divisional COR¹



Operational efficiency



Claims excellence



¹ COR has been adjusted for the impact of changes to the Ogden tables in the UK beyond the provisions included in the business plan and for the impact of changes in risk-free rates used to discount net outstanding claims liabilities.

Richard Pryce

Chief Executive Officer, European Operations

The EIP target opportunity for Richard Pryce was increased to 210% of his fixed remuneration to ensure his remuneration is appropriately positioned in one of the most competitive markets for talent.



Target remuneration mix (%)

32 27 41

- Fixed remuneration
- EIP cash
- EIP deferred equity

Country of residence

United Kingdom

Term as KMP in 2017

Full year

Total value of shareholdings against the MSR (times fixed rem.)
1.9

2017 EIP outcome (US\$000)

\$1,762
79.8% of target

EIP measures and outcomes

	Weighting (%)			
	30	35	15	20
Group cash ROE and COR				
Divisional COR				
Divisional strategic priorities				
Balanced scorecard				

EIP deferred equity

\$1,057

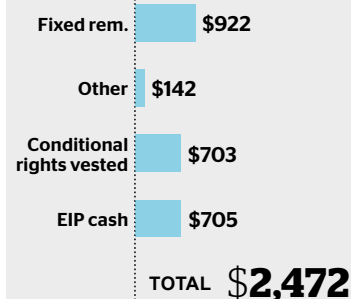
60%

EIP cash

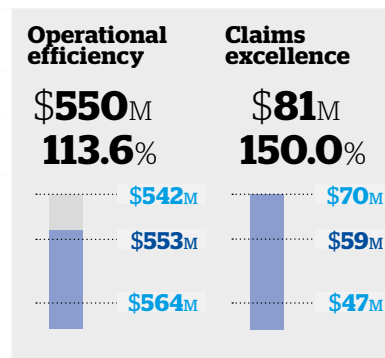
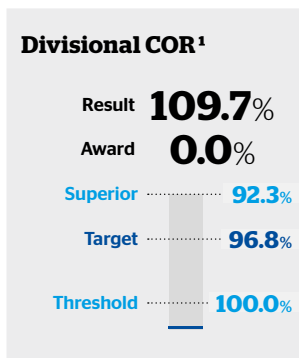
\$705

40%

Realised 2017 remuneration (US\$000)



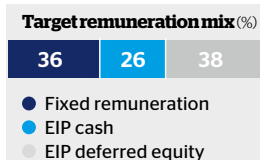
2017 North American Operations performance



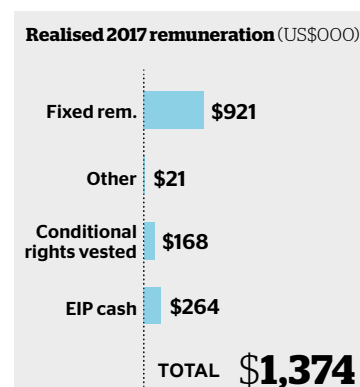
¹ COR has been adjusted for the impact of changes in risk-free rates used to discount net outstanding claims liabilities.

Russell Johnston

Chief Executive Officer, North American Operations



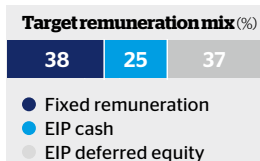
Country of residence United States	EIP measures and outcomes			
	Weighting (%)			
Term as KMP in 2017 Full year	30	35	15	20
Total value of shareholdings against the MSR (times fixed rem.) 1.0	● Group cash ROE and COR		● Divisional strategic priorities	
	● Divisional COR		● Balanced scorecard	
2017 EIP outcome (US\$000) \$659 39.8% of target	EIP deferred equity		EIP cash	
	\$395 60%		\$264 40%	



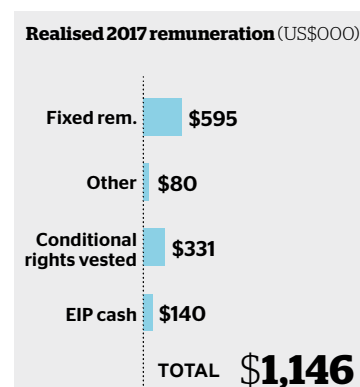
Jason Brown

Chief Executive Officer, Asia Pacific Operations. Former Group Chief Risk Officer

Jason Brown was in the role of Group Chief Risk Officer prior to becoming Chief Executive Officer, Asia Pacific Operations with effect from 17 August 2017. His fixed remuneration was increased from A\$700,000 to A\$900,000 on appointment to this role.



Country of residence Australia	EIP measures and outcomes²		
	Weighting (%)		
Term as KMP in 2017 Full year	50	15	35
Total value of shareholdings against the MSR (times fixed rem.) 1.8	● Group cash ROE and COR		● Group strategic priorities
			● Balanced scorecard
2017 EIP outcome (US\$000) \$350 36.9% of target	EIP deferred equity		EIP cash
	\$210 60%		\$140 40%



² This illustrates Jason Brown's EIP measures and outcomes in his role of Group Chief Risk Officer. With effect from 17 August 2017, his EIP measures changed to reflect his role as Chief Executive Officer, Asia Pacific Operations.

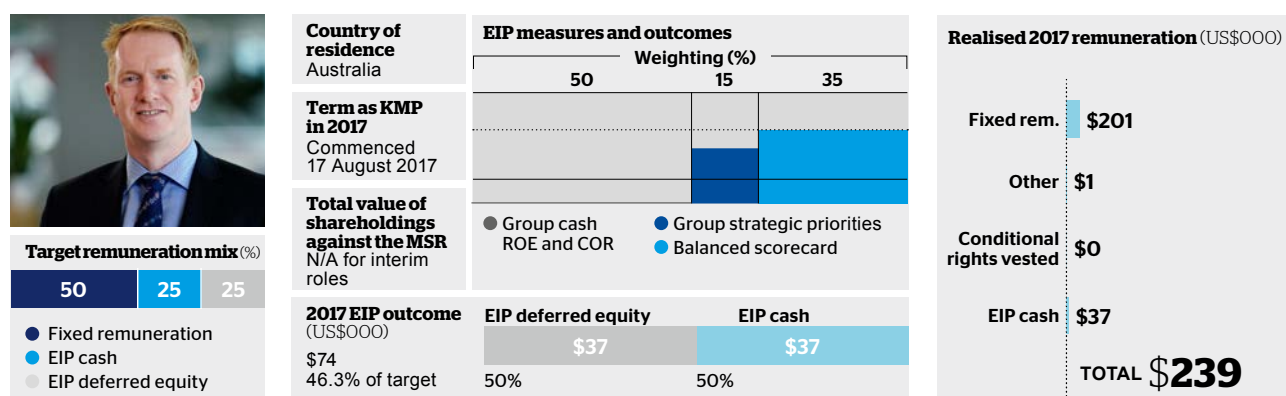
Remuneration Report CONTINUED

3.3 Group head office executives

Liam Buckley

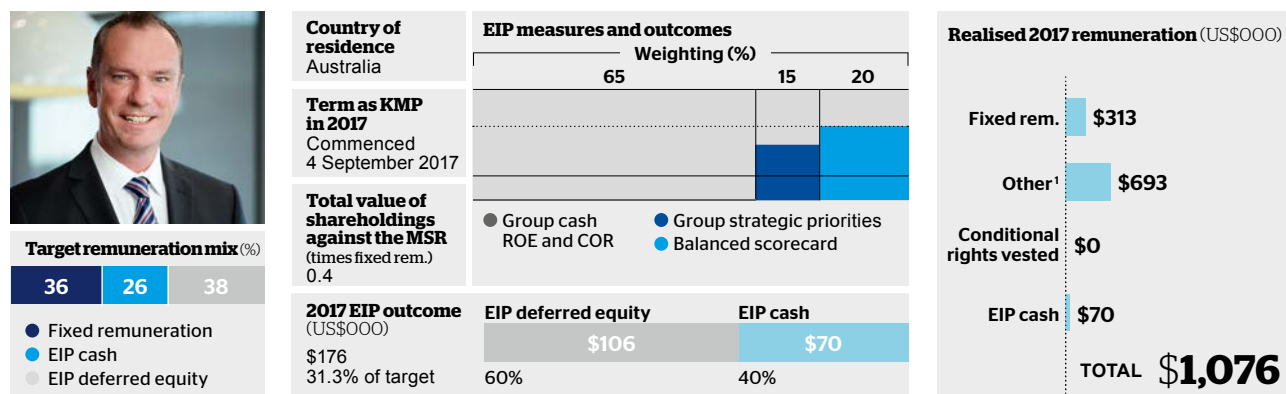
Interim Group Chief Risk Officer

Liam Buckley was in the role of Group Head of Internal Audit prior to becoming Interim Group Chief Risk Officer with effect from 17 August 2017. The remuneration below relates to his time as a KMP only.



Michael Ford

Group Chief Financial Officer



1 This includes a cash payment of \$690,000 (A\$900,000) on commencement to compensate for incentives forfeited on ceasing his previous employment to join QBE.

David McMillan

Group Chief Operations Officer

**Target remuneration mix (%)**

36 26 38

- Fixed remuneration
- EIP cash
- EIP deferred equity

Country of residence
United Kingdom**Term as KMP in 2017**
Commenced
4 September 2017**Total value of shareholdings against the MSR**
(times fixed rem.)
0.0**2017 EIP outcome**
(US\$000)
\$185
31.3% of target**EIP measures and outcomes****Weighting (%)**

	65	15	20
Group cash ROE and COR			
Group strategic priorities			
Balanced scorecard			

EIP deferred equity

\$111

60%

EIP cash

\$74

40%

Realised 2017 remuneration (US\$000)

Fixed rem. \$297

Other \$99

Conditional rights vested \$0

EIP cash \$74

TOTAL \$470**Margaret Murphy**

Group Chief Human Resource Officer

**Target remuneration mix (%)**

38 25 37

- Fixed remuneration
- EIP cash
- EIP deferred equity

Country of residence
Australia**Term as KMP in 2017**
Full year**Total value of shareholdings against the MSR**
(times fixed rem.)
0.1**2017 EIP outcome**
(US\$000)
\$324
35.3% of target**EIP measures and outcomes****Weighting (%)**

	65	15	20
Group cash ROE and COR			
Group strategic priorities			
Balanced scorecard			

EIP deferred equity

\$194

60%

EIP cash

\$130

40%

Realised 2017 remuneration (US\$000)

Fixed rem. \$575

Other \$186

Conditional rights vested \$0

EIP cash \$130

TOTAL \$891

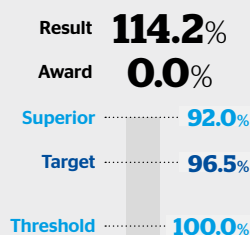
Remuneration Report CONTINUED

3.4 Former divisional executives

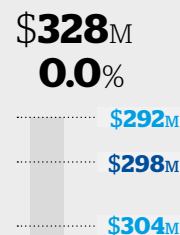
2017 Emerging Markets performance



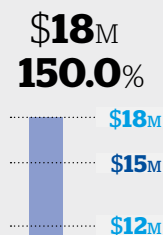
Divisional COR¹



Operational efficiency



Claims excellence



¹ COR has been adjusted for the impact of changes in risk-free rates used to discount net outstanding claims liabilities.

David Fried

Former Chief Executive Officer, Emerging Markets

David Fried ceased as Chief Executive Officer, Emerging Markets on 17 August 2017.

Country of residence Hong Kong	Term as KMP in 2017 Ceased 17 August 2017	2017 EIP outcome (US\$000) \$0 0% of target Due to the performance issues in the emerging markets businesses, no 2017 EIP was awarded to Mr Fried.	Realised 2017 remuneration (US\$000) Fixed rem. \$581 Other \$731 Conditional rights vested ² \$325 Termination benefits \$364 EIP cash \$0 TOTAL \$2,001
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² Vested in March 2017.

3.5 Former Group head office executives

Colin Fagen

Former Group Chief Operations Officer

Colin Fagen ceased employment with QBE on 9 February 2017.

Colin's realised remuneration on termination consists of \$498,000 (A\$650,000) for contractual payment in lieu of 6 months' notice and \$138,000 (A\$180,000) paid in settlement of a dispute relating to the termination of employment.

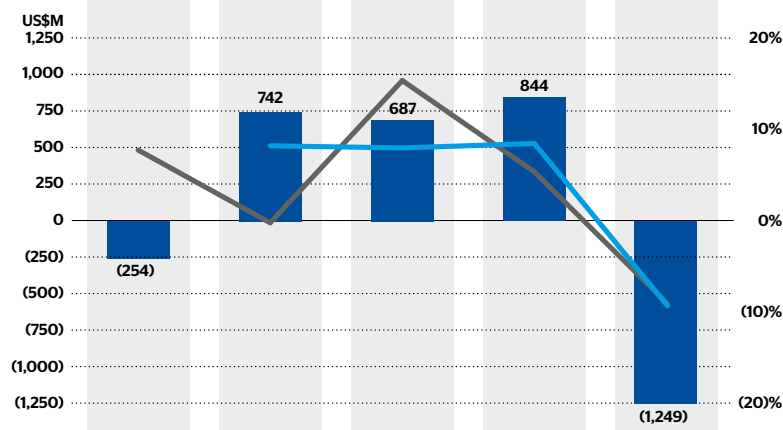
Colin received a 2016 STI award of \$836,000 in 2017 for services provided in 2016 in his capacity as a KMP. This had not been determined at the time of publishing the 2016 Remuneration Report.

4. LONG-TERM PERFORMANCE AND INCENTIVE OUTCOMES

		2013	2014	2015	2016	2017
Financial performance						
Statutory combined operating ratio	%	97.8%	96.1%	94.9%	94.0%	104.8%
Combined operating ratio for incentive purposes ¹	%	N/A	N/A	N/A	N/A	104.1%
Statutory return on average shareholders' funds	%	(2.3)%	6.9%	6.4%	8.1%	(13.0)%
ROE for incentive purposes ²	%	N/A	8.1%	7.8%	8.4%	(9.2)%
Return to shareholders						
Dividend per share	Australian cents	32	37	50	54	26
Share price at 31 December	A\$ per share	11.51	11.21	12.59	12.42	10.68
Total Shareholder Return	%	7.7%	(0.4)%	15.2%	5.3%	(8.9)%
Group CEO incentive outcomes						
Short-term incentive outcome	% of target	0.0%	46.7%	75.0%	75.3%	15.6% ³
Long-term incentive vested	% of grant	0.0%	0.0%	0.0%	0.0%	0.0%

Profitability measures

- Net profit (loss) after income tax (US\$M)
- ROE for incentive purposes (%)
- Total Shareholder Return (%)



1 For incentive purposes, COR is adjusted in limited cases to better reflect underlying performance. A reconciliation from the statutory COR of 104.8% to the adjusted COR (as used for incentive purposes) of 104.1% is provided on page 15 of the Annual Report. Statutory COR has been adjusted by (1.2)% for the impact of changes to the Ogden tables in the UK beyond the provisions included in the business plan and by 0.5% for the impact of changes in risk-free rates used to discount net outstanding claims liabilities, resulting in the adjusted COR used for incentive purposes.

2 For incentive purposes, ROE is adjusted in limited cases to better reflect underlying performance. The Group's statutory ROE of (13)% translates to a cash ROE of (2.7)% once significant non-cash items are reversed out, including 7.9% for amortisation of intangibles and impairment of goodwill and 2.4% for the write down of deferred tax assets. For 2017, cash ROE was used for incentive purposes and adjusted by 1.1% for the impact of changes to the Ogden tables in the UK beyond the provisions included in the business plan, by (0.3)% for 50% of the impact of changes in risk-free rates used to discount net outstanding claims liabilities and by (7.3)% for the \$700M loss due to the goodwill write down in North America to ensure executives are accountable for managing intangible assets. A reconciliation from statutory profit to cash profit is provided on page 14 of the Annual Report.

3 EIP outcome which combines STI and LTI.

4.1 Tracking of unvested LTI awards

LTI AWARD	PERFORMANCE MEASURES	VESTING DATE	TRACKING
2013	Diluted EPS and statutory ROE/COR	March 2018	Will not vest
2015	Statutory ROE and relative TSR	March 2018	Will not vest
2016	Statutory ROE and relative TSR	March 2019	Unlikely to vest

Remuneration Report CONTINUED

5. EXECUTIVE REMUNERATION FRAMEWORK EXPLAINED

5.1 Fixed remuneration

The following outlines key details of executives' fixed remuneration.

Description

Fixed remuneration comprises cash salary, superannuation/pension and packaged benefits, additional annual benefits and associated taxes.

Additional annual benefits may include health insurance, life assurance, personal accident insurance, car allowances, expatriate benefits and the applicable taxes thereon.

Excludes deemed interest on employee share loans and long service leave accruals.

Delivered in accordance with terms and conditions of employment.

Determining fixed remuneration levels

Fixed remuneration considers the diversity, complexity and expertise required of individual roles. Remuneration quantum is set in the context of QBE's broader reward strategy and internal relativities.

To assess the competitiveness of fixed remuneration, the Remuneration Committee considers market data and recognised published surveys. In addition, external market reviews are undertaken periodically to inform the setting of competitive fixed remuneration levels.

Executive roles that are Australian based are generally benchmarked to the ASX30 peer group of companies, with a specific focus on global companies and companies in the financial services industry.

Overseas-based executives or roles that have a global reach are compared with a peer group consisting of global insurers. The peer group of companies used for remuneration benchmarking purposes is set out in the table below:

PEER GROUP	DESCRIPTION
ASX30 peer group	<p>Excludes infrastructure trusts and companies domiciled overseas.</p> <p>The financial services company sub-peer group is determined based on the industry classification listed on the ASX and includes commercial banks and insurers.</p> <p>The sub-peer group of global companies in the ASX30 is determined based on the global complexity of the organisation using the following criteria:</p> <ul style="list-style-type: none"> • companies with greater than 25% revenue from overseas; and • companies operating in greater than two geographic locations.
Global insurance peer group	<p>Consists of large, global insurance companies in the Dow Jones Insurance Titans Index excluding life and health insurance, reinsurance and insurance brokers.</p> <p>RSA and Hartford are included in this peer group given their similarities to QBE.</p>

5.2 Executive Incentive Plan

The following outlines the key details of the EIP, in addition to the summary in section 2 of the Remuneration Report. EIP awards made in 2017 are summarised in section 3 of the Remuneration Report.

Description

The EIP is a performance based incentive delivered in the form of an annual cash payment and a deferred award in the form of conditional rights to QBE shares. Performance is measured over a 12 month period.

Performance measures

EIP outcomes are based on performance against Group cash ROE and COR, strategic priorities and divisional COR targets in the case of divisional executives, as well as individual performance against a balanced scorecard of KPIs relevant to each executive's role.

The EIP rules provide suitable discretion to the Remuneration Committee to adjust any formulaic outcome to ensure EIP awards appropriately reflect performance. Adjustments are typically made in limited cases to better reflect underlying performance. These include an adjustment for the impact of unbudgeted movements in discount rates and to exclude the impact of unbudgeted acquisitions or divestments.

The balanced scorecard comprises financial and non-financial KPIs relevant to each executive's role which are aligned to the QBE value creation model. Executive performance against the balanced scorecard is evaluated annually by the Group CEO and by the Chairman in respect of the Group CEO, through formal business review assessments.

Vesting schedule

The EIP vesting schedule is outlined below:

	THRESHOLD	TARGET	SUPERIOR
% of EIP opportunity achieved	30%	100%	150%

Instrument and deferral mechanics

40% of any EIP award is delivered in cash (20% in the case of the Group CEO); and

60% of any EIP award is deferred as conditional rights to QBE shares (80% in the case of the Group CEO).

Deferred EIP vests in four tranches – 25% on the first anniversary of the award, 25% on the second anniversary of the award, 25% on the third anniversary of the award and 25% on the fourth anniversary of the award. Vesting is subject to service conditions and malus provisions during the deferral period.

To calculate the number of conditional rights to be granted, the award value is divided by the volume weighted average sale price of QBE shares over the five trading days prior to the grant date.

Any EIP award for the current Group CEO will be taken to shareholders for approval at the Annual General Meeting.

Notional dividends accrue during the deferral period.

Leaver provisions

"Good leaver" provisions (e.g. retirement, redundancy, ill health, injury) will apply such that:

- EIP opportunity is reduced to a pro-rata amount to reflect the proportion of the performance year in service; and
- deferred awards remain in the plan subject to the original vesting conditions.

On voluntary termination, dismissal or termination due to poor performance, all awards are forfeited.

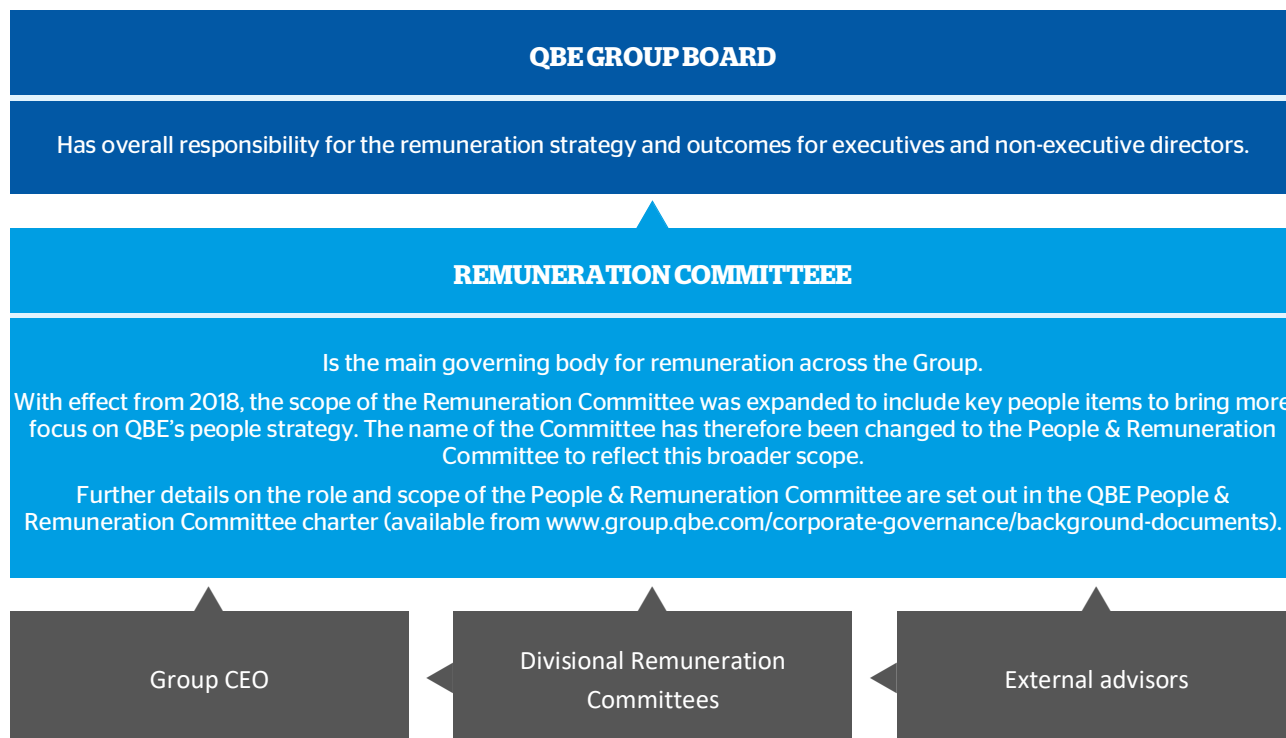
Malus provision

EIP deferral is subject to malus provisions, enabling awards to be either forfeited or reduced at the discretion of the Remuneration Committee.

Remuneration Report CONTINUED

5.3 Remuneration governance

QBE has a robust remuneration governance framework overseen by the QBE Group Board.



Use of external advisors

Remuneration consultants provide guidance on remuneration for executives, facilitate discussion, review remuneration and at-risk reward benchmarking within industry peer groups and provide guidance on current trends in executive remuneration practices.

Any advice provided by remuneration consultants is used as a guide and is not a substitute for consideration of all the issues by each non-executive director on the Remuneration Committee.

The Remuneration Committee retained UK based firm FIT Remuneration Consultants LLP (FIT) to act as its independent remuneration adviser. Having received a declaration by FIT that they were not unduly influenced by QBE executives regarding their remuneration recommendations, the Remuneration Committee and the Board are satisfied that the advice provided by FIT during 2017 was provided free from undue influence.

The cost of advice and assistance provided by FIT in 2017 was \$42,000.

During 2017, management requested reports on market practice from PwC and other sources. No recommendations in relation to the remuneration of KMP were provided as part of these engagements.

Managing risk

The Remuneration Committee works with Group Risk and Human Resources to ensure that any risk associated with remuneration arrangements is managed within the Group's risk management framework. The remuneration governance framework incorporates risk oversight policies, so that executives cannot unduly influence a decision that could materially impact their own incentive outcome.

The performance-based components of remuneration, established in QBE's incentive plans, are designed to encourage behaviour that supports the Group's long-term financial soundness. Specifically, the EIP:

- recognises adherence to QBE's risk management processes;
- balances both short and long-term performance through an annual award based on performance against a range of financial metrics that measure progress against longer-term strategy;
- incorporates an individual balanced scorecard component which includes global risk KPIs and a risk discount factor of 5% to the total incentive applied for failure to meet one or more risk KPIs;
- sets financial targets in the context of business plans that have been appropriately stress-tested by the Group Chief Risk Officer;
- defers a significant portion of the award in equity (which vests over four years);

- has Plan Rules which provide the board with discretion to take other factors into account when determining the appropriate award outcome;
 - includes a malus provision (see below);
 - enable the build-up of meaningful shareholding through the deferred equity (underpinned by a minimum shareholding requirement for executives); and
 - results in a target remuneration mix that is appropriately balanced between fixed / variable remuneration and short-term / long-term.
- The Group Chief Risk Officer attends the Remuneration Committee annually to report on executive risk behaviours.

The Group Board approves a comprehensive delegated authority for the Group CEO, which is an integral part of QBE's risk management process.

Executives are required to adhere to a range of Group-wide policies to ensure risks are well managed, strong governance structures are in place and high ethical standards are maintained. These policies are communicated to all employees throughout the Group.

Malus

The "malus" provision gives the Remuneration Committee discretion to reduce the amount of an unvested award (including to zero) in certain circumstances during the retention period including in the case of:

- serious misconduct; or
 - circumstances that materially undermine the reputation or performance of QBE; and
- on the basis that, in each case, the conduct or circumstances were not foreseen at the time of granting the award.

This provision reflects best practice and QBE's obligations under APRA's prudential standard CPS 510 to incorporate terms allowing for the adjustment of incentive awards to protect QBE's financial soundness and ability to respond to unforeseen significant issues.

Treatment of conditional rights on a change in control of QBE

In accordance with the EIP rules, a change in control is defined as either a scheme of arrangement that has been approved by QBE's shareholders or the acquisition by a bidder of at least 50% of the issued and to be issued QBE shares under an unconditional takeover offer made in accordance with the *Corporations Act 2001*.

Should a change in organisational control occur, the People and Remuneration Committee has discretion to determine how unvested conditional rights should be treated, having regard to factors such as the length of time elapsed in the performance period, the level of performance to date and the circumstances of the change of control.

Trading policy

Trading in QBE ordinary shares is generally permitted outside of designated blackout periods. The QBE Share Trading Policy states that non-executive directors and executives should notify any intended share transaction to nominated people within the Group.

The policy prohibits the hedging of unvested equity entitlements by executives. The purpose of this prohibition is to ensure that, until equity has vested, there is an alignment between the interests of executives and shareholders, with the effect that share price movements (either positive or negative) will economically impact executive rewards. There is a further restriction on hedging vested equity entitlements if such entitlement counts towards the executive's minimum shareholding requirement.

The policy is enforced by requiring non-executive directors and executives to sign an annual declaration that confirms compliance with the restrictions on hedging. A copy of QBE's trading policy for dealing in securities is available from www.group.qbe.com/corporate-governance/background-documents.

Dilution limits for share plans

Shares awarded under QBE's employee share plans may be purchased on market or issued subject to Board discretion and the requirements of the *Corporations Act 2001* and the ASX Listing Rules.

At 31 December 2017, the proportion of shares and unvested conditional rights and options held in the QBE Employee Share Plan is 2.11%. This is significantly less than the maximum of 10% over a 10 year period allowed under the plan rules.

Remuneration Report CONTINUED

6. EXECUTIVE REMUNERATION IN DETAIL

6.1 Statutory remuneration disclosures



Overview

The following table provides details of the remuneration of QBE's executives as determined by reference to applicable Australian Accounting Standards (AASB) for the financial year ended 31 December 2017. Remuneration has been converted to US dollars using the average rate of exchange for the relevant year.

EXECUTIVES	YEAR	SHORT-TERM EMPLOYMENT BENEFITS			POST EMPLOYMENT BENEFITS SUPERANNUATION US\$000	OTHER LONG-TERM EMPLOYEE BENEFITS LEAVE ACCRUALS ³ US\$000	SHARE-BASED PAYMENTS CONDITIONAL RIGHTS ⁴ US\$000	TERMINATION BENEFITS ⁵ US\$000	TOTAL US\$000
		BASE SALARY US\$000	OTHER ¹ US\$000	EIP CASH ² US\$000					
Jason Brown	2017	587	80	140	8	38	156	–	1,009
	2016	506	2	347	15	25	377	–	1,272
Liam Buckley	2017	197	1	37	4	3	29	–	271
	2016	–	–	–	–	–	–	–	–
Michael Ford	2017	306	693	70	8	26	287	–	1,390
	2016	–	–	–	–	–	–	–	–
Russell Johnston	2017	900	21	264	21	–	235	–	1,441
	2016	571	11	429	21	–	367	–	1,399
David McMillan	2017	297	99	74	–	–	34	–	504
	2016	–	–	–	–	–	–	–	–
Margaret Murphy	2017	565	186	130	10	4	92	–	987
	2016	127	80	92	12	7	17	–	335
Richard Pryce	2017	922	142	705	–	–	653	–	2,422
	2016	966	149	801	–	–	910	–	2,826
Patrick Regan	2017	1,226	116	861	–	(19)	792	–	2,976
	2016	1,189	94	992	–	9	1,439	–	3,723
Former executives									
Colin Fagen ⁶	2017	119	4	–	–	12	(12)	776	899
	2016	956	22	–	15	87	748	–	1,828
David Fried	2017	568	731	–	14	–	86	1,186	2,585
	2016	906	1,539	576	21	–	668	–	3,710
John Neal	2017	1,686	184	123	–	28	(160)	5,107	6,968
	2016	1,635	113	821	–	(16)	1,975	–	4,528
Total	2017	7,373	2,257	2,404	65	92	2,192	7,069	21,452
	2016	6,856	2,010	4,058	84	112	6,501	–	19,621

1 "Other" includes provision of motor vehicles, health insurance, spouse travel, staff insurance discount benefits received during the year, life assurance and personal accident insurance and the applicable taxes thereon. It also includes the deemed value of interest-free share loans, tax payments and other one-off expenses. For Michael Ford, this includes a cash payment of \$690,000 (A\$900,000) on commencement to compensate for incentives forfeited in ceasing his previous employment to join QBE. For Margaret Murphy, this also includes a housing allowance for her first year of employment. For David Fried, this also includes expatriate benefits including a housing allowance, education assistance, a cost of living adjustment and associated taxes thereon.

2 Cash EIP is payable in March 2018 for performance in 2017. For 2016, this refers to STI cash.

3 Includes the movement in annual leave and long service leave provisions during the year.

4 The fair value at grant date of options and conditional rights is determined using appropriate models including Monte Carlo simulations, depending on the vesting conditions. The fair value of each conditional right is recognised evenly over the service period ending at vesting date. Where an award will no longer vest, the related accounting charge for any non-market component is reversed in full and the reversal is included in the table above. Details of grants of conditional rights are provided in section 6.3 of the Remuneration Report.

5 "Termination benefits" includes apportioned fixed remuneration, and related benefits if applicable, paid for the balance of the notice period to the termination date, EIP cash awards from the date of ceasing to be a KMP to the date of termination, the accelerated accounting charge or reversal of equity vesting or cancellation and other termination payments. See section 6.2 of the Remuneration Report for more detail.

6 In addition to the remuneration disclosed in the table above, Colin Fagen, who ceased employment with QBE on 9 February 2017, received a 2016 STI award of \$836,000 in 2017 for services provided in 2016 in his capacity as a KMP. This had not been determined at the time of publishing the 2016 Remuneration Report.

Remuneration Report CONTINUED

6.2 Former executives

The table below shows termination benefits for executives who ceased to be a KMP during the financial year ended 31 December 2017, as determined under applicable Australian Accounting Standards.

FORMER EXECUTIVES	APPORTIONED FIXED REMUNERATION TO TERMINATION DATE ¹ US\$000	OTHER TERMINATION PAYMENTS ² US\$000	ACCELERATED ACCOUNTING CHARGE – CONDITIONAL RIGHTS ³ US\$000	TOTAL US\$000
Colin Fagen	498	138	140	776
David Fried	858	75	253	1,186
John Neal	1,686	1,882	1,539	5,107

- 1 Apportioned fixed remuneration and related benefits, if applicable, from the date of ceasing to be a KMP for the balance of the notice period to the termination date or end of the notice period. For Colin Fagen this includes \$498,000 (A\$650,000) for contractual payment in lieu of 6 months' notice.
- 2 "Other termination payments" includes movement in annual leave and long service leave provisions during the year. For Colin Fagen this includes \$138,000 (A\$180,000) paid in settlement of a dispute relating to the termination of employment. For John Neal this includes his past services benefit and repatriation support.
- 3 Accounting charge accelerated due to termination.

6.3 Conditional rights movements



Overview

Equity awards at QBE are granted in the form of conditional rights. A conditional right is a promise by QBE to acquire or issue one fully paid ordinary QBE Insurance Group Limited share where certain conditions are met.

The table below details conditional rights provided under the terms of the STI plan and LTI plan (which ceased new awards from 1 January 2017) and the QBE Incentive Scheme (QIS) (which ceased new awards from 1 January 2014) and contractual arrangements. LTI conditional rights are subject to future performance hurdles as detailed in section 6.8 of the Remuneration Report. Conditional rights under the new EIP will be granted in March 2018.

EXECUTIVES	BALANCE AT 1 JAN 2017 ¹ NUMBER	GRANTED NUMBER ²	VALUE AT GRANT DATE ³ US\$000	VESTED AND EXERCISED NUMBER	VALUE AT VESTING DATE US\$000	FORFEITED/ LAPSED NUMBER	NOTIONAL DIVIDENDS ATTACHING NUMBER	BALANCE AT 31 DEC 2017 ⁴ NUMBER
Jason Brown	208,468	18,327	176	(34,344)	331	(42,821)	7,138	156,768
Liam Buckley	14,017	–	–	–	–	–	300	14,317
Michael Ford ⁵	–	48,031	383	–	–	–	–	48,031
Russell Johnston	158,792	22,279	214	(17,058)	168	(393)	8,258	171,878
David McMillan	–	–	–	–	–	–	–	–
Margaret Murphy	25,720	4,871	47	–	–	–	1,458	32,049
Richard Pryce	558,241	37,786	363	(72,855)	703	(125,760)	18,961	416,373
Patrick Regan	903,008	52,386	503	(173,226)	1,672	(227,303)	26,474	581,339
Former executives								
Colin Fagen	501,742	–	–	–	–	(124,650)	–	377,092
David Fried	398,142	29,928	288	(33,665)	325	(65,643)	8,465	337,227
John Neal	1,399,612	88,123	847	(80,818)	780	(336,048)	51,100	1,121,969

- 1 For Liam Buckley this represents the balance at 17 August 2017, on commencement as a KMP.
- 2 On 6 March 2017, Colin Fagen was granted 28,690 conditional rights, being the deferred portion of his 2016 STI award. For David Fried this represents the number of conditional rights at 17 August 2017, on ceasing to be a KMP.
- 3 The value at grant date is calculated in accordance with AASB 2 *Share-based Payment*.
- 4 For Colin Fagen this represents the balance at 9 February 2017, on ceasing to be a KMP. For David Fried this represents the balance at 17 August 2017, on ceasing to be a KMP.
- 5 On 4 September 2017, Michael Ford was granted conditional rights as compensation for incentives forfeited on ceasing his previous employment to join QBE. The award comprised of one tranche of conditional rights, with vesting on 1 March 2018 subject to service conditions.

Remuneration Report CONTINUED

6.4 Valuation of conditional rights outstanding at 31 December 2017

The table below details the conditional rights issued affecting remuneration of KMP in the previous, current or future reporting periods.

EXECUTIVES	GRANT	GRANT DATE	PERFORMANCE PERIOD START DATE	CONDITIONAL RIGHTS AT 31 DEC 2017 ¹	EXERCISE DATE	MAXIMUM VALUE OF AWARD TO VEST	FAIR VALUE PER CONDITIONAL RIGHT AS ²				
							RELATIVE ROE / COR AND EPS	GROUP ROE	TSR	SHARE PRICE	TIME
Jason Brown	2012 DEA	5-Mar-13	5-Mar-13	5,970	4-Mar-18	78,685					13.18
	2013 DEA	4-Mar-14	4-Mar-14	11,715	3-Mar-19	148,546					12.68
	2015 LTI	3-Mar-15	1-Jan-15	47,202	2018-2020	514,037		12.63	9.15		
	Special	3-Mar-15	1-Jan-15	9,650	2-Mar-18	121,880		12.63			
	2015 STI	1-Mar-16	1-Jan-15	10,235	28-Feb-18	111,971					10.94
	2016 LTI	1-Mar-16	1-Jan-16	52,795	2019-2021	451,400		10.94	6.16		
	2016 STI	6-Mar-17	1-Jan-16	19,201	2018-2019	240,781					12.54
Liam Buckley	2015 STI	1-Mar-16	1-Jan-15	4,663	28-Feb-18	51,013					10.94
	2016 STI	6-Mar-17	1-Jan-16	9,654	2018-2019	121,061					12.54
Michael Ford	Special	4-Sep-17	4-Sep-17	48,031	1-Mar-18	500,003					10.41
Russell Johnston	Special	2-May-16	2-May-16	35,676	2018-2019	399,928		11.21			
	2016 LTI	31-Aug-16	2-May-16	112,859	2019-2021	890,464		9.97	5.81		
	2016 STI	6-Mar-17	1-Jan-16	23,343	2018-2019	292,721					12.54
Margaret Murphy	2016 LTI	10-Oct-16	1-Oct-16	26,946	2019-2021	193,203		9.72	4.62		
	2016 STI	6-Mar-17	1-Jan-16	5,103	2018-2019	63,992					12.54
Richard Pryce	2012 DEA	5-Mar-13	5-Mar-13	18,660	4-Mar-18	245,939					13.18
	2013 DEA	4-Mar-14	4-Mar-14	22,110	3-Mar-19	280,355					12.68
	2015 LTI	3-Mar-15	1-Jan-15	145,183	2018-2020	1,581,045		12.63	9.15		
	2015 STI	1-Mar-16	1-Jan-15	31,073	28-Feb-18	339,939					10.94
	2016 LTI	1-Mar-16	1-Jan-16	159,757	2019-2021	1,365,930		10.94	6.16		
	2016 STI	6-Mar-17	1-Jan-16	39,590	2018-2019	496,459					12.54
Patrick Regan	2015 LTI	3-Mar-15	1-Jan-15	215,770	2018-2020	2,400,441		12.90	9.35		
	2015 STI	1-Mar-16	1-Jan-15	24,609	28-Feb-18	269,222					10.94
	2016 LTI	1-Mar-16	1-Jan-16	241,332	2019-2021	2,174,406		11.13	6.89		
	Special	1-Mar-16	1-Jan-16	44,742	28-Feb-19	220,578				4.93	
	2016 STI	6-Mar-17	1-Jan-16	54,886	2018-2019	688,270					12.54
Former executives											
Colin Fagen	2012 LTI	7-Mar-12	7-Mar-12	5,795	6-Mar-17	68,265	11.78				
	2012 DEA	5-Mar-13	5-Mar-13	34,756	4-Mar-18	458,084					13.18
	2013 LTI	5-Mar-13	5-Mar-13	11,382	4-Mar-18	150,015	13.18				
	2014 LTI	4-Mar-14	1-Jan-14	80,625	2017-2019	847,375		12.68	8.34		
	2013 DEA	4-Mar-14	4-Mar-14	80,618	2017-2019	1,022,236					12.68
	2014 STI	3-Mar-15	1-Jan-14	14,052	2-Mar-17	163,425					11.63
	2015 LTI	3-Mar-15	1-Jan-15	62,782	2018-2020	683,696		12.63	9.15		
	2015 STI	1-Mar-16	1-Jan-15	29,309	2017-2018	320,640					10.94
	2016 LTI	1-Mar-16	1-Jan-16	57,773	2019-2021	493,966		10.94	6.16		
David Fried	Special	8-Apr-13	8-Apr-13	46,081	7-Apr-18	627,162					13.61
	2013 DEA	4-Mar-14	4-Mar-14	10,958	3-Mar-19	138,947					12.68
	2015 LTI	3-Mar-15	1-Jan-15	104,505	2018-2020	1,138,061		12.63	9.15		
	2015 STI	1-Mar-16	1-Jan-15	17,011	28-Feb-18	186,100					10.94
	2016 LTI	1-Mar-16	1-Jan-16	127,974	2019-2021	1,094,178		10.94	6.16		
	2016 STI	6-Mar-17	1-Jan-16	30,698	2018-2019	384,953					12.54
John Neal	2013 LTI	27-Mar-13	27-Mar-13	69,945	26-Mar-18	910,684	13.02				
	2015 LTI	3-Mar-15	1-Jan-15	395,579	2018-2020	4,400,818		12.90	9.35		
	2015 STI	1-Mar-16	1-Jan-15	55,304	28-Feb-18	605,026					10.94
	2016 LTI	1-Mar-16	1-Jan-16	442,448	2019-2021	3,986,456		11.13	6.89		
	Special	1-Mar-16	1-Jan-16	66,366	28-Feb-19	327,184				4.93	
	2016 STI	6-Mar-17	1-Jan-16	92,327	2018-2019	1,157,781					12.54

1 For Colin Fagen this represents the number of conditional rights at 9 February 2017, on ceasing to be a KMP. On 6 March 2017, Colin Fagen was granted 28,690 conditional rights, being the deferred portion of his 2016 STI award. For David Fried this represents the number of conditional rights at 17 August 2017, on ceasing to be a KMP.

2 The fair value of conditional rights at grant date is determined using appropriate models including Monte Carlo simulations, depending on the vesting conditions. The fair value of each conditional right is recognised evenly over the service period ending at vesting date.

6.5 Shareholdings

The table below details movements during the year in the number of ordinary shares in QBE held by KMP, including their personally related parties.

2017	INTEREST IN SHARES AT 1 JAN 2017 ¹ NUMBER	DIVIDENDS REINVESTED NUMBER	CONDITIONAL RIGHTS VESTED NUMBER	SHARES PURCHASED / (SOLD) NUMBER	INTEREST IN SHARES AT 31 DEC 2017 ² NUMBER	INTEREST IN SHARES AT 31 DEC 2017 SUBJECT TO NON-RECOURSE LOANS ² NUMBER
Non-executive directors						
Marty Becker	105,306	–	–	20,667	125,973	–
Stephen Fitzgerald	37,704	–	–	5,269	42,973	–
John M Green	37,258	–	–	–	37,258	–
Kathryn Lisson	1,465	–	–	14,868	16,333	–
Sir Brian Pomeroy	12,141	–	–	4,868	17,009	–
Jann Skinner	35,000	–	–	10,000	45,000	–
Rolf Tolle	18,991	272	–	14,895	34,158	–
Michael Wilkins	8,670	–	–	13,052	21,722	–
Former non-executive director						
Margaret Leung	21,914	–	–	2,991	24,905	–
Other key management personnel						
Jason Brown	62,310	4,581	34,344	–	101,235	2,504
Liam Buckley	7,857	–	–	–	7,857	–
Michael Ford	–	–	–	–	–	–
Russell Johnston	30,000	365	17,058	35,000	82,423	–
David McMillan	–	–	–	–	–	–
Margaret Murphy	–	–	–	–	–	–
Richard Pryce	76,899	1,873	72,855	(34,352)	117,275	–
Patrick Regan	552,214	28,938	173,226	–	754,378	–
Former key management personnel						
Colin Fagen	89,374	–	–	–	89,374	19,084
David Fried	41,999	1,427	33,665	(14,171)	62,920	–
John Neal	292,178	17,288	80,818	(23,800)	366,484	–

- For Liam Buckley this represents the interest in shares at 17 August 2017, Liam Buckley's date of appointment as a KMP. For Patrick Regan this includes the value of 118,960 shares purchased by Patrick Regan in 2014 through the salary sacrifice of a cash payment made to Mr Regan on commencement with QBE. As disclosed in the 2014 Remuneration Report, this payment was to compensate for incentives forfeited on ceasing his previous employment to join QBE.
- For Margaret Leung this represents the interest in shares at 30 March 2017, the date Margaret Leung ceased to be a KMP. For Colin Fagen this represents the interest in shares at 9 February 2017, the date Colin Fagen ceased to be a KMP. For David Fried this represents the interest in shares at 17 August 2017, the date David Fried ceased to be a KMP.

6.6 Loans

Prior to 20 June 2005, non-recourse loans were provided by the Group to KMP for the purchase of shares in QBE. All non-recourse loans are due to be paid within 10 days of ceasing employment.

Under AASB 2 *Share-based Payment*, non-recourse loans and the related shares are derecognised and are instead treated as options.

2017	BALANCE AT 1 JAN 2017 A\$000	LOANS MADE IN THE YEAR A\$000	REPAYMENTS A\$000	BALANCE AT 31 DEC 2017 ¹ A\$000	INTEREST NOT CHARGED ² A\$000	HIGHEST BALANCE IN THE PERIOD A\$000
Jason Brown	3	–	–	3	–	3
Colin Fagen	267	–	–	267	15	267

- For Colin Fagen this represents the balance at 9 February 2017, the date he ceased to be a KMP. In accordance with the non-recourse loan terms and conditions, subsequent to ceasing to be a KMP, the shares held against Colin Fagen's loan were sold (A\$139,000) and the outstanding balance of the loan of A\$128,000 was forgiven.
- Deemed value of interest not charged for the period as KMP.

Remuneration Report CONTINUED

6.7 Employment agreements

The table below summarises the material terms of the employment agreements for the current executives which are subject to applicable laws. The terms and conditions of employment of each executive reflect market conditions at the time of their contract negotiation on appointment and thereafter.

CONTRACTUAL TERM	EXECUTIVES AFFECTED	CONDITIONS
Duration of contract	All	Permanent full-time employment contract until notice given by either party.
Notice to be provided by executive or QBE	All	Notice period is 12 months for John Neal and Patrick Regan under his new contract as Group CEO. Other executives' notice periods are six months. QBE may elect to make a payment in lieu of notice.
Treatment of incentives on involuntary termination	All	On termination with cause or for poor performance All unvested incentives are forfeited. On termination without cause For EIP in the year of termination, the executive remains eligible to be considered for an award on a pro-rata basis with any award to be determined following the end of the performance year and subject to the standard deferral arrangements. Unvested deferred EIP conditional rights remain in the plan subject to the original vesting dates and malus provisions. A pro-rata number of LTI conditional rights, reflecting the portion of the three year performance period the executive was in service, remain in the plan subject to the original performance and vesting conditions. Legacy LTI awards generally remain in the plan subject to the original performance and vesting conditions; however, the Remuneration Committee has discretion to vest these awards. Legacy QIS-DEA awards generally remain in the plan subject to the original vesting conditions.
Treatment of incentives on voluntary termination	All	All unvested incentives are forfeited.
Deferred bonus	John Neal	Three weeks' fixed remuneration for each year of service capped at 12 months' fixed remuneration on termination if not due to resignation, termination without notice or serious misconduct.
Post-employment restraints	John Neal Patrick Regan	12 month non-compete and non-solicitation.
	All others	Six month non-compete and non-solicitation.

6.8 Legacy equity schemes

The table below summarises QBE's legacy incentive plans.

EQUITY SCHEME	DESCRIPTION
Short-term incentive plan (STI)	
Until 31 December 2016	<p>The STI plan was a short-term, at-risk reward structure comprised of cash and deferred equity awards. It was replaced by the EIP for 2017 but remains in use for all employees below executive level.</p> <ul style="list-style-type: none"> • 67% delivered in cash (50% in the case of the Group CEO). • 33% deferred as conditional rights to fully paid ordinary QBE shares (50% in the case of the Group CEO). <p>The conditional rights were deferred in two equal tranches – 50% on the first anniversary of the award and the other 50% on the second anniversary of the award.</p> <p>STI outcomes were subject to the achievement of the following performance measure over the one year performance period:</p> <ul style="list-style-type: none"> • the Group's ROE target; • individual performance ratings; and • for divisional staff, divisional return on allocated capital targets.
Long-term incentive plan (LTI)	
Until 31 December 2016	<p>The LTI plan comprised an award of conditional rights to fully-paid shares without payment by the executive. On achievement of the performance measures (at the end of the three year performance period), conditional rights vest in three tranches as follows:</p> <ul style="list-style-type: none"> • 33% at the end of the three year performance period; • 33% on the first anniversary of the end of the performance period; and • 34% on the second anniversary of the end of the performance period. <p>Vesting is subject to performance conditions as follows:</p> <ul style="list-style-type: none"> • 50% of each tranche is subject to the achievement of Group ROE performance targets over a three year performance period; and • 50% of each tranche is subject to the performance of the Group's relative total shareholder return over a three year performance period. <p>The relative TSR comparator group consisted of companies in the Dow Jones Insurance Titans Index group adjusted for those with most relevance to QBE's business operations. The comparator group for the 2016 LTI award was Allstate Corp (US), Allianz SE-Reg (Germany), American International Group (US), Assicurazioni Generali (Italy), Aviva Plc (UK), AXA – SA (France), Chubb Corp (US), IAG Ltd (Australia), RSA Group (UK), Suncorp Group Ltd (Australia), The Hartford (US), The Travellers Cos Inc (US), QBE Insurance Group Ltd (Australia) and Zurich Insurance Group (Switzerland).</p>
Legacy Long-Term Incentive Plan (Legacy LTI)	
Until 31 December 2013	<p>The Legacy LTI plan comprised an award of conditional rights to fully-paid shares without payment by the executive, subject to a five year tenure hurdle, with vesting contingent upon the achievement of two future performance hurdles as follows:</p> <ul style="list-style-type: none"> • 50% of the award granted is contingent on QBE's diluted EPS increasing by a compound average of 7.5% per annum over the five year vesting period; and • 50% of the award granted is contingent on QBE's average statutory ROE and COR being in the top 10% of the top 50 largest global insurers and reinsurers as measured by net earned premium for the five year vesting period. <p>Conditional rights were granted as a maximum percentage of fixed remuneration ranging from 50% for the Group CEO, 25% for the Group CFO and 15% for Group and divisional executives.</p>

Remuneration Report CONTINUED

EQUITY SCHEME	DESCRIPTION
QBE Incentive Scheme (QIS)	<p data-bbox="151 432 1430 510">Until 31 December 2013 The QBE Incentive Scheme (QIS) was a short-term, at-risk reward structure comprised of cash and deferred equity awards (QIS-DEA). It came into effect from 1 January 2010 and was applicable to deferred equity awards made in March 2011 to March 2014.</p> <p data-bbox="416 521 1430 674">Under the QIS, the directors could approve the issue of conditional rights to shares to executives who achieved predetermined performance targets. The maximum deferred equity award was based on an amount which was the lesser of 80% of the cash award earned or 100% of fixed remuneration at 31 December, in each case for the financial year immediately prior to the year in which the cash award was paid. The deferred equity award was used as the basis for calculating the number of conditional rights as follows:</p> <ul data-bbox="416 685 1430 792" style="list-style-type: none"> • conditional rights to the value of 50% of the award converted to fully paid ordinary QBE shares after three years; and • conditional rights to the value of 50% of the award converted to fully paid ordinary QBE shares after five years. <p data-bbox="416 801 1430 853">During the period from the date of the QIS grant to the vesting date of the conditional rights, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of QBE.</p> <p data-bbox="416 864 1430 916">The shares issued pursuant to the conditional rights are issued without payment being made by the recipient (i.e. at a nil exercise price).</p> <p data-bbox="416 927 1430 1077">The shares issued pursuant to the conditional rights vest only if the individual has remained in the Group's service throughout the vesting period. For awards made prior to 2012, the Remuneration Committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice to terminate employment on that date. The extent of vesting of the conditional rights may be reduced (including to zero) for any material deterioration of the relevant entity's return on equity during the vesting period.</p>

7. NON-EXECUTIVE DIRECTOR REMUNERATION

7.1 Remuneration philosophy

Non-executive director remuneration reflects QBE's desire to attract, motivate and retain experienced independent directors and to ensure their active participation in the Group's affairs for the purposes of corporate governance, regulatory compliance and other matters. QBE aims to provide a level of remuneration for non-executive directors comparable with its peers, which include multinational financial institutions. The Board reviews surveys published by independent remuneration consultants and other public information to ensure that fee levels are appropriate. The remuneration arrangements of non-executive directors are distinct and separate from the executives. Non-executive directors do not have formal service agreements.

7.2 Fee structure and components

The aggregate amount approved by shareholders at the 2017 AGM was A\$4,000,000 per annum.

The total amount paid to non-executive directors in 2017 was A\$3,568,000 (2016 A\$3,113,000).

Under the current fee framework, non-executive directors receive a base fee expressed in Australian dollars. In addition, a non-executive director (other than the Chairman) may receive further fees for chairmanship or membership of a board committee.

No changes were made to non-executive remuneration during 2017 and none have been budgeted for 2018.

Active committees in 2017 were as follows:

- Audit Committee
- Investment Committee
- Remuneration Committee
- Risk & Capital Committee
- Operations & Technology Committee

The non-executive director fee structure for 2016 and 2017 is shown in the table below.

FEE FRAMEWORK	2017 A\$000	2016 A\$000
Chairman base fee	663	663
Deputy Chairman base fee	229	229
Non-executive director base fee	208	208
Committee chairman base fee	50	50
Committee membership fee	27	27

7.3 Other benefits

Non-executive directors do not receive any performance-based remuneration such as cash incentives or equity awards. Under QBE's constitution, non-executive directors are entitled to be reimbursed for all travel and related expenses properly incurred in connection with the business of QBE. All non-executive directors receive an annual cash travel allowance of A\$42,750 (A\$64,000 for the Chairman) in addition to fees for the time involved in travelling to Board meetings and other Board commitments.

Superannuation

QBE pays superannuation to Australian-based non-executive directors in accordance with Australian superannuation guarantee legislation. Overseas-based non-executive directors receive the cash equivalent amount in addition to their fees.

Remuneration Report CONTINUED

7.4 Minimum shareholding requirement

With effect from 1 April 2014, a non-executive director minimum shareholding requirement was introduced for the Group Board. Under this requirement, directors have five years to build a minimum shareholding equal to 100% of annual base fees.

To assist current and new non-executive directors in meeting the requirement, a Director Share Acquisition Plan (DSAP) was established with effect from 1 June 2014. The DSAP allows non-executive directors to sacrifice a portion of their pre-tax director fees to acquire QBE shares. Where the minimum shareholding requirement has not been met, directors are required to sacrifice a mandatory minimum amount of 20% of pre-tax fees into the DSAP until the minimum shareholding is met. Shares acquired in this way are not subject to performance targets, as they are acquired in place of cash payments.

Directors' shareholdings are shown in section 6.5 of the Remuneration Report.

7.5 Remuneration details for non-executive directors

The table below details the nature and amount of each component of the remuneration of QBE's current non-executive directors. Remuneration has been converted to US dollars using the average rate of exchange for the relevant year.

NON-EXECUTIVE DIRECTOR	YEAR	SHORT-TERM EMPLOYMENT BENEFITS		POST EMPLOYMENT BENEFITS		TOTAL US\$000
		FEES ¹ US\$000	OTHER US\$000	SUPERANNUATION – SGC ² US\$000	SUPERANNUATION – OTHER US\$000	
Marty Becker	2017	610	–	–	–	610
	2016	592	–	–	–	592
Stephen Fitzgerald	2017	298	–	–	–	298
	2016	272	–	–	–	272
John M Green	2017	329	–	8	23	360
	2016	292	–	14	13	319
Kathryn Lisson	2017	275	–	–	–	275
	2016	89	–	–	–	89
Sir Brian Pomeroy	2017	275	–	–	–	275
	2016	267	–	–	–	267
Jann Skinner	2017	272	–	10	16	298
	2016	258	–	14	10	282
Rolf Tolle	2017	278	–	–	–	278
	2016	201	–	–	–	201
Michael Wilkins	2017	254	–	18	6	278
	2016	41	–	2	1	44
Former non-executive director						
Margaret Leung ³	2017	64	–	–	–	64
	2016	248	–	–	–	248
Total	2017	2,655	–	36	45	2,736
	2016	2,260	–	30	24	2,314

1 Travel allowances, additional fees in lieu of superannuation in Australia and amounts sacrificed in relation to the Director Share Acquisition Plan are included in directors' fees.

- Marty Becker, Stephen Fitzgerald, Margaret Leung, Kathryn Lisson, Sir Brian Pomeroy and Rolf Tolle receive additional fees of 9.5% in lieu of superannuation in Australia.
- Marty Becker, Stephen Fitzgerald, Margaret Leung, Kathryn Lisson, Sir Brian Pomeroy, Rolf Tolle and Michael Wilkins all participate in the Director Share Acquisition Plan.

2 John Green, Jann Skinner and Michael Wilkins are Australian residents. Superannuation is calculated as 9.5% of fees. Superannuation in excess of the statutory minimum may be taken as additional cash fees or in the form of superannuation contributions at the option of the director.

3 Margaret Leung retired from the Board on 30 March 2017.

Directors' Report CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

Auditor

PricewaterhouseCoopers, Chartered Accountants, continue in office in accordance with section 327B of the *Corporations Act 2001*.

Non-audit services

During the year, PricewaterhouseCoopers performed certain other services in addition to its statutory duties.

The Board, on the advice of the Audit Committee, has considered the position and is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are also satisfied that the provision of non-audit services by the auditor, as set out in note 8.7 to the financial statements, did not compromise the auditor independence requirements of the *Corporations Act 2001*.

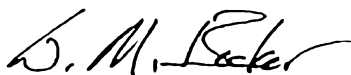
A copy of the auditor's independence declaration required under section 307C of the *Corporations Act 2001* is set out on page 90.

Details of amounts paid or payable to PricewaterhouseCoopers for audit and non-audit services are provided in note 8.7 to the financial statements.

Rounding of amounts

The company is of a kind referred to in the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. Amounts have been rounded off in the Directors' Report to the nearest million dollars or, in certain cases, to the nearest thousand dollars in accordance with that instrument.

Signed in SYDNEY this 26th day of February 2018 in accordance with a resolution of the directors.



W. Marston Becker
Director



Patrick Regan
Director

Directors' Report CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

Auditor's independence declaration for the year ended 31 December 2017

As lead auditor for the audit of QBE Insurance Group Limited for the year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of QBE Insurance Group Limited and the entities it controlled during the period.



RJ Clark
Partner, PricewaterhouseCoopers

Sydney
26 February 2018

Financial Report contents

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This Annual Report includes the consolidated financial statements for QBE Insurance Group Limited (the ultimate parent entity or the company) and its controlled entities (QBE or the Group). All amounts in this Financial Report are presented in US dollars unless otherwise stated. QBE Insurance Group Limited is a company limited by its shares, and incorporated and domiciled in Australia.

Its registered office is located at:

Level 27, 8 Chifley Square
Sydney NSW 2000
Australia

A description of the nature of the Group's operations and its principal activities is included on pages 4 to 43, none of which is part of this Financial Report. The Financial Report was authorised for issue by the directors on 26 February 2018. The directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the company. All material press releases, this Financial Report and other information are available at our QBE investor centre at our website: www.qbe.com.

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 US\$M	2016 US\$M
Gross written premium		14,191	14,395
Unearned premium movement		255	(119)
Gross earned premium revenue	2.1	14,446	14,276
Outward reinsurance premium		(2,615)	(2,653)
Deferred reinsurance premium movement		210	(557)
Outward reinsurance premium expense		(2,405)	(3,210)
Net earned premium (a)		12,041	11,066
Gross claims expense	2.2	(11,418)	(9,042)
Reinsurance and other recoveries revenue	2.2	2,881	2,600
Net claims expense (b)	2.2	(8,537)	(6,442)
Gross commission expense		(2,482)	(2,425)
Reinsurance commission revenue	2.1	366	391
Net commission (c)		(2,116)	(2,034)
Underwriting and other expenses (d)		(1,961)	(1,922)
Underwriting result (a)+(b)+(c)+(d)		(573)	668
Investment and other income – policyholders' funds	3.1	488	422
Investment expenses – policyholders' funds	3.1	(13)	(15)
Insurance (loss) profit		(98)	1,075
Investment and other income – shareholders' funds	3.1	345	348
Investment expenses – shareholders' funds	3.1	(8)	(9)
Financing and other costs	5.1.2	(305)	(294)
Losses on sale of entities	7.1.1	(6)	–
Unrealised losses on assets held for sale	7.1.2	–	(3)
Share of net losses of associates		(1)	–
Amortisation and impairment of intangibles	7.2	(752)	(45)
(Loss) profit before income tax		(825)	1,072
Income tax expense	6.1	(428)	(228)
(Loss) profit after income tax		(1,253)	844
Other comprehensive (loss) income			
<i>Items that may be reclassified to profit or loss</i>			
Net movement in foreign currency translation reserve	5.3.2	(90)	(474)
Net movement in cash flow hedges	5.3.2	(1)	–
Share of net other comprehensive loss of associates		(1)	–
Income tax relating to these components of other comprehensive income		(20)	33
<i>Items that will not be reclassified to profit or loss</i>			
Gains (losses) on remeasurement of defined benefit superannuation plans		16	(48)
Losses on revaluation of owner occupied property	5.3.2	–	(1)
Income tax relating to these components of other comprehensive income		(22)	10
Other comprehensive loss after income tax		(118)	(480)
Total comprehensive (loss) profit after income tax		(1,371)	364
(Loss) profit after income tax attributable to:			
Ordinary equity holders of the company		(1,249)	844
Non-controlling interests		(4)	–
		(1,253)	844
Total comprehensive (loss) income after income tax attributable to:			
Ordinary equity holders of the company		(1,367)	364
Non-controlling interests		(4)	–
		(1,371)	364
(LOSS) EARNINGS PER SHARE FOR (LOSS) PROFIT AFTER INCOME TAX ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
	NOTE	2017 US CENTS	2016 US CENTS
Basic (loss) earnings per share	5.5	(91.5)	61.6
Diluted (loss) earnings per share	5.5	(91.5)	60.8

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

AS AT 31 DECEMBER 2017

	NOTE	2017 US\$M	2016 US\$M
Assets			
Cash and cash equivalents	5.2	572	847
Investments	3.2	25,554	24,374
Derivative financial instruments	5.6	223	151
Trade and other receivables	2.6	4,906	4,831
Current tax assets		22	51
Deferred insurance costs	2.5	2,257	1,965
Reinsurance and other recoveries on outstanding claims	2.3	6,311	4,540
Other assets		7	8
Assets held for sale	7.1.2	63	85
Defined benefit plan surpluses	8.6	33	27
Property, plant and equipment		276	257
Deferred tax assets	6.2	514	778
Investment properties		15	14
Investments in associates		30	28
Intangible assets	7.2	3,079	3,627
Total assets		43,862	41,583
Liabilities			
Derivative financial instruments	5.6	144	147
Trade and other payables	2.7	2,327	2,139
Current tax liabilities		160	73
Liabilities held for sale	7.1.2	28	72
Unearned premium	2.5	6,887	6,763
Outstanding claims	2.3	21,579	18,321
Provisions		104	69
Defined benefit plan deficits	8.6	60	85
Deferred tax liabilities	6.2	56	106
Borrowings	5.1	3,616	3,474
Total liabilities		34,961	31,249
Net assets		8,901	10,334
Equity			
Share capital	5.3.1	8,931	8,350
Treasury shares held in trust		(50)	–
Reserves	5.3.2	(1,785)	(1,654)
Retained profits		1,763	3,588
Shareholders' funds		8,859	10,284
Non-controlling interests		42	50
Total equity		8,901	10,334

The consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2017

	SHARE CAPITAL US\$M	TREASURY SHARES HELD IN TRUST US\$M	RESERVES US\$M	RETAINED PROFITS US\$M	SHARE- HOLDERS' FUNDS US\$M	NON- CONTROLLING INTERESTS US\$M	TOTAL EQUITY US\$M
2017							
As at 1 January	8,350	–	(1,654)	3,588	10,284	50	10,334
Loss after income tax	–	–	–	(1,249)	(1,249)	(4)	(1,253)
Other comprehensive loss	–	–	(112)	(6)	(118)	–	(118)
Total comprehensive loss	–	–	(112)	(1,255)	(1,367)	(4)	(1,371)
Transactions with owners in their capacity as owners							
Shares bought back on-market and cancelled	(108)	–	–	–	(108)	–	(108)
Shares acquired and held in trust	–	(156)	–	–	(156)	–	(156)
Share-based payment expense	–	–	39	–	39	–	39
Shares vested and/or released	–	108	(74)	–	34	–	34
Contributions of equity, net of transaction costs and tax	1	–	–	–	1	–	1
Dividends paid on ordinary shares	–	–	–	(578)	(578)	(4)	(582)
Dividend reinvestment under Bonus Share Plan	–	–	–	8	8	–	8
Foreign exchange movement	688	(2)	16	–	702	–	702
As at 31 December	8,931	(50)	(1,785)	1,763	8,859	42	8,901
2016							
As at 1 January	8,440	–	(1,248)	3,313	10,505	55	10,560
Profit after income tax	–	–	–	844	844	–	844
Other comprehensive loss	–	–	(442)	(38)	(480)	–	(480)
Total comprehensive income	–	–	(442)	806	364	–	364
Transactions with owners in their capacity as owners							
Shares acquired and held in trust	–	(79)	–	–	(79)	–	(79)
Share-based payment expense	–	–	58	–	58	–	58
Shares vested and/or released	–	79	(38)	–	41	–	41
Contributions of equity, net of transaction costs and tax	1	–	–	–	1	–	1
Net changes in non-controlling interests	–	–	25	–	25	(5)	20
Reclassification on disposal of owner occupied property	–	–	(4)	4	–	–	–
Dividends paid on ordinary shares	–	–	–	(537)	(537)	–	(537)
Dividend reinvestment under Bonus Share Plan	–	–	–	2	2	–	2
Foreign exchange movement	(91)	–	(5)	–	(96)	–	(96)
As at 31 December	8,350	–	(1,654)	3,588	10,284	50	10,334

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2017

	NOTE	2017 US\$M	2016 US\$M
Operating activities			
Premium received		14,565	14,939
Reinsurance and other recoveries received		1,516	1,556
Outward reinsurance paid		(2,575)	(2,786)
Claims paid		(9,114)	(9,018)
Acquisition and other underwriting costs paid		(4,190)	(3,987)
Interest received		487	450
Dividends received		91	65
Other operating payments		(226)	(184)
Interest paid		(290)	(273)
Income taxes paid		(92)	(203)
Net cash flows from operating activities	8.3	172	559
Investing activities			
Proceeds on sale of growth assets		2,855	3,258
Payments for purchase of growth assets		(2,609)	(2,755)
Net payments for foreign exchange transactions		(3)	(101)
Net proceeds on sale of interest bearing financial assets		198	35
Payments for purchase of intangible assets		(87)	(216)
Net proceeds on sale of non-controlling interests		–	16
Proceeds on disposal of entities (net of cash disposed)		11	–
Proceeds on sale of investment property		–	1
Proceeds on sale of property, plant and equipment		2	14
Payments for purchase of property, plant and equipment		(68)	(78)
Payments for purchase of investment in associates		(2)	(16)
Net cash flows from investing activities		297	158
Financing activities			
Purchase of treasury shares		(156)	(79)
Proceeds from settlement of staff share loans		1	1
Proceeds from borrowings		1,002	38
Repayment of borrowings		(923)	(21)
Shares bought back on market and cancelled		(108)	–
Dividends paid		(537)	(494)
Net cash flows from financing activities		(721)	(555)
Net movement in cash and cash equivalents		(252)	162
Cash and cash equivalents at the beginning of the year		847	662
Effect of exchange rate changes		(20)	37
Cash transferred to assets held for sale		(3)	(14)
Cash and cash equivalents at the end of the year	5.2	572	847

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2017

1. OVERVIEW

1.1 About QBE

About QBE Insurance Group

QBE is one of the world's largest insurance and reinsurance companies, with operations in all the major insurance markets. Formed in Australia in 1886, QBE employs over 14,000 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.

About insurance

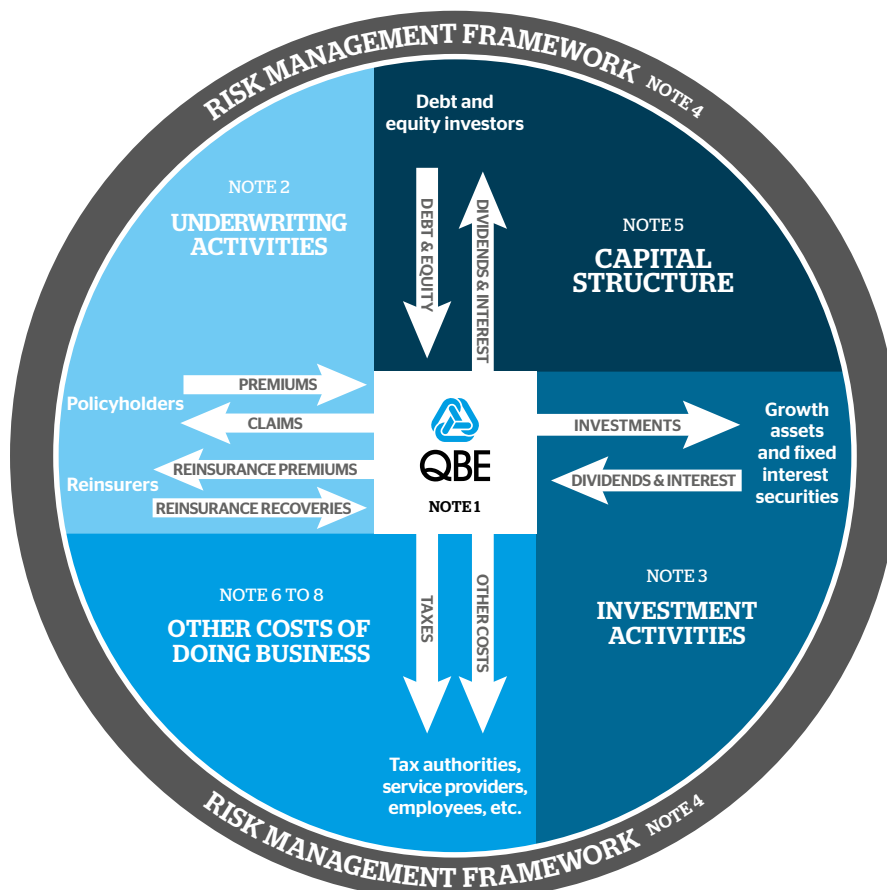
In simple terms, insurance and reinsurance companies help their customers (consumers, businesses and other insurance companies) to manage risk. More broadly put, an insurance company creates value by pooling and redistributing risk. This is done by collecting premium from those that it insures (i.e. policyholders), and then paying the claims of the few that call upon their insurance protection. The company may also choose to reduce some of its own accumulated risk through the use of outward reinsurance, which is insurance for insurance companies. As not all policyholders will actually experience a claims event, the effective pooling and redistribution of risk lowers the total cost of risk management, thereby making insurance protection more cost effective for all.

The operating model of insurance companies relies on profits being generated:

- by appropriately pricing risk and charging adequate premium to cover the expected payouts that will be incurred over the life of the insurance policy (both claims and operating expenses); and
- by earning a return on the collected premium and funds withheld to pay future claims through the adoption of an appropriate investment strategy.

Insurance therefore serves a critical function of providing customers with the confidence to achieve their business and personal goals through cost-effective risk management. This is achieved within a highly regulated environment, designed to ensure that insurance companies maintain adequate capital to protect the interests of policyholders.

The diagram below presents a simplified overview of the key components of this Financial Report.



1.

1.2 About this report

This Financial Report includes the consolidated financial statements of QBE Insurance Group Limited (the ultimate parent entity or the company) and its controlled entities (QBE or the Group).

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), balance sheet, statement of changes in equity and statement of cash flows as well as associated notes as required by Australian Accounting Standards. Disclosures have been grouped into the following categories in order to assist users in their understanding of the financial statements:

1. **Overview** contains information that impacts the Financial Report as a whole as well as segment reporting disclosures.
2. **Underwriting activities** brings together results and balance sheet disclosures relevant to the Group's insurance activities.
3. **Investment activities** includes results and balance sheet disclosures relevant to the Group's investments.
4. **Risk management** provides commentary on the Group's exposure to various financial and capital risks, explaining the potential impact on the results and balance sheet and how the Group manages these risks.
5. **Capital structure** provides information about the debt and equity components of the Group's capital.
6. **Tax** includes disclosures relating to the Group's tax balances.
7. **Group structure** provides a summary of the Group's controlled entities and includes disclosures in relation to transactions impacting the Group structure.
8. **Other** includes additional disclosures required in order to comply with Australian Accounting Standards.

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures.
- **Disclosures** (both numbers and commentary) provide analysis of balances as required by Australian Accounting Standards.
- **How we account for the numbers** summarises the accounting policies relevant to an understanding of the numbers.
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by QBE in determining the numbers.

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, balance sheet and results of the Group. Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;
- it is important to assist in understanding the results of the Group;
- it helps to explain the impact of significant changes in the Group's business – for example, significant acquisitions or disposals; or
- it relates to an aspect of the Group's operations that is important to its future performance.

1.2.1 Basis of preparation

This Financial Report is a general purpose financial report which:

- has been prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board (AASB), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and the *Corporations Act 2001*;
- has been prepared on a historical cost basis as modified by certain exceptions, the most significant of which are the measurement of investments and derivatives at fair value and the measurement of the net outstanding claims liability at present value;
- is presented in US dollars; and
- is presented with values rounded to the nearest million dollars or, in certain cases, to the nearest thousand dollars in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*.

New and amended Accounting Standards and Interpretations issued by the AASB that are now effective are detailed in note 8.1.

The Group has not adopted any Accounting Standards and Interpretations that have been issued or amended but are not yet effective.

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the company as at 31 December 2017 and the results for the financial year then ended. A list of entities controlled by the company at year end is contained in note 7.3.

The financial statements of controlled entities are prepared for the same reporting period as the ultimate parent entity.

In preparing the consolidated financial statements, all transactions between controlled entities are eliminated in full. Where control of an entity commences or ceases during a financial year, the results are included for that part of the year during which control existed.

Lloyd's syndicates are accounted for on a proportional basis. The nature of Lloyd's syndicates is such that, even when one party provides the majority of capital, the syndicate as a whole is not controlled for accounting purposes.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

1.2.2 Critical accounting judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements and estimates that affect reported amounts. The diversity and complexity of the Group is evidenced by its worldwide operations and the broad product range as shown in the class of business analysis in note 4.2.

In view of its geographic and product diversity, the Group has developed a centralised risk management and policy framework designed to ensure consistency of approach across a number of operational activities, subject to the specific requirements of local markets, legislation and regulation. Such operational activities include underwriting, claims management, actuarial assessment of the outstanding claims liability and investment management.

Given the centralised approach to many activities and the diversity of products and geographies, sensitivity analyses in respect of critical accounting estimates and judgements are presented at the consolidated Group level in order to provide information and analysis which is meaningful, relevant, reliable and comparable year on year. Sensitivity disclosure at business segment or product level would not provide a meaningful overview given the complex interrelationships between the variables underpinning the Group's operations.

The key areas in which critical estimates and judgements are applied are as follows:

- net outstanding claims liability (note 2.3);
- liability adequacy test (note 2.5.1);
- deferred income tax (note 6.2.3); and
- intangible assets (note 7.2.1).

1.2.3 Foreign currency

Translation of foreign currency transactions and balances

Transactions included in the financial statements of controlled entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). Foreign currency transactions are translated into functional currencies at the spot rates of exchange applicable at the dates of the transactions. At the balance date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at that date. Resulting exchange gains and losses are included in profit or loss.

Translation of foreign operations

The results and balance sheets of all foreign operations that have a functional currency different from the Group's presentation currency of US dollars are translated into US dollars as follows:

- income, expenses and other current period movements in comprehensive income are translated at average rates of exchange; and
- balance sheet items are translated at the closing balance date rates of exchange.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity and recognised in other comprehensive income. When a foreign operation is sold in whole or part and capital is repatriated, exchange differences on translation from the entity's functional currency to the ultimate parent entity's functional currency of Australian dollars are reclassified out of other comprehensive income and recognised in profit or loss as part of the gain or loss on sale.

Derivatives and hedging transactions

Derivatives and borrowings which meet the specified criteria in AASB 139 *Financial Instruments: Recognition and Measurement* are accounted for as fair value hedges, cash flow hedges or hedges of a net investment in a foreign operation.

Hedges of net investments in foreign operations are accounted for in a manner similar to cash flow hedges. The gain or loss on the effective portion of the hedging instrument is recognised directly in other comprehensive income and the gain or loss on the ineffective portion is recognised immediately through profit or loss. The cumulative gain or loss previously recognised in equity is reclassified through profit or loss on the disposal or partial disposal of the foreign operation.

QBE does not ordinarily use derivatives to mitigate currency risk on translation to the ultimate parent's functional currency of Australian dollars; however, in periods of extraordinary volatility that are expected to persist for an extended period of time, QBE may elect to utilise derivatives to mitigate currency translation risk to preserve capital. The volatility created by the UK referendum decision to leave the European Union (Brexit) is an example of such volatility and, since July 2016, the Group has elected to utilise derivatives in hedging its sterling net investment in foreign operations.

Exchange rates

The principal exchange rates used in the preparation of the financial statements were:

	2017		2016	
	PROFIT OR LOSS	BALANCE SHEET	PROFIT OR LOSS	BALANCE SHEET
A\$/US\$	0.766	0.780	0.743	0.721
£/US\$	1.288	1.350	1.350	1.234
€/US\$	1.128	1.200	1.106	1.052

1.3 Segment information



Overview

The segment note provides information by operating division to assist the understanding of the Group's performance. The operating segments are consistent with the basis on which information is provided to the Group Executive for measuring performance and determining the allocation of capital, being the basis upon which the Group's underwriting products and services are managed within the various markets in which QBE operates.

Operating segments

The Group's operating segments are as follows:

- North American Operations writes general insurance and reinsurance business in the US.
- European Operations writes general insurance business principally in the UK, Canada and throughout mainland Europe; both general insurance and reinsurance business through Lloyd's of London; and worldwide reinsurance business through offices in the UK, Ireland, Bermuda and mainland Europe.
- Australian & New Zealand Operations primarily underwrites general insurance risks throughout Australia and New Zealand, providing all major lines of insurance for personal and commercial risks.
- Latin American Operations writes general insurance business in North, Central and South America.
- Asia Pacific Operations provides personal, commercial and specialist general insurance covers throughout the Asia Pacific region.
- Equator Re is based in Bermuda and provides reinsurance protection to related entities. Inward premium received by Equator Re is principally derived from within the Group and is eliminated on consolidation.

We previously reported Latin American Operations and Asia Pacific Operations as a single Emerging Markets operating segment. Following changes in the way information is presented to the Group Executive, these are now disclosed separately. Comparatives have been restated for consistency.

After 31 December 2017, Latin American operations in Argentina, Brazil, Colombia, Ecuador and Mexico met the criteria for classification as a disposal group held for sale, additional information on which is disclosed in note 7.1.3.

Corporate and Other includes non-operating holding companies that do not form part of the Group's insurance operations, gains or losses on disposals, borrowings, financing costs and amortisation of any intangibles which are not allocated to a specific operating segment. It also includes consolidation adjustments and internal reinsurance eliminations. Additional information in relation to the Group's intangibles, borrowings and gains or losses on disposals is disclosed in notes 7.2, 5.1 and 7.1 respectively.

Divisional management results are reported before corporate quota share reinsurances to Equator Re which exist to optimise capital management across the Group.

Intersegment transactions are priced on an arm's length basis and are eliminated on consolidation.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

	NORTH AMERICAN OPERATIONS US\$M	EUROPEAN OPERATIONS US\$M	AUSTRALIAN & NEW ZEALAND OPERATIONS US\$M	LATIN AMERICAN OPERATIONS US\$M	ASIA PACIFIC OPERATIONS US\$M	EQUATOR RE US\$M	TOTAL REPORTABLE SEGMENTS US\$M	CORPORATE & OTHER US\$M	TOTAL US\$M
2017									
Gross written premium	4,556	4,049	4,024	863	740	1,580	15,812	(1,621)	14,191
Gross earned premium revenue – external	4,622	3,973	4,134	835	779	13	14,356	90	14,446
Gross earned premium revenue – internal	–	37	1	–	–	1,601	1,639	(1,639)	–
Outward reinsurance premium expense	(1,381)	(800)	(655)	(120)	(126)	(882)	(3,964)	1,559	(2,405)
Net earned premium	3,241	3,210	3,480	715	653	732	12,031	10	12,041
Net claims expense	(2,439)	(2,024)	(2,168)	(461)	(439)	(982)	(8,513)	(24)	(8,537)
Net commission	(556)	(615)	(525)	(186)	(145)	(74)	(2,101)	(15)	(2,116)
Underwriting and other expenses	(550)	(499)	(504)	(162)	(169)	(16)	(1,900)	(61)	(1,961)
Underwriting result	(304)	72	283	(94)	(100)	(340)	(483)	(90)	(573)
Net investment income on policyholders' funds	77	122	155	45	7	27	433	42	475
Insurance (loss) profit	(227)	194	438	(49)	(93)	(313)	(50)	(48)	(98)
Net investment income on shareholders' funds	60	45	80	63	5	37	290	47	337
Financing and other costs	–	–	–	–	–	–	–	(305)	(305)
Losses on sale of entities	–	–	–	–	–	–	–	(6)	(6)
Share of net profits of associates	–	–	–	–	–	–	–	(1)	(1)
Amortisation and impairment of intangibles	–	–	(12)	–	–	–	(12)	(740)	(752)
(Loss) profit before income tax	(167)	239	506	14	(88)	(276)	228	(1,053)	(825)
Income tax (expense) credit	(12)	(43)	(149)	(2)	14	(17)	(209)	(219)	(428)
(Loss) profit after income tax	(179)	196	357	12	(74)	(293)	19	(1,272)	(1,253)
Loss attributable to non-controlling interests	–	–	–	–	–	–	–	4	4
Net (loss) profit after income tax	(179)	196	357	12	(74)	(293)	19	(1,268)	(1,249)

1.

2016	NORTH AMERICAN OPERATIONS US\$M	EUROPEAN OPERATIONS US\$M	AUSTRALIAN & NEW ZEALAND OPERATIONS US\$M	LATIN AMERICAN OPERATIONS US\$M	ASIA PACIFIC OPERATIONS US\$M	EQUATOR RE US\$M	TOTAL REPORTABLE SEGMENTS US\$M	CORPORATE & OTHER US\$M	TOTAL US\$M
Gross written premium	4,647	4,076	3,933	867	765	1,532	15,820	(1,425)	14,395
Gross earned premium revenue – external	4,532	3,840	3,913	840	748	1	13,874	402	14,276
Gross earned premium revenue – internal	125	38	11	–	–	1,428	1,602	(1,602)	–
Outward reinsurance premium expense	(1,926)	(929)	(514)	(127)	(133)	(778)	(4,407)	1,197	(3,210)
Net earned premium	2,731	2,949	3,410	713	615	651	11,069	(3)	11,066
Net claims expense	(1,528)	(1,658)	(2,172)	(399)	(321)	(453)	(6,531)	89	(6,442)
Net commission	(564)	(574)	(511)	(181)	(132)	(50)	(2,012)	(22)	(2,034)
Underwriting and other expenses	(556)	(516)	(477)	(154)	(135)	(13)	(1,851)	(71)	(1,922)
Underwriting result	83	201	250	(21)	27	135	675	(7)	668
Net investment income on policyholders' funds	83	115	168	60	7	27	460	(53)	407
Insurance profit	166	316	418	39	34	162	1,135	(60)	1,075
Net investment income on shareholders' funds	52	39	84	82	5	18	280	59	339
Financing and other costs	–	–	–	–	–	–	–	(294)	(294)
Unrealised loss on assets held for sale	–	–	–	–	–	–	–	(3)	(3)
Amortisation and impairment of intangibles	–	–	(6)	–	–	–	(6)	(39)	(45)
Profit (loss) before income tax	218	355	496	121	39	180	1,409	(337)	1,072
Income tax (expense) credit	(47)	(64)	(147)	(39)	(9)	(31)	(337)	109	(228)
Profit (loss) after income tax	171	291	349	82	30	149	1,072	(228)	844
Profit attributable to non-controlling interests	–	–	–	–	–	–	–	–	–
Net profit (loss) after income tax	171	291	349	82	30	149	1,072	(228)	844

Geographical analysis

All operating segments are defined by reference to the geographical locations of each operating segment and, as such, satisfy the requirements of a geographical analysis as well as an operating segment analysis. No country within Latin American Operations or Asia Pacific Operations is individually material.

Gross earned premium revenue – external for Australia, the parent entity's country of domicile, was \$3,836 million (2016 \$3,643 million).

Product analysis

QBE does not collect Group-wide revenue information by product and the cost to develop this information would be excessive. Gross earned premium revenue by class of business is disclosed in note 4.2.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

2. UNDERWRITING ACTIVITIES



Overview

This section provides analysis and commentary on the Group's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

2.1 Revenue



Overview

Revenue mainly comprises premiums charged for providing insurance coverage. Premiums are classified as either:

- direct, being those paid by the policyholder to the insurer;
- facultative, being reinsurance of an individual (usually significant) risk by a ceding insurer or reinsurer; or
- inward reinsurance premiums, being coverage provided to an insurer or reinsurer in relation to a specified grouping of policies or risks.

Other sources of revenue include amounts recovered from reinsurers under the terms of reinsurance contracts, commission income from reinsurers and salvage or third party recoveries.

	NOTE	2017 US\$M	2016 US\$M
Gross earned premium revenue			
Direct and facultative		13,363	13,298
Inward reinsurance		1,083	978
		14,446	14,276
Other revenue			
Reinsurance and other recoveries revenue	2.2	2,881	2,600
Reinsurance commission revenue		366	391
		17,693	17,267



How we account for the numbers

Premium revenue

Premium written comprises amounts charged to policyholders, excluding taxes collected on behalf of third parties. Premium is recognised as revenue in profit or loss based on the incidence of the pattern of risk associated with the insurance policy. The earned portion of premium on unclosed business, being business that is written at the balance date but for which detailed policy information is not yet booked, is also included in premium revenue.

Reinsurance and other recoveries

Reinsurance and other recoveries on paid claims, reported claims not yet paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) are recognised as revenue. Recoveries are measured as the present value of the expected future receipts.

2.

2.2 Net claims expense

**Overview**

The largest expense for an insurance company is net claims expense, which is the difference between the net outstanding claims liability (as described in note 2.3 below) at the beginning and the end of the financial year plus any claims payments made net of reinsurance and other recoveries received during the financial year.

	NOTE	2017 US\$M	2016 US\$M
Gross claims and related expenses			
Direct and facultative		10,429	8,525
Inward reinsurance		989	517
		11,418	9,042
Reinsurance and other recoveries revenue			
Direct and facultative		2,585	2,568
Inward reinsurance		296	32
	2.1	2,881	2,600
Net claims expense		8,537	6,442
Analysed as follows:			
Movement in net discounted central estimate	2.4.2	8,457	6,574
Movement in risk margin	2.3.3	80	(132)
Net claims expense		8,537	6,442

2.3 Net outstanding claims liability

**Overview**

The net outstanding claims liability comprises the elements described below.

- The gross central estimate (note 2.3.1). This is the provision for expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR), claims incurred but not enough reported (known as IBNER) and estimated claims handling costs.
- Less reinsurance and other recoveries (note 2.3.2). Insurance companies may elect to purchase reinsurance cover to manage their exposure to any one claim or series of claims. When an insurance company incurs a claim as a result of an insured loss, it may be able to recover some of that claim from reinsurance. An insurer may also be entitled to non-reinsurance recoveries under the insurance contract such as salvage, subrogation and sharing arrangements with other insurers.
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time. The weighted average risk-free rate for each operating segment and for the consolidated Group are summarised in note 2.3.4.
- Plus a risk margin (note 2.3.3). A risk margin is added to reflect the inherent uncertainty in the net discounted central estimate of outstanding claims.

	NOTE	2017 US\$M	2016 US\$M
Gross discounted central estimate	2.3.1	20,340	17,233
Risk margin	2.3.3	1,239	1,088
Gross outstanding claims liability		21,579	18,321
Reinsurance and other recoveries on outstanding claims	2.3.2	(6,311)	(4,540)
Net outstanding claims liability		15,268	13,781

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

The table below analyses the movement in the net outstanding claims liability, showing separately the movement in gross claims liability and the impact of reinsurance.

	NOTE	2017			2016		
		GROSS US\$M	REINSURANCE US\$M	NET US\$M	GROSS US\$M	REINSURANCE US\$M	NET US\$M
At 1 January		18,321	(4,540)	13,781	18,583	(3,204)	15,379
Claims expense – current accident year	2.4.2	10,733	(2,121)	8,612	9,168	(1,894)	7,274
Claims expense – prior accident year	2.4.2	605	(760)	(155)	6	(706)	(700)
Movement in risk margin	2.3.3	80	–	80	(132)	–	(132)
Incurred claims recognised in profit or loss	2.2	11,418	(2,881)	8,537	9,042	(2,600)	6,442
Transfers to liabilities held for sale/disposals		(17)	–	(17)	(33)	6	(27)
Claims payments		(9,166)	1,260	(7,906)	(8,623)	1,172	(7,451)
Foreign exchange		1,023	(150)	873	(648)	86	(562)
At 31 December		21,579	(6,311)	15,268	18,321	(4,540)	13,781

2.3.1 Gross discounted central estimate

	NOTE	2017 US\$M	2016 US\$M
Gross undiscounted central estimate excluding claims settlement costs		21,278	17,826
Claims settlement costs		372	343
Gross undiscounted central estimate		21,650	18,169
Discount to present value		(1,310)	(936)
Gross discounted central estimate	2.3	20,340	17,233
Payable within 12 months		8,284	7,053
Payable in greater than 12 months		12,056	10,180
Gross discounted central estimate	2.3	20,340	17,233



How we account for the numbers

The gross discounted central estimate is the present value of the expected future payments for claims incurred and includes reported but unpaid claims, IBNR, IBNER and claims handling costs. The central estimate is determined by the Group Chief Actuary, supported by a team of actuaries in each of the Group's businesses. The valuation process is performed quarterly and includes extensive consultation with claims and underwriting staff as well as senior management. The central estimate of outstanding claims is subject to a comprehensive independent review at least annually. The risk management procedures related to the actuarial function are explained in note 4.2.

2.



Critical accounting judgements and estimates

The determination of the amounts that the Group will ultimately pay for claims arising under insurance and inward reinsurance contracts involves a number of critical assumptions. Some of the uncertainties impacting these assumptions are as follows:

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs for long-tail insurance classes due to the longer period of time that can elapse before a claim is paid in full;
- the existence of complex underlying exposures;
- the incidence of catastrophic events close to the balance date;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages; and
- changing social, political and economic trends, for example price and wage inflation.

The estimation of IBNR and IBNER is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims that have been reported to the Group but not yet paid, for which more information about the claims is generally available. The notification and settlement of claims relating to liability and other long-tail classes of business may not happen for many years after the event giving rise to the claim. As a consequence, liability and other long-tail classes typically display greater variability between initial estimates and final settlement due to delays in reporting claims and uncertainty in respect of court awards and future claims inflation. Claims in respect of property and other short-tail classes are typically reported and settled soon after the claim event, giving rise to more certainty.

Central estimates for each class of business are determined using a variety of estimation techniques, generally based on an analysis of historical experience and with reference to external benchmarks where relevant. The gross central estimate is discounted to present value using appropriate risk-free rates.

Central estimates are calculated gross of any reinsurance and other recoveries. A separate estimate is made of the amounts recoverable based on the gross central estimate (note 2.3.2).

2.3.2 Reinsurance and other recoveries on outstanding claims

	NOTE	2017 US\$M	2016 US\$M
Reinsurance and other recoveries on outstanding claims – undiscounted ¹		6,692	4,816
Discount to present value		(381)	(276)
Reinsurance and other recoveries on outstanding claims	2.3	6,311	4,540
Receivable within 12 months		2,851	2,102
Receivable in greater than 12 months		3,460	2,438
Reinsurance and other recoveries on outstanding claims	2.3	6,311	4,540

¹ Net of a provision for impairment of \$37 million (2016 \$24 million).



How we account for the numbers

The recoverability of amounts due from reinsurers is assessed at each balance date to ensure that the balances properly reflect the amounts ultimately expected to be received, taking into account counterparty credit risk and the contractual terms of the reinsurance contract. Counterparty credit risk in relation to reinsurance assets is considered in note 4.3. Recoveries are discounted to present value using appropriate risk-free rates.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

2.3.3 Risk margin



Overview

A risk margin is determined by the Group Board to reflect the inherent uncertainty in the net discounted central estimate.

The risk margin and the net discounted central estimate are key inputs in the determination of the probability of adequacy, which is a statistical measure of the relative adequacy of the outstanding claims liability to ultimately be able to pay claims. For example, a 90% probability of adequacy indicates that the outstanding claims liability is expected to be adequate nine years in 10.

		2017	2016
Risk margin	US\$M	1,239	1,088
Risk margin as a percentage of the net discounted central estimate	%	8.8	8.6
Probability of adequacy	%	90.0	89.5

The movement in the risk margin includes a charge to profit or loss of \$80 million (2016 \$132 million release) and foreign exchange of \$71 million (2016 \$39 million). Whilst there are a number of factors affecting the risk margin, the increase principally results from consideration of the net claims reserves relating to the unprecedented level of natural catastrophe claims in the second half of 2017. The resulting probability of adequacy is 90.0% compared with 89.5% last year. Net profit after tax would have increased by \$22 million if the probability of adequacy was maintained at 89.5%.



How we account for the numbers

AASB 1023 *General Insurance Contracts* requires an entity to adopt an appropriate risk margin. The resulting probability of adequacy is not of itself an accounting policy as defined by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The appropriate level of risk margin is not determined by reference to a fixed probability of adequacy.

QBE reviews a number of factors when determining the appropriate risk margin, including any changes in the level of uncertainty in the net discounted central estimate, the resulting probability of adequacy and the risk margin as a percentage of the net discounted central estimate. The Group aims to maintain a probability of adequacy in the range of 87.5% to 92.5%.

2.



Critical accounting judgements and estimates

The risk margin is determined by the Group Board and is held to mitigate the potential for uncertainty in the net discounted central estimate. The determination of the appropriate level of risk margin takes into account similar factors to those used to determine the central estimate, such as:

- mix of business, in particular the mix of short-tail and long-tail business and the overall weighted average term to settlement; and
- the level of uncertainty in the central estimate due to estimation error, data quality, variability of key inflation assumptions and possible economic and legislative changes.

The variability by class of business is measured using techniques that determine a range of possible outcomes of ultimate payments and assign a likelihood to outcomes at different levels. These techniques generally use standard statistical distributions, and the measure of variability is referred to as the coefficient of variation.

At a fixed probability of adequacy, the appropriate risk margin for two or more classes of business or for two or more geographic locations combined is likely to be less than the sum of the risk margins for the individual classes. This reflects the benefit of diversification in general insurance. The statistical measure used to determine diversification is called the correlation. The higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class. For example, high correlation exists between classes of business affected by court cases involving bodily injury claims such as motor third party liability, workers' compensation and public liability, particularly in the same jurisdiction.

The probability of adequacy for the Group is determined by analysing the variability of each class of business and the correlation between classes of business and divisions. Correlations are determined for aggregations of classes of business, where appropriate, at the divisional level. The correlations adopted by the Group are generally derived from industry analysis, the Group's historical experience and the judgement of experienced and qualified actuaries.

2.3.4 Discount rate used to determine the outstanding claims liability



Overview

Claims in relation to long-tail classes of business (e.g. professional indemnity and workers' compensation) typically may not settle for many years. As such, the liability is discounted to reflect the time value of money. The table below summarises the weighted average discount rate for each operating segment and for the consolidated Group.

	2017 %	2016 %
North American Operations	2.37	2.11
European Operations	0.77	0.65
Australian & New Zealand Operations	2.30	2.24
Latin American Operations ¹	12.95	15.67
Asia Pacific Operations	1.67	1.56
Equator Re	1.96	1.63
Group ¹	1.68	1.54

¹ Latin American Operations and Group excluding the Argentine peso were 5.28% (2016 6.37%) and 1.53% (2016 1.33%) respectively.



How we account for the numbers

AASB 1023 *General Insurance Contracts* requires that the net central estimate is discounted to reflect the time value of money using risk-free rates that are based on current observable, objective rates that reflect the nature, structure and terms of the future obligations.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

2.3.5 Weighted average term to settlement



Overview

The weighted average term to settlement refers to the period from the balance date to the expected date of claims settlement. All other factors being equal, a longer weighted average term to settlement generally results in a larger impact on the central estimate from discounting.

	2017 YEARS					2016 YEARS						
	US\$	£	A\$	€	OTHER	TOTAL	US\$	£	A\$	€	OTHER	TOTAL
North American Operations	3.3	–	–	–	–	3.3	2.9	–	–	–	–	2.9
European Operations	2.6	2.9	3.6	5.2	2.8	3.6	2.5	2.9	3.6	5.4	2.8	3.7
Australian & New Zealand Operations	–	–	2.2	–	1.3	2.2	–	–	2.2	–	1.8	2.1
Latin American Operations	0.8	–	–	–	2.1	1.9	1.0	–	–	–	2.1	1.9
Asia Pacific Operations	–	–	–	–	1.3	1.3	–	–	–	–	1.3	1.3
Equator Re	3.6	4.3	2.8	3.6	1.9	3.3	2.1	3.5	2.8	3.6	1.8	2.4
Group	3.2	3.0	2.3	5.0	2.0	3.1	2.5	3.0	2.3	5.3	2.0	2.9

2.3.6 Net discounted central estimate maturity profile



Overview

The maturity profile is the Group's expectation of the period over which the net central estimate will be settled. The Group uses this information to ensure that it has adequate liquidity to pay claims as they are due to be settled and to inform the Group's investment strategy. The expected maturity profile of the Group's net discounted central estimate is analysed below.

2017	LESS THAN ONE YEAR US\$M	13 TO 24 MONTHS US\$M	25 TO 36 MONTHS US\$M	37 TO 48 MONTHS US\$M	49 TO 60 MONTHS US\$M	OVER 5 YEARS US\$M	TOTAL US\$M
North American Operations	954	207	164	117	83	347	1,872
European Operations	1,594	1,002	703	519	373	1,349	5,540
Australian & New Zealand Operations	1,312	642	413	248	137	280	3,032
Latin American Operations	173	45	26	18	13	32	307
Asia Pacific Operations	281	107	59	29	10	8	494
Equator Re	1,119	511	230	185	124	615	2,784
	5,433	2,514	1,595	1,116	740	2,631	14,029

2016	LESS THAN ONE YEAR US\$M	13 TO 24 MONTHS US\$M	25 TO 36 MONTHS US\$M	37 TO 48 MONTHS US\$M	49 TO 60 MONTHS US\$M	OVER 5 YEARS US\$M	TOTAL US\$M
North American Operations	855	332	206	126	75	268	1,862
European Operations	1,448	935	677	484	348	1,211	5,103
Australian & New Zealand Operations	1,183	598	408	247	137	232	2,805
Latin American Operations	131	32	22	14	9	29	237
Asia Pacific Operations	224	94	47	24	9	6	404
Equator Re	1,110	519	206	106	75	266	2,282
	4,951	2,510	1,566	1,001	653	2,012	12,693

2.

2.3.7 Impact of changes in key variables on the net outstanding claims liability



Overview

The impact of changes in key variables used in the calculation of the outstanding claims liability is summarised in the table below. Each change has been calculated in isolation from the other changes and shows the after tax impact on profit assuming that there is no change to any of the other variables. In practice, this is considered unlikely to occur as, for example, an increase in interest rates is normally associated with an increase in the rate of inflation. Over the medium to longer term, the impact of a change in discount rates is expected to be largely offset by the impact of a change in the rate of inflation.

The sensitivities below assume that all changes directly impact profit after tax. In practice, however, if the central estimate was to increase, at least part of the increase may result in an offsetting change in the level of risk margin rather than in a change to profit after tax, depending on the nature of the change in the central estimate. Likewise, if the coefficient of variation were to increase, it is possible that the probability of adequacy would reduce from its current level rather than result in a change to net profit after income tax.

	SENSITIVITY %	PROFIT (LOSS) ¹	
		2017 US\$M	2016 US\$M
Net discounted central estimate	+5	(491)	(444)
	-5	491	444
Risk margin	+5	(43)	(38)
	-5	43	38
Inflation rate	+0.5	(158)	(130)
	-0.5	150	124
Discount rate	+0.5	150	124
	-0.5	(158)	(130)
Coefficient of variation	+1	(129)	(114)
	-1	129	114
Probability of adequacy	+1	(43)	(37)
	-1	40	35
Weighted average term to settlement	+10	58	43
	-10	(58)	(43)

¹ Net of tax at the Group's prima facie income tax rate of 30%.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

2.4 Claims development – net undiscounted central estimate



Overview

The claims development table demonstrates the extent to which the original estimated ultimate claims payments in any one accident year (item (a) in the table below) have subsequently developed favourably (i.e. claims cost estimates have reduced) or unfavourably (i.e. further claims expense has been recognised in subsequent years). This table therefore illustrates the variability and inherent uncertainty in estimating the central estimate each year. The ultimate claims cost for any particular accident year is not known until all claims payments have been made which, for some long-tail classes of business, could be many years into the future. The estimated ultimate claims payments at the end of each subsequent accident year demonstrate how the original estimate has been revised over time (b).

Cumulative actual net claims payments (d) are deducted from the expected ultimate claims payments in each accident year (c) at the current balance date, resulting in the undiscounted central estimate at a fixed rate of exchange (e). This is revalued to the balance date rate of exchange (f) to report the net undiscounted central estimate (g), which is reconciled to the discounted net central estimate (h). The treatment of foreign exchange in the claims development table is explained on the following page.

The net (increase) decrease in estimated ultimate claims payments (i) reflects the estimated ultimate net claims payments at the end of the current financial year (c) less the equivalent at the end of the previous financial year (b). This is further summarised in note 2.4.1.

The claims development table is presented net of reinsurance. With operations in 36 countries, hundreds of products, various reinsurance arrangements and with the Group's risk tolerance managed on a consolidated basis, it is considered neither meaningful nor practicable to provide this information other than on a consolidated Group basis.

	2007 & PRIOR US\$M	2008 US\$M	2009 US\$M	2010 US\$M	2011 US\$M	2012 US\$M	2013 US\$M	2014 US\$M	2015 US\$M	2016 US\$M	2017 US\$M	TOTAL US\$M
Net ultimate claims payments												
(a) Original estimate of net ultimate claims payments		5,248	5,175	6,869	8,925	8,003	7,661	7,625	6,996	7,210	8,516	
(b) One year later		5,414	5,213	6,933	9,166	8,126	7,633	7,702	6,982	7,049		
Two years later		5,395	5,161	6,978	9,195	8,112	7,622	7,519	6,801			
Three years later		5,519	5,200	6,988	9,086	8,134	7,549	7,497				
Four years later		5,526	5,309	7,098	9,083	8,064	7,536					
Five years later		5,678	5,321	7,113	8,974	8,085						
Six years later		5,656	5,286	6,996	9,029							
Seven years later		5,657	5,207	6,994								
Eight years later		5,595	5,221									
Nine years later		5,609										
(c) Current estimate of net ultimate claims payments		5,609	5,221	6,994	9,029	8,085	7,536	7,497	6,801	7,049	8,516	72,337
(d) Cumulative net payments to date		(5,371)	(5,007)	(6,310)	(8,412)	(7,470)	(6,702)	(6,329)	(5,258)	(4,832)	(3,289)	(58,980)
(e) Net undiscounted central estimate at fixed rate of exchange ¹	894	238	214	684	617	615	834	1,168	1,543	2,217	5,227	14,251
(f) Foreign exchange impact												298
Provision for impairment												37
(g) Net undiscounted central estimate at 31 Dec 2017												14,586
Discount to present value												(929)
Claims settlement costs												372
Risk margin												1,239
(h) Net outstanding claims liability at 31 Dec 2017 (note 2.3)												15,268
(i) Movement in accident year net undiscounted central estimate (note 2.4.1)	33	14	14	(2)	55	21	(13)	(22)	(181)	(161)	8,516	8,274

¹ Excludes claims settlement costs.

2.

**How we account for the numbers**

The estimate of net ultimate claims payments attributable to business acquired is generally included in the claims development table in the accident year in which the acquisition was made. The exception is increased participation in Lloyd's syndicates where the estimate of net ultimate claims payments is allocated to the original accident year(s) in which the underlying claim was incurred.

The Group writes business in currencies other than the US dollar. The translation of ultimate claims estimates denominated in foreign currencies gives rise to foreign exchange movements which have no direct bearing on the development of the underlying claims. To eliminate this distortion, amounts have been translated to the functional currencies of our controlled entities at constant rates of exchange. All estimates of ultimate claims payments for the 10 most recent accident years reported in functional currencies other than US dollars have been translated to US dollars using the 2017 average rates of exchange.

2.4.1 Reconciliation of claims development table to profit or loss**Overview**

The table below reconciles the net increase or decrease in estimated ultimate claims payments in the current financial year from the claims development table (item (i) in note 2.4) to the analysis of current and prior accident year central estimate development recognised in profit or loss (note 2.4.2).

	2017			2016		
	CURRENT ACCIDENT YEAR US\$M	PRIOR ACCIDENT YEARS US\$M	TOTAL US\$M	CURRENT ACCIDENT YEAR US\$M	PRIOR ACCIDENT YEARS US\$M	TOTAL US\$M
Net undiscounted central estimate movement (note 2.4) ¹	8,516	(242)	8,274	7,121	(948)	6,173
Discount reclassification ²	–	–	–	–	8	8
Net undiscounted central estimate development ^{3, 4}	8,516	(242)	8,274	7,121	(940)	6,181
Movement in claims settlement costs	386	21	407	341	(14)	327
Movement in discount ²	(305)	66	(239)	(209)	270	61
Other movements	15	–	15	21	(16)	5
Movement in net discounted central estimate (note 2.4.2)	8,612	(155)	8,457	7,274	(700)	6,574

1 Excludes claims settlement costs.

2 Reclassification of discount movement in relation to long-tail classes in Australia and Argentina where the level of assumed claims inflation is directly linked to the adopted discount rate.

3 2017 includes adverse prior accident year claims development resulting from the change to statutory discount rates applicable to UK bodily injury claims (the Ogden decision) of \$139 million and a benefit of \$344 million resulting from the reinsurance of US liabilities to a third party. Excluding these amounts, the underlying prior accident year claims release of \$37 million comprised positive development in Australian & New Zealand and European Operations, largely offset by adverse development in the remaining divisions.

4 2016 prior accident year claims development includes a benefit of \$574 million resulting from the reinsurance of UK and US liabilities to a third party. Excluding these amounts, underlying positive prior accident year claims development was \$366 million.

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2.4.2 Net central estimate development



Overview

The table further analyses the current and prior accident year movement in the net discounted central estimate, separately identifying the gross and reinsurance components. Prior accident year claims are those claims that occurred in a previous year but for which a reassessment of the claims cost has impacted the result in the current period.

	2017			2016		
	CURRENT ACCIDENT YEAR US\$M	PRIOR ACCIDENT YEARS US\$M	TOTAL US\$M	CURRENT ACCIDENT YEAR US\$M	PRIOR ACCIDENT YEARS US\$M	TOTAL US\$M
Gross central estimate development						
Undiscounted	11,137	459	11,596	9,442	(255)	9,187
Discount	(404)	146	(258)	(274)	261	(13)
	10,733	605	11,338	9,168	6	9,174
Reinsurance and other recoveries						
Undiscounted	2,220	680	2,900	1,959	723	2,682
Discount	(99)	80	(19)	(65)	(17)	(82)
	2,121	760	2,881	1,894	706	2,600
Net central estimate development						
Undiscounted	8,917	(221)	8,696	7,483	(978)	6,505
Discount	(305)	66	(239)	(209)	278	69
Net discounted central estimate development (note 2.4.1)	8,612	(155)	8,457	7,274	(700)	6,574

2.5 Unearned premium and deferred insurance costs



Overview

Unearned premium

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk of the related business. The unearned premium liability is that portion of gross written premium that QBE has not yet earned in profit or loss as it represents insurance coverage to be provided by QBE after the balance date.

Deferred insurance costs

Premium ceded to reinsurers by QBE in exchange for reinsurance protection is expensed in profit or loss in accordance with the reinsurance contract's expected pattern of incidence of risk. The deferred reinsurance premium asset is that portion of the reinsurance premium that QBE has not yet expensed in profit or loss as it represents reinsurance coverage to be received by QBE after the balance date.

Acquisition costs are the costs associated with obtaining and recording insurance business. Acquisition costs are similarly capitalised and amortised, consistent with the earning of the related premium for that business. Commissions are a type of acquisition cost but are disclosed separately.

2.

Summary of unearned premium and deferred insurance costs balances

	2017 US\$M	2016 US\$M
Unearned premium (a)	6,887	6,763
To be earned within 12 months	6,361	6,175
To be earned in greater than 12 months	526	588
Unearned premium	6,887	6,763
Deferred reinsurance premium ¹	811	585
Deferred net commission	1,072	990
Deferred acquisition costs	374	390
Deferred insurance costs (b)	2,257	1,965
To be expensed within 12 months	2,086	1,782
To be expensed in greater than 12 months	171	183
Deferred insurance costs	2,257	1,965
Net premium liabilities (a) – (b)	4,630	4,798

1 Includes \$337 million (2016 \$4 million) of deferred reinsurance premium which relates to future business not yet written.

Unearned premium movements

	2017 US\$M	2016 US\$M
At 1 January	6,763	7,006
Deferral of unearned premium on contracts written in the financial year	5,434	6,149
Earning of premium written in previous financial years	(5,689)	(6,030)
Transfers to liabilities held for sale / disposals	(5)	(27)
Foreign exchange	384	(335)
At 31 December	6,887	6,763

Deferred insurance costs movement

	DEFERRED REINSURANCE PREMIUM		DEFERRED NET COMMISSION		DEFERRED ACQUISITION COSTS	
	2017 US\$M	2016 US\$M	2017 US\$M	2016 US\$M	2017 US\$M	2016 US\$M
At 1 January	585	1,160	990	995	390	383
Costs deferred in financial year	732	448	851	758	305	331
Amortisation of costs deferred in previous financial years	(522)	(1,005)	(816)	(690)	(334)	(322)
Transfers to assets or liabilities held for sale / disposals	(3)	(2)	(1)	(3)	(4)	–
Impairment	–	–	–	–	(10)	–
Foreign exchange	19	(16)	48	(70)	27	(2)
At 31 December	811	585	1,072	990	374	390



How we account for the numbers

Unearned premium

Unearned premium is calculated based on the coverage period of the insurance or reinsurance contract and in accordance with the expected pattern of the incidence of risk, using either the daily pro-rate method or the 24ths method, adjusted where appropriate to reflect different risk patterns.

Deferred insurance costs

Deferred reinsurance premium is calculated based on the period of indemnity provided to QBE by the reinsurance contract and in accordance with the related pattern of the incidence of risk.

Acquisition costs are capitalised when they relate to new business or the renewal of existing business and are amortised on the same basis as the earning pattern for that business. At the balance date, deferred acquisition costs represent the capitalised acquisition costs that relate to unearned premium and are carried forward to a subsequent accounting period in recognition of their future benefit. The carrying value of deferred acquisition costs is subject to impairment testing in the form of the liability adequacy test (note 2.5.1).

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FOR THE YEAR ENDED 31 DECEMBER 2017

2.5.1 Liability adequacy test



Overview

At each balance date, the Group is required to assess net premium liabilities (being unearned premium less deferred insurance costs) to determine whether the amount provided is sufficient to pay future claims.

If the present value of expected future claims including a risk margin exceeds the net premium liabilities, adjusted for deferred reinsurance premium relating to future business not yet written, the net premium liability is deemed deficient. This deficiency is immediately recognised in profit or loss. In recognising the deficiency, an insurer must first write down any related intangible assets and then deferred acquisition costs before recognising an unexpired risk liability.

Expected present value of future cash flows for future claims including risk margin

	2017 US\$M	2016 US\$M
Undiscounted net central estimate	4,745	4,498
Discount to present value	(198)	(171)
	4,547	4,327
Risk margin at the 75th percentile of insurance liabilities	194	186
Expected present value of future cash flows for future claims including risk margin	4,741	4,513

The application of the liability adequacy test at 31 December 2017 identified a deficiency of \$10 million in Asia Pacific Operations which was recognised as a write down of deferred acquisition costs. No deficiency was identified in other portfolios. At 31 December 2016, no deficiency was identified in any portfolio.



How we account for the numbers

At each balance date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future claims cash flows in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate. The assessment is carried out at the operating segment level, being a portfolio of contracts subject to broadly similar risks and which are managed together as a single portfolio.



Critical accounting judgements and estimates

In assessing the adequacy of net premium liabilities, AASB 1023 *General Insurance Contracts* requires the inclusion of a risk margin but does not prescribe a minimum level of margin. Whilst there is established practice in the calculation of the probability of adequacy of the outstanding claims liability, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of net premium liabilities.

The liability adequacy test is performed on a standalone basis for each division and assumes a 75% probability of adequacy. The risk margin disclosed above for the consolidated Group is determined on a consistent basis and also reflects the benefit of diversification.

The 75% basis is a recognised industry benchmark in Australia, being the minimum probability of adequacy required for Australian licensed insurers by APRA.

2.

2.6 Trade and other receivables

**Overview**

Trade and other receivables are principally amounts owed to QBE by policyholders or reinsurance counterparties. Unclosed premium receivables are estimated amounts due to QBE in relation to business for which the Group is on risk but where the policy is not billed to the counterparty at the balance date.

	2017 US\$M	2016 US\$M
Trade debtors		
Premium receivable ¹	2,263	2,149
Reinsurance and other recoveries ²	934	984
Unclosed premium	1,086	955
Other trade debtors	117	123
	4,400	4,211
Other receivables	506	620
Trade and other receivables	4,906	4,831
Receivable within 12 months	4,759	4,775
Receivable in greater than 12 months	147	56
Trade and other receivables	4,906	4,831

1 Net of a provision for impairment of \$113 million (2016 \$86 million).

2 Net of a provision for impairment of \$43 million (2016 \$53 million).

Due to the predominantly short-term nature of these receivables, the carrying value is assumed to approximate the fair value.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables. No receivables are pledged by the Group as collateral for liabilities or contingent liabilities. Information on the ageing and credit rating of these balances is included in note 4.3.

**How we account for the numbers**

Receivables are recognised at fair value and are subsequently measured at amortised cost less any impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Any increase or decrease in the provision for impairment is recognised in profit or loss within underwriting expenses.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

2.7 Trade and other payables



Overview

Trade payables primarily comprise amounts owed to reinsurance counterparties and cedants. Treasury and investment payables are amounts due to investment counterparties in settlement of transactions.

	2017 US\$M	2016 US\$M
Trade payables	1,483	1,172
Other payables and accrued expenses	745	612
Treasury payables	36	22
Investment payables	63	333
Trade and other payables	2,327	2,139
Payable within 12 months	2,043	2,017
Payable in greater than 12 months	284	122
Trade and other payables	2,327	2,139



How we account for the numbers

Trade payables are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest method.

3.

3. INVESTMENT ACTIVITIES

**Overview**

Premiums collected from policyholders are invested to meet the Group's cash flow needs to pay claims and other expenses, as well as generating a return that contributes to the Group's profitability. A sound investment strategy is therefore integral to the success of the Group's operations.

The Group invests across a diversified range of instruments to achieve an appropriate balance between risk and return. Decisions on where to invest are dependent on expected returns, cash flow requirements of the Group, liquidity of the instrument, credit quality of the instrument and the overall risk appetite of the Group. Further details on the management of risk associated with investment assets can be found in note 4.

The Group's investment assets are categorised as either backing policyholders' or shareholders' funds, with the former being investment assets which back insurance liabilities whilst the latter is comprised of all other investment assets.

3.1 Investment income

	2017 US\$M	2016 US\$M
Income on growth assets	333	86
Income on fixed interest securities, short-term money and cash	533	561
Gross investment income ¹	866	647
Investment expenses	(21)	(24)
Net investment income	845	623
Foreign exchange (loss) gain	(33)	125
Other income	4	2
Other expenses	(4)	(4)
Total investment income	812	746
Investment and other income – policyholders' funds	488	422
Investment expenses – policyholders' funds	(13)	(15)
Investment and other income – shareholders' funds	345	348
Investment expenses – shareholders' funds	(8)	(9)
Total investment income	812	746

¹ Includes net fair value gains of \$226 million (2016 \$109 million), interest income of \$535 million (2016 \$482 million) and dividend income of \$105 million (2016 \$56 million).

**How we account for the numbers**

Interest income is recognised in the period in which it is earned. Dividends are recognised when the right to receive payment is established. Investment income includes realised and unrealised gains or losses on financial assets which are reported on a combined basis as fair value gains or losses on financial assets.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

3.2 Investment assets

	2017 US\$M	2016 US\$M
Fixed income		
Short-term money	3,462	3,954
Government bonds	5,576	5,996
Corporate bonds	13,243	11,339
Infrastructure debt	562	463
Unit trusts	29	31
	22,872	21,783
Growth assets		
Developed market equity	520	579
Emerging market equity	110	34
Emerging market debt	–	305
High yield debt	–	202
Unlisted property trusts	1,082	1,028
Infrastructure assets ¹	894	246
Private equity ¹	76	11
Alternatives ¹	–	186
	2,682	2,591
Total investments	25,554	24,374
Amounts maturing within 12 months	5,951	6,948
Amounts maturing in greater than 12 months	19,603	17,426
Total investments	25,554	24,374

1 Infrastructure assets and private equity investments were previously disclosed within alternatives. Comparatives have been restated for consistency.



How we account for the numbers

Investments are designated as fair value through profit or loss. They are initially recognised at the cost of acquisition excluding transaction costs and are remeasured to fair value at each reporting date. The fair value hierarchy and the Group's approach to measuring the fair value of each investment instrument is disclosed in note 3.2.1.

All purchases and sales of investments that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the Group commits to buy or sell the asset. Investments are derecognised when the right to receive future cash flows from the asset has expired or has been transferred and the Group has transferred substantially all the risks and rewards of ownership.

3.

3.2.1 Fair value hierarchy



Overview

The Group Valuation Committee is responsible for the governance and oversight of the valuation process. The fair value of investments is determined in accordance with the Group's investment valuation policy.

The investments of the Group are disclosed in the table below using a fair value hierarchy which reflects the significance of inputs into the determination of fair value as follows:

Level 1: Valuation is based on quoted prices in active markets for the same instruments.

Level 2: Valuation is based on quoted prices for identical instruments in markets which are not active, quoted prices for similar instruments, or valuation techniques for which all significant inputs are based on observable market data, for example, consensus pricing using broker quotes or valuation models with observable inputs.

Level 3: Valuation techniques are applied in which one or more significant inputs are not based on observable market data.

	2017				2016			
	LEVEL 1 US\$M	LEVEL 2 US\$M	LEVEL 3 US\$M	TOTAL US\$M	LEVEL 1 US\$M	LEVEL 2 US\$M	LEVEL 3 US\$M	TOTAL US\$M
Fixed income								
Short-term money	1,066	2,396	–	3,462	854	3,099	1	3,954
Government bonds	3,337	2,238	1	5,576	4,808	1,186	2	5,996
Corporate bonds	–	13,221	22	13,243	–	11,339	–	11,339
Infrastructure debt	–	147	415	562	–	170	293	463
Unit trusts	–	29	–	29	–	31	–	31
	4,403	18,031	438	22,872	5,662	15,825	296	21,783
Growth assets								
Developed market equity	518	–	2	520	560	–	19	579
Emerging market equity	–	110	–	110	–	34	–	34
Emerging market debt	–	–	–	–	–	305	–	305
High yield debt	–	–	–	–	–	202	–	202
Unlisted property trusts	–	1,082	–	1,082	–	1,028	–	1,028
Infrastructure assets ¹	–	–	894	894	–	–	246	246
Private equity ¹	–	–	76	76	–	–	11	11
Alternatives ¹	–	–	–	–	–	186	–	186
	518	1,192	972	2,682	560	1,755	276	2,591
Total investments	4,921	19,223	1,410	25,554	6,222	17,580	572	24,374

¹ Infrastructure assets and private equity investments were previously disclosed within alternatives. Comparatives have been restated for consistency.

The Group's approach to measuring the fair value of investments is described below:

Short-term money

Term deposits are valued at par plus accrued interest and are categorised as level 1 fair value measurements. Other short-term money (bank bills, certificates of deposit, treasury bills and other short-term instruments) are priced using interest rates and yield curves observable at commonly quoted intervals.

Government bonds and corporate bonds

Bonds which are traded in active markets and have quoted prices from external data providers are categorised as level 1 fair value measurements. Bonds which are not traded in active markets are priced using broker quotes, using comparable prices for similar instruments or using pricing techniques set by local regulators or exchanges.

Infrastructure debt

Infrastructure debt prices are sourced from the investment manager who may use a combination of observable market prices or comparable market prices where available and other valuation techniques.

Developed market equity

Listed equities traded in active markets are valued by reference to quoted bid prices. Unlisted equities are priced using QBE's share of the net assets of the entity.

Emerging market equity, emerging market debt, high yield debt, unlisted property trusts, infrastructure assets and unit trusts

These assets are valued using quoted bid prices in active markets or current unit prices as advised by the responsible entity, trustee or equivalent of the investment management scheme.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

Private equity and alternatives

These assets comprise fund of funds vehicles. Fair value is based on the net asset value of the vehicle, and the responsibility for the valuation of the underlying securities lies with the external manager. In most cases, an independent administrator will be utilised by the external fund manager for pricing and valuation. A combination of observable market prices or comparable market prices (where available) and other valuation techniques may be used in the determination of fair value.

Movements in level 3 investments

The following table provides an analysis of investments valued with reference to level 3 inputs.

LEVEL 3	2017 US\$M	2016 US\$M
At 1 January	572	246
Purchases	856	393
Disposals	(88)	(40)
Fair value gains (losses) recognised in profit or loss	37	(12)
Foreign exchange	33	(15)
At 31 December	1,410	572

3.2.2 Charges over investments and restrictions on use

A controlled entity has given fixed and floating charges over certain of its investments and other assets in order to secure the obligations of the Group's corporate members at Lloyd's of London as described in note 8.2.

Included in investments are amounts totalling \$2,941 million (2016 \$3,043 million) which are held in Lloyd's syndicate trust funds. In order to conduct underwriting business within some territories, Lloyd's syndicates are required to lodge assets in locally regulated trust funds. Under Lloyd's byelaws, these amounts can only be used to pay claims and allowable expenses of the syndicate and cannot be withdrawn from the trust funds until allowed to be distributed as profit once annual solvency requirements are met. Included in this amount is \$107 million (2016 \$194 million) of short-term money.

4.

4. RISK MANAGEMENT



Overview

QBE is in the business of managing risk. The Group's ability to satisfy customers' risk management needs is central to what we do. QBE aims to generate wealth and maximise returns for its shareholders by pursuing opportunities that involve risk. Our people are responsible for ensuring that QBE's risks are managed and controlled on a day to day basis. QBE aims to use its ability to properly manage risk to provide more certainty and improved outcomes for all stakeholders.

QBE applies a consistent and integrated approach to enterprise risk management (ERM); we refer to this as ONE ERM. QBE's global risk management framework sets out the approach to managing key risks and meeting strategic objectives whilst taking into account the creation of value for our shareholders. QBE's risk management framework is articulated in the Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS), both of which are approved annually by the Group Board and lodged with APRA.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, reporting, risk assessments, modelling and stress testing, management and monitoring and risk culture.

Risk management is a continuous process and an integral part of robust business management. QBE's approach is to integrate risk management into the broader management processes of the organisation. It is QBE's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

QBE Group's strategy for managing risk is to:

- achieve competitive advantage by better understanding the risk environments in which we operate;
- give confidence to the business to make objective, risk-based decisions to optimise returns; and
- avoid unwelcome surprises to the achievement of business objectives by reducing uncertainty and volatility through the identification and management of risks.

The framework is supported by a suite of policies that detail QBE's approach to the key risk categories used by QBE to classify risk:

- Strategic risk (note 4.1)
- Insurance risk (note 4.2)
- Credit risk (note 4.3)
- Market risk (note 4.4)
- Liquidity risk (note 4.5)
- Operational risk (note 4.6)
- Group risk (note 4.7).

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

4.1 Strategic risk



Overview

Strategic risk is the potential impact on earnings and/or capital arising from strategic business decisions or responsiveness to external change. QBE classifies strategic risk into five subcategories, as follows:

- business, product and market distribution;
- capital structure and management;
- mergers, acquisitions and disposals;
- tax risk management; and
- investment strategy.

QBE's approach to managing strategic risk is underpinned by the Group strategic risk appetite statement as set by the Group Board and is summarised below.

Business, product and market distribution

Business: The Group is a geographically diversified international general insurance and reinsurance group, underwriting most major commercial and personal lines classes of business through operations in 36 countries. The Group Board and the board of each division meet at least quarterly to review performance against business plans. Actual results are monitored and analysed regularly at various levels in the Group to identify adverse trends so that remedial action can be taken at an early stage. One of the key tools used to ensure achievement of business plans is to identify our 'manage to' likely scenarios impacting the plan year based on events that have occurred or risks identified since plans were set. We assess how these scenarios would impact return on equity (ROE) forecasts and develop and implement bridging actions to drive plan achievability.

Product: QBE reviews the structuring of its insurance products on an ongoing basis in line with market expectations and developments, legislation and claims trends.

Market distribution approach: QBE makes use of distributed networks of insurance agents and brokers to undertake sales and marketing of its insurance products. The Group also markets and distributes insurance products directly by phone and on the internet.

Capital structure and management

The Capital Management Plan (CMP) outlines QBE Group's approach for ensuring adequate Group capital is maintained over time and for monitoring compliance with regulatory capital requirements and targets. The CMP is a key component of the Internal Capital Adequacy Assessment Process (ICAAP) and includes:

- specific capital targets set in the context of QBE Group's risk profile, the Board's risk appetite and regulatory capital requirements;
- plans for how target levels of capital are to be met; and
- potential sources of additional capital, if required.

The CMP also sets out QBE Group's actions and procedures for monitoring compliance with its regulatory capital requirements and capital targets. These include:

- the setting of triggers to alert management to potential breaches of these requirements; and
- actions to avert and rectify potential breaches of these requirements.

Management has a particular focus on the following performance indicators:

- The Group actively manages the components of capital in order to maintain a level of eligible regulatory capital that exceeds APRA requirements. Having determined that the current Group risk appetite remains appropriate, the Board has set the target level of regulatory capital for 2018 at 1.6 – 1.8 times (2017 1.6 – 1.8 times) the Prescribed Capital Amount (PCA).
- All regulated wholly-owned entities are required to maintain a minimum level of capital to meet obligations to policyholders. It is the Group's policy that each regulated entity maintains a capital base appropriate to its size, business mix, complexity and risk profile which fully complies with and meets or exceeds local regulatory requirements.
- The Group aims to maintain the ratio of borrowings to shareholders' funds at 25% – 35% (2016 25% – 35%). As at the balance date, the ratio of borrowings to shareholders' funds was temporarily elevated at 40.8% (2016 33.8%), primarily as a result of a decrease in shareholders' funds, with the level of borrowings being largely unchanged from prior year.
- Insurer financial strength ratings provided by the major rating agencies which indicate the Group's financial strength and claims paying ability.

Mergers, acquisitions and disposals

QBE's approach to managing merger and acquisition (and disposal) risk is underpinned by the Group Acquisition and Disposal Manual. QBE's growth strategy is based on a combination of organic and inorganic growth. QBE's approach to inorganic growth/acquisitions is based on the principle that QBE will only acquire businesses that are aligned with our strategic intent and direction and which will contribute to the achievement of our corporate ambition. QBE regularly undertakes reviews of the performance and profitability of its business units and periodically will seek to undertake disposals of assets, businesses or portfolios.

4.

Tax risk management

QBE's approach to managing taxation risk is underpinned by the QBE Group Tax Risk Management Framework, which is approved by the Group Board.

QBE's approach to tax management is based on the following guiding principles:

- QBE seeks open, honest and transparent relationships with tax authorities in all relevant jurisdictions;
- QBE will comply with all applicable tax laws, regulations and disclosure requirements and pay the amount of tax that is legally required to be paid in all the jurisdictions in which QBE operates;
- QBE engages 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; and
- QBE conducts transactions between Group companies on an arm's length basis in accordance with current Organisation for Economic Cooperation and Development (OECD) principles.

Investment strategy

QBE's approach to investment risk is underpinned by the Group's investment strategy, which is designed to strike an appropriate balance between the return objectives of the organisation and QBE's appetite for earnings volatility and capital consumption.

4.2 Insurance risk



Overview

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Key drivers of insurance risk include natural or man-made catastrophic events, pricing of individual insurance contracts, reserving and insurance claims.

QBE classifies insurance risk into four subcategories, as follows:

- underwriting;
- insurance concentrations;
- reserving; and
- reinsurance.

QBE's approach to managing insurance risk is underpinned by the Group insurance risk appetite statement as set by the Group Board and is summarised below.

Underwriting risk

QBE manages underwriting risk by appropriately setting and adjusting underwriting strategy, risk selection and pricing practices throughout the underwriting cycle.

QBE's underwriting strategy aims to diversify and limit the type of insurance risks accepted and reduce the variability of the expected outcome. The underwriting strategy is implemented through QBE's annual business planning process, supported by minimum underwriting standards and delegated authorities. These authorities reflect the level of risk that the Group is prepared to take with respect to each permitted insurance class.

Pricing of risks is controlled by the use of in-house pricing models relevant to specific portfolios and the markets in which QBE operates. Underwriters and actuaries maintain pricing and claims analysis for each portfolio, combined with a knowledge of current developments in the respective markets and classes of business.

Insurance concentration risk

QBE's exposure to concentrations of insurance risk is mitigated by maintaining a business portfolio that is diversified across countries and classes of business. Product diversification is pursued through a strategy of developing strong underwriting skills in a wide variety of classes of business.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

The table below demonstrates the diversity of QBE's operations.

GROSS EARNED PREMIUM	2017 US\$M	2016 US\$M
Commercial & domestic property	4,291	4,480
Motor & motor casualty	2,556	2,606
Agriculture	1,692	1,549
Public/product liability	1,497	1,442
Professional indemnity	1,028	898
Workers' compensation	1,025	1,062
Marine energy & aviation	919	904
Accident & health	739	652
Financial & credit	546	570
Other	153	113
	14,446	14,276

Concentration risk includes the risks from natural or man-made events that have the potential to produce claims from many of the Group's policyholders at the same time (e.g. catastrophes). QBE currently uses a variety of methodologies to monitor aggregates and manage catastrophe risk. These include the use of catastrophe models from third party vendors such as RMS and AIR, the Lloyd's realistic disaster scenarios (RDS) and group aggregate methodology. QBE sets the risk appetite relating to catastrophe risk with reference to the insurance concentration risk charge (ICRC). QBE's maximum risk tolerance for an individual natural catastrophe, measured using the ICRC methodology, is determined annually and is linked to budgeted net earned premium.

Reserving risk

Reserving risk is managed through the quarterly actuarial valuation of insurance liabilities. The valuation of the net central estimate is performed by qualified and experienced actuaries, with reference to historical data and reasoned expectations of future events. The central estimate of outstanding claims is subject to a comprehensive independent review at least annually.

Reinsurance risk

The Group limits its exposure to catastrophes or an accumulation of claims by reinsuring a portion of risks underwritten. This allows the Group to control exposure to insurance losses, reduce volatility of reported results and protect capital. Risks associated with reinsurance counterparty credit risk are discussed in note 4.3.

4.3 Credit risk



Overview

Credit risk is the risk of financial loss where a customer, counterparty or issuer fails to meet their financial obligations to QBE in accordance with agreed terms. QBE's exposure to credit risk results from financial transactions with securities issuers, debtors, brokers, policyholders, reinsurers and guarantors. QBE categorises credit risk into three sub-categories, as follows:

- reinsurance counterparty credit;
- investment counterparty credit; and
- insurance and other credit risk.

QBE's approach to managing credit risk is underpinned by the Group credit risk appetite as set by the Group Board and summarised below.

Reinsurance counterparty credit risk

The Group's objective is to maximise placement of reinsurance with highly rated counterparties. Concentration of risk with reinsurance counterparties is monitored strictly and regularly by the Group's Security Committee and is controlled by reference to the following protocols:

- treaty or facultative reinsurance is placed in accordance with the requirements of the Group REMS and Group Security Committee guidelines;
- reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historical claims and potential future losses based on the Group's insurance concentrations; and
- exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

Credit risk exposures are calculated regularly and compared with authorised credit limits. In certain cases, the Group requires letters of credit or other collateral arrangements to be provided to guarantee the recoverability of the amount involved. Collateral held for the Group in respect of reinsurance arrangements is \$1,400 million (2016 \$1,201 million). The credit rating analysis below includes the impact of such security arrangements. In some cases, further security has been obtained in the form of trust arrangements, reinsurer default protection and other potential offsets. This additional security has not been included in the credit rating analysis below.

4.

The following table provides information about the quality of the Group's credit risk exposure in respect of reinsurance recoveries on outstanding claims at the balance date. The analysis classifies the assets according to Standard & Poor's (S&P) counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as speculative grade.

	CREDIT RATING						TOTAL US\$M
	AAA US\$M	AA US\$M	A US\$M	BBB US\$M	SPECULATIVE GRADE US\$M	NOT RATED US\$M	
As at 31 December 2017							
Reinsurance recoveries on outstanding claims ^{1,2}	72	4,412	1,330	1	–	128	5,943
Reinsurance recoveries on paid claims ¹	1	834	99	–	–	–	934
As at 31 December 2016							
Reinsurance recoveries on outstanding claims ^{1,2}	65	2,873	1,115	2	14	120	4,189
Reinsurance recoveries on paid claims ¹	2	847	116	3	4	12	984

1 Net of a provision for impairment.

2 Excludes other recoveries of \$368 million (2016 \$351 million).

The following table provides further information regarding the ageing of reinsurance recoveries on paid claims at the balance date.

	YEAR	NEITHER PAST DUE NOR IMPAIRED US\$M	PAST DUE BUT NOT IMPAIRED				TOTAL US\$M
			0 TO 3 MONTHS US\$M	4 TO 6 MONTHS US\$M	7 MONTHS TO 1 YEAR US\$M	GREATER THAN 1 YEAR US\$M	
Reinsurance recoveries on paid claims ¹	2017	703	50	80	20	81	934
	2016	740	162	42	21	19	984

1 Net of a provision for impairment.

Investment counterparty credit risk

The Group only transacts with investment counterparties within the limits outlined in the delegated authorities. Investment counterparty exposure limits are applied to individual counterparty exposures and to multiple exposures within a group of related companies in relation to investments, cash deposits and forward foreign exchange exposures. Counterparty exposure limit compliance is monitored daily.

The following table provides information regarding the Group's aggregate credit risk exposure at the balance date in respect of the major classes of financial assets. Trade and other receivables are excluded from this analysis on the basis that they comprise smaller credit risk items which generally cannot be rated and are not individually material. The analysis classifies the assets according to S&P counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as speculative grade.

	CREDIT RATING						TOTAL US\$M
	AAA US\$M	AA US\$M	A US\$M	BBB US\$M	SPECULATIVE GRADE US\$M	NOT RATED US\$M	
As at 31 December 2017							
Cash and cash equivalents	37	56	190	240	15	34	572
Interest-bearing investments	3,587	7,819	8,878	2,164	286	138	22,872
Derivative financial instruments	–	164	59	–	–	–	223
As at 31 December 2016							
Cash and cash equivalents	–	207	363	213	4	60	847
Interest-bearing investments	3,654	8,124	7,792	1,852	297	64	21,783
Derivative financial instruments	–	122	16	13	–	–	151

The carrying amount of the relevant asset classes on the balance sheet represents the maximum amount of credit exposure. The fair value of derivatives shown on the balance sheet represents the current risk exposure but not the maximum risk exposure that could arise in the future as a result of changing values.

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Insurance and other credit risk

The Group transacts with brokers that are reputable, suitable and approved in accordance with local broker policies. The continuous due diligence over brokers involves an assessment of the broker's reputation, regulatory standing and financial strength.

QBE regularly reviews the collectability of receivables and the adequacy of associated provisions for impairment. Concentration risk for large brokers is also monitored. Balances are monitored on the basis of uncollected debt and debt outstanding in excess of six months. Brokers are also subject to regular due diligence to ensure adherence to local broker policies and associated requirements.

The following table provides information regarding the ageing of the Group's financial assets that are past due but not impaired and which are largely unrated at the balance date.

	NEITHER PAST DUE NOR IMPAIRED US\$M	PAST DUE BUT NOT IMPAIRED				TOTAL US\$M
		0 TO 3 MONTHS US\$M	4 TO 6 MONTHS US\$M	7 MONTHS TO 1 YEAR US\$M	GREATER THAN 1 YEAR US\$M	
As at 31 December 2017						
Premium receivable ¹	1,487	564	151	49	12	2,263
Other trade debtors	108	4	2	1	2	117
Other receivables	442	45	3	3	13	506
As at 31 December 2016						
Premium receivable ¹	1,220	756	86	65	22	2,149
Other trade debtors	89	17	2	2	13	123
Other receivables	480	131	3	4	2	620

¹ Net of a provision for impairment.

4.4 Market risk



Overview

Market risk is the risk of adverse impacts on earnings resulting from changes in market factors. Market factors include, but are not limited to, interest rates, credit spreads, foreign exchange rates and equity prices.

QBE's approach to managing market risk is underpinned by the Group market risk appetite as set by the Group Board and is summarised below.

QBE's approach to managing investment market movements is underpinned by the Group's investment strategy which outlines QBE's view of the markets and its corresponding investment approach.

Investment market risk is managed through the application of exposure and asset limits. These limits are based on the market risk appetite as determined by the Group Board and apply to:

- losses generated on the investment portfolio under market stress scenarios. The scenarios assume adverse movements in market factors and are designed to reflect a significant market stress event;
- sensitivities to changes in interest rate and credit spread risk, measured in terms of modified duration and spread duration; and
- total combined holdings in equity, investment property and other growth assets as a proportion of the Group's total investment portfolio.

Interest rate risk

QBE is exposed to interest rate risk through its holdings in interest-bearing assets, emerging market debt and high yield debt investments. Financial instruments with a floating interest rate expose the Group to cash flow interest rate risk, whereas fixed interest rate instruments expose the Group to fair value interest rate risk. Interest-bearing borrowings issued by the Group are measured at amortised cost and therefore do not expose the Group result to fair value interest rate risk.

4.

QBE's risk management approach is to minimise interest rate risk by actively managing investment portfolios to achieve a balance between cash flow interest rate risk and fair value interest rate risk. The Group predominantly invests in high quality, liquid interest-bearing securities and cash and may use derivative financial instruments to manage the interest rate risk of the fixed interest portfolio. The risk management processes over these derivative financial instruments include close senior management scrutiny, including appropriate board and other management reporting. Derivatives are used only for approved purposes and are subject to Group Board approved risk appetites and delegated authority levels provided to management. The level of derivative exposure is reviewed on an ongoing basis. Appropriate segregation of duties exists with respect to derivative use, and compliance with policy, limits and other requirements is closely monitored.

The net central estimate of outstanding claims is discounted to present value by reference to risk-free interest rates. The Group is therefore exposed to potential underwriting result volatility as a result of interest rate movements. In practice, over the longer term, an increase or decrease in interest rates is normally offset by a corresponding increase or decrease in inflation. Details are provided in note 2.3.7. At the balance date, the average modified duration of cash and fixed interest securities was 1.6 years (2016 1.5 years). Although QBE maintains a shorter asset duration relative to insurance liabilities which exposes the Group's insurance profit to potential interest rate volatility, the Group's overall exposure is mitigated by virtue of a quantum of fixed income assets far exceeding the value of insurance liabilities. Nevertheless, the Group plans to move towards duration matching of policyholders' funds with insurance liabilities as and when global bond yields move closer to long term expectations

All investments are financial assets measured at fair value through profit or loss. Movements in interest rates impact the fair value of interest-bearing financial assets and therefore impact reported profit after tax. The impact of a 0.5% increase or decrease in interest rates on interest-bearing financial assets owned by the Group at the balance date is shown in the table below.

	SENSITIVITY %	PROFIT (LOSS) ¹	
		2017 US\$M	2016 US\$M
Interest rate movement – interest-bearing financial assets	+0.5	(129)	(118)
	-0.5	118	109
Interest rate movement – high yield and emerging market debt	+0.5	–	(9)
	-0.5	–	9

1 Net of tax at the Group's prima facie income tax rate of 30%.

Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

QBE is exposed to price risk on its investment in equities and may use derivative financial instruments to manage this exposure. The risk management processes over these derivative financial instruments are the same as those already explained in respect of interest rate derivative financial instruments. Exposure is also managed by diversification across worldwide markets and currencies.

All equities are measured at fair value through profit or loss. The impact of a 20% increase or decrease in the value of investments owned by the Group at the balance date on consolidated profit after tax is shown in the table below.

	SENSITIVITY %	PROFIT (LOSS) ¹	
		2017 US\$M	2016 US\$M
ASX 200	+20	15	18
	-20	(15)	(18)
FTSE 100	+20	9	15
	-20	(9)	(15)
EURO STOXX	+20	27	16
	-20	(27)	(16)
S&P 500	+20	15	21
	-20	(15)	(21)
MSCI Emerging Markets Index	+20	15	5
	-20	(15)	(5)
Infrastructure assets ²	+20	125	34
	-20	(125)	(34)
Private equity ²	+20	11	2
	-20	(11)	(2)
Alternatives ²	+20	–	26
	-20	–	(26)

1 Net of tax at the Group's prima facie income tax rate of 30%.

2 Infrastructure assets and private equity investments were previously disclosed as part of alternatives. Comparatives have been restated for consistency.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

QBE is also exposed to price risk on its interest-bearing (fixed interest, high yield and emerging market debt) financial assets. All securities are measured at fair value through profit or loss.

Movements in credit spreads impact the value of corporate interest-bearing securities, emerging market debt, and high yield debt and therefore impact reported profit after tax. This risk is managed by investing in high quality, liquid interest-bearing securities and by managing the credit spread duration of the corporate securities portfolio.

The impact of either a 0.5% increase or decrease in credit spreads on interest-bearing financial assets held by the Group at the balance date is shown in the table below.

	SENSITIVITY %	PROFIT (LOSS) ¹	
		2017 US\$M	2016 US\$M
Credit spread movement – corporate interest-bearing financial assets	+0.5	(107)	(113)
	-0.5	68	98
Credit spread movement – high yield and emerging market debt	+0.5	–	(5)
	-0.5	–	5

¹ Net of tax at the Group's prima facie income tax rate of 30%.

QBE is also exposed to price risk on its investment in unlisted property trusts. All unlisted property trust investments are measured at fair value through profit or loss. QBE manages this risk by investing in high quality, diversified unlisted property funds. Movements in unit prices impact the value of unlisted property trusts and therefore impact reported profit after tax. The impact of a 10% increase or decrease in unit prices of unlisted property trust securities owned by the Group at the balance date was \$76 million (2016 \$72 million) net of tax at the Group's prima facie income tax rate of 30%.

Foreign exchange

QBE's approach to foreign exchange management is underpinned by the Group's foreign currency strategy. The Group's foreign exchange exposure generally arises as a result of either the translation of foreign currency amounts to the functional currency of a controlled entity (operational currency risk) or due to the translation of the Group's net investment in foreign operations to the functional currency of the parent entity of Australian dollars and to QBE's presentation currency of US dollars (currency translation risk).

Operational currency risk

Operational currency risk is managed as follows:

- each controlled entity manages the volatility arising from changes in foreign exchange rates by matching liabilities with assets of the same currency, as far as is practicable, thus ensuring that any exposures to foreign currencies are minimised; and
- forward foreign exchange contracts are used where possible to protect residual currency positions. These forward foreign exchange contracts are accounted for in accordance with the derivatives accounting policy set out in note 5.6.

Foreign exchange gains or losses arising from operational foreign currency exposures are reported in profit or loss consistent with the gains or losses from related forward foreign exchange contracts. The risk management process covering the use of forward foreign exchange contracts involves close senior management scrutiny. All forward foreign exchange contracts are subject to delegated authority levels provided to management and the levels of exposure are reviewed on an ongoing basis.

The Group's aim is to mitigate, where possible, its operational foreign currency exposures at a controlled entity level. From time to time, the company or controlled entities may maintain an operational foreign currency exposure to offset currency volatility arising from translation of foreign currency forecast profits, subject to senior management approval and adherence to Board approved limits.

The analysis below demonstrates the impact on profit after income tax of a 10% strengthening or weakening of the major currencies against the functional currencies of the underlying QBE Group entities for which the Group has a material exposure at the balance date. The exposures below reflect the aggregation of operational currency exposures of multiple entities with different functional currencies. The sensitivity is measured with reference to the Group's residual (or unmatched) operational foreign currency exposures at the balance date. Operational foreign exchange gains or losses are recognised in profit or loss in accordance with the policy set out in note 1.2.3. The sensitivities provided demonstrate the impact of a change in one key variable in isolation whilst other assumptions remain unchanged.

4.

The sensitivities shown in the table below are relevant only at the balance sheet date, as any unmatched exposures are actively monitored by management and the exposure subsequently matched.

EXPOSURE CURRENCY	2017			2016		
	RESIDUAL EXPOSURE US\$M	SENSITIVITY %	PROFIT (LOSS) ¹ US\$M	RESIDUAL EXPOSURE US\$M	SENSITIVITY %	PROFIT (LOSS) ¹ US\$M
US dollar	330	+10 -10	23 (23)	277	+10 -10	19 (19)
New Zealand dollar	(1)	+10 -10	– –	(123)	+10 -10	(9) 9
Euro	(27)	+10 -10	(2) 2	20	+10 -10	1 (1)

¹ Net of tax at the Group's prima facie income tax rate of 30%.

Currency risk in relation to translation of net investments in foreign operations

QBE is exposed to currency risk in relation to:

- the translation of the ultimate parent entity's net investments in foreign operations to its functional currency of Australian dollars; and
- the translation of all foreign operations to the presentation currency of US dollars.

QBE does not ordinarily seek to use derivatives to mitigate currency translation risk on translation to the ultimate parent's functional currency of Australian dollars for the following reasons:

- currency translation gains and losses generally have no cash flow;
- currency translation gains and losses are accounted for in the foreign currency translation reserve (a component of equity) and therefore do not impact profit or loss unless the related foreign operation is disposed of; and
- management of translation risk needs to be balanced against the impact on capital requirements and liquidity risk.

In periods of extraordinary volatility that are expected to persist for an extended period of time, QBE may elect to utilise derivatives to mitigate currency translation risk to preserve capital.

Currency translation risk in relation to QBE's investments in foreign operations is monitored on an ongoing basis and may be mitigated by designation of foreign currency borrowings as a hedge of this risk. Any debt security that qualifies as a hedging instrument may be designated as a hedge of the Australian dollar parent entity's net investment in foreign operations and any residual exposure to foreign operations in tradeable currencies may be hedged up to the limit specified in the Group risk appetite statement. The extent of hedging this exposure is carefully managed to ensure an appropriate balance between currency risk and associated risks such as liquidity risk and stability of capital adequacy levels.

Currency management processes are actively monitored by the Group Treasurer and involve close senior management scrutiny. All hedge transactions are subject to delegated authority levels provided to management, and the levels of exposure are reviewed on an ongoing basis. All instruments that are designated as hedges in accordance with AASB 139 are tested for effectiveness on both a prospective and a retrospective basis. These tests are performed at least quarterly.

At the balance date, derivatives with a net exposure of \$1,539 million (2016 \$945 million) and borrowings and accrued interest of \$2,166 million (2016 \$3,125 million) were designated as hedges of net investments in foreign operations.

Foreign exchange gains or losses arising on translation of the Group's foreign operations from the parent entity's functional currency of Australian dollars to the Group's US dollar presentation currency are recognised directly in equity in accordance with the policy set out in note 1.2.3. The Group cannot hedge this exposure.

Notes to the financial statements CONTINUED

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The analysis below demonstrates the impact on equity of a 10% strengthening or weakening against the US dollar of the major currencies to which QBE is exposed through its net investment in foreign operations. The basis for the sensitivity calculation is the Group's actual residual exposure at the balance date.

EXPOSURE CURRENCY	2017			2016		
	RESIDUAL EXPOSURE US\$M	SENSITIVITY %	EQUITY INCREASE (DECREASE) US\$M	RESIDUAL EXPOSURE US\$M	SENSITIVITY %	EQUITY INCREASE (DECREASE) US\$M
Australian dollar	6,796	+10 -10	680 (680)	6,064	+10 -10	606 (606)
Euro	834	+10 -10	83 (83)	771	+10 -10	77 (77)
Sterling	417	+10 -10	42 (42)	193	+10 -10	19 (19)
Hong Kong dollar	235	+10 -10	24 (24)	158	+10 -10	16 (16)
New Zealand dollar	131	+10 -10	13 (13)	157	+10 -10	16 (16)
Singapore dollar	129	+10 -10	13 (13)	128	+10 -10	13 (13)
Argentinian peso	110	+10 -10	11 (11)	119	+10 -10	12 (12)
Colombian peso	20	+10 -10	2 (2)	42	+10 -10	4 (4)

4.

4.5 Liquidity risk



Overview

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due to policyholders and creditors or only being able to achieve the required level of liquidity at excessive cost. The Group's liquidity risk arises due to the nature of insurance activities where the timing and amount of cash outflows are uncertain.

QBE's approach to managing liquidity risk is underpinned by the Group liquidity risk appetite as set by the Group Board and is summarised below.

QBE manages liquidity risk using a number of tools, as follows:

- cash flow targeting;
- maintaining a proportion of liabilities in liquid assets;
- cash flow forecasting; and
- stress testing and contingency planning.

Liquidity is managed across the Group using a number of cash flow forecasting and targeting tools and techniques. Cash flow forecasting and targeting is conducted at a legal entity level and involves actively managing operational cash flow requirements.

To supplement the cash flow targeting and to ensure that there are sufficient liquid funds available to meet insurance and investment obligations, a minimum percentage of QBE's liabilities is held, at all times, in cash and liquid securities. QBE also maintains a defined proportion of the funds under management in liquid assets.

QBE actively forecasts cash flow requirements to identify future cash surpluses and shortages to optimise invested cash balances and limit unexpected calls from the investment pool. The Group limits the risk of liquidity shortfalls resulting from mismatches in the timing of claims payments and receipts of claims recoveries by negotiating cash call clauses in reinsurance contracts and seeking accelerated settlements for large reinsurance recoveries.

The following table summarises the maturity profile of the Group's financial liabilities based on the remaining contractual obligations. Borrowings and contractual undiscounted interest payments are disclosed by reference to the first call date of the borrowings, details of which are included in note 5.1.

	LESS THAN ONE YEAR US\$M	13 TO 36 MONTHS US\$M	37 TO 60 MONTHS US\$M	OVER 5 YEARS US\$M	NO FIXED TERM US\$M	TOTAL US\$M
As at 31 December 2017						
Forward foreign exchange contracts	143	1	–	–	–	144
Trade payables	1,258	137	23	62	3	1,483
Other payables and accrued expenses	704	41	–	–	–	745
Treasury payables	27	–	9	–	–	36
Investment payables	54	–	9	–	–	63
Borrowings ¹	7	–	956	2,267	400	3,630
Contractual undiscounted interest payments	216	429	372	335	–	1,352
As at 31 December 2016						
Forward foreign exchange contracts	47	100	–	–	–	147
Trade payables	1,050	75	26	18	3	1,172
Other payables and accrued expenses	612	–	–	–	–	612
Treasury payables	22	–	–	–	–	22
Investment payables	333	–	–	–	–	333
Borrowings ¹	10	600	353	2,221	301	3,485
Contractual undiscounted interest payments	191	345	322	420	–	1,278

¹ Excludes capitalised finance costs of \$14 million (2016 \$11 million).

The maturity profile of the Group's net discounted central estimate is analysed in note 2.3.6.

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FOR THE YEAR ENDED 31 DECEMBER 2017

The maturity of the Group's directly held interest-bearing financial assets is shown in the table below. Interest bearing assets held indirectly through collective investment schemes (such as high yield debt and emerging market debt) are excluded from the analysis.

		INTEREST-BEARING FINANCIAL ASSETS MATURING IN						TOTAL
		LESS THAN ONE YEAR	13 TO 24 MONTHS	25 TO 36 MONTHS	37 TO 48 MONTHS	49 TO 60 MONTHS	OVER 5 YEARS	
As at 31 December 2017								
Fixed rate	US\$M	4,807	4,498	4,021	2,517	1,779	457	18,079
Weighted average interest rate	%	2.2	1.9	1.8	2.2	1.8	2.6	2.0
Floating rate	US\$M	1,716	509	1,033	505	85	1,517	5,365
Weighted average interest rate	%	1.4	2.3	2.0	2.1	2.8	2.7	2.0
As at 31 December 2016								
Fixed rate	US\$M	5,916	1,648	1,770	1,622	2,226	1,554	14,736
Weighted average interest rate	%	1.7	2.2	1.8	2.1	2.0	1.9	1.9
Floating rate	US\$M	1,879	1,214	916	1,281	685	1,919	7,894
Weighted average interest rate	%	1.4	1.9	2.0	1.6	2.4	2.9	2.0

4.6 Operational risk



Overview

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events (including legal risk).

Operational risk can materialise in a number of forms including fraud perpetrated by employees or by external parties (e.g. claims fraud or cyber attacks), employment practices (losses arising from breaches of employment, health or safety laws, breach of employment contracts, payment of personal injury claims or diversity and discrimination events), improper business practices (failure to meet professional obligations or issues with the nature or design of an insurance product), disasters and other events, technology and infrastructure failures, or business and transaction processing failures.

QBE's approach to managing operational risk is underpinned by the Group operational risk appetite as set by the Group Board and is summarised below.

QBE identifies and assesses operational risk through Risk and Control Assessment (RCA), Divisional Risk Assessment (DRA), top risks and emerging risks processes and scenario analysis. The RCA process identifies and assesses the key risks to achieving business objectives and is conducted at the business unit level. The DRA process creates a single, divisional-level view of risk across all QBE risk categories. The top risks process involves the identification and assessment of the key risks relating to the Group and each division by their respective CEOs. The emerging risks process identifies and assesses new risks, which are characterised by incomplete but developing knowledge or existing risks that develop in new or surprising ways. The scenario analysis process assesses the impact of potentially extreme scenarios and the appropriateness of our contingency planning.

QBE manages operational risk through various systems, controls and processes, including effective segregation of duties, access controls, authorisations and reconciliation procedures, business continuity management, fraud management, information security and physical security. QBE monitors operational risk through control assurance, key risk indicators and internal loss events and issues and actions. Another key tool used by QBE is the targeted risk review process whereby reviews are conducted to identify whether there are any unmitigated risks or inadequacies in control design and provide recommendations to enhance the management of risk. The reviews are generally conducted by the Group's risk management and compliance function (the second line of defence) and involve various risk management techniques and approaches.

4.

4.7 Group risk

**Overview**

Group risk is the risk to a division arising specifically from being part of the wider QBE Group, including financial impact and loss of support from the parent company.

The sources of Group risk may include Group initiatives or strategies with a material impact on one or more divisions, shared global reinsurance programs, inter-company loans and shared use of centralised group functions (e.g. Group Procurement and Group IT). Group risk also includes the potential risk from reputational contagion.

QBE's approach to managing Group risk is underpinned by the Group risk appetite as set by the Group Board and is summarised below.

QBE identifies and assesses Group risk using the Risk and Control Assessment (RCA) and Divisional Risk Assessment (DRA).

QBE manages Group risk through various systems, controls and processes, including the use of Group intercompany transactions and balances accounting guidance, transfer pricing guidelines and investment management agreements. In the instance of a reputational event, the Group Crisis Management Plan would be invoked to coordinate and manage the Group's response to such an event.

Notes to the financial statements CONTINUED

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5. CAPITAL STRUCTURE



Overview

QBE's objective in managing capital is to maintain an optimal balance between debt and equity in order to reduce the overall cost of capital whilst satisfying the capital adequacy requirements of regulators and rating agencies, providing financial security for our policyholders and continuing to provide an adequate return to shareholders.

QBE is listed on the ASX and its equity is denominated in Australian dollars. The Group also accesses international debt markets to diversify its funding base and maintain an appropriate amount of leverage. Debt is diversified across currencies, tenure and levels of seniority.

Details of the Group's approach to capital risk management are disclosed in note 4.1.

5.1 Borrowings

FINAL MATURITY DATE	PRINCIPAL AMOUNT	2017 US\$M	2016 US\$M
Bank loans			
21 March 2018	\$10 million facility	7	10
		7	10
Senior debt			
1 May 2018	Nil (2016 \$600 million)	–	599
21 October 2022	\$300 million (2016 nil)	299	–
25 May 2023	\$300 million (2016 nil)	297	–
		596	599
Subordinated debt			
29 September 2040	A\$200 million	156	144
24 May 2041	\$167 million	167	167
24 May 2041	£24 million (2016 £34 million)	33	42
24 May 2042	£327 million	402	362
24 November 2043	\$400 million	400	400
2 December 2044	\$700 million	696	695
12 November 2045	\$300 million	300	300
17 June 2046	\$524 million	460	455
		2,614	2,565
Additional Tier 1 instruments			
No fixed date	\$400 million (2016 nil)	399	–
		399	–
Capital securities			
No fixed date	Nil (2016 \$301 million)	–	300
		–	300
Total borrowings¹		3,616	3,474
Amounts maturing within 12 months		7	10
Amounts maturing in greater than 12 months		3,609	3,464
Total borrowings		3,616	3,474

¹ Finance costs of \$5 million (2016 \$9 million) were capitalised in the year.

Senior debt

Senior notes due 2018

On 1 May 2013, the company issued \$600 million of senior notes maturing on 1 May 2018. On 29 December 2017, the notes were fully redeemed for cash.

Senior notes due 2022

On 21 April 2017, the company issued \$300 million of senior notes maturing on 21 October 2022. The notes are unsecured and unsubordinated obligations of the company and will rank equally among themselves and, subject to certain exceptions in relation to ranking, with all other unsecured existing and future unsubordinated indebtedness of the company. The securities entitle holders to receive interest at a fixed rate of 3.0% per annum payable semi-annually in arrears. The notes were issued under the QBE Green Bond Framework, details of which can be found on QBE's website.

5.

Senior notes due 2023

On 21 September 2017, the company issued \$300 million of senior notes maturing on 25 May 2023. The notes are unsecured and unsubordinated obligations of the company and will rank equally among themselves and, subject to certain exceptions in relation to ranking, with all other unsecured existing and future unsubordinated indebtedness of the company. The securities entitle holders to receive interest at a fixed rate of 3.0% per annum payable semi-annually in arrears.

Subordinated debt**Subordinated debt due 2040**

On 29 September 2015, the company raised A\$200 million through the issue of subordinated debt securities with a 25 year maturity. The securities entitle the holders to receive interest at the 90 day average mid-rate bank bill rate plus a margin of 4%. Interest is payable quarterly in arrears.

The securities are redeemable at the option of QBE, with the written approval of APRA, on 29 September 2020 and on each subsequent interest payment date during the 12 months following or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares, or written off, if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the volume-weighted average price (VWAP) of the shares in the five trading days before the date of issue of the securities.

Subordinated debt due 2041

On 24 May 2011, QBE raised \$1,000 million and £325 million through the issue of subordinated debt securities with a 30 year maturity. The securities entitle holders to receive interest at a fixed rate of 7.25% and 7.5% per annum respectively until 24 May 2021, at which time the rate will reset to a 10 year mid-market swap rate plus a margin of 4.05% and 4.0% per annum respectively. The rate will reset again, on the same basis, on 24 May 2031. Interest is payable semi-annually in arrears.

The securities are redeemable at the option of QBE, with the written approval of APRA, on 24 May 2021, 24 May 2031 or in the event of:

- certain tax and US investment company registration events, which allow a redemption at any time; or
- certain regulatory and rating agency equity credit events which allow redemption at any time after 24 May 2016.

During 2016, the Group exchanged \$828 million of the \$1,000 million and £291 million of the £325 million, details of which are set out below, and repurchased \$5 million for cash.

During 2017, the Group repurchased a further £10 million for cash.

Subordinated debt due 2042

On 19 May 2016, QBE exchanged £291 million of the subordinated debt securities due 2041 for £327 million of subordinated debt securities due 2042. The securities have a 26 year maturity and entitle holders to receive a fixed rate coupon of 6.115% per annum until 24 May 2022. The rate will reset in 2022, 2027, 2032 and 2037 to a rate calculated by reference to the then five year mid-market swap rate plus a margin of 5.0%. Interest is payable semi-annually in arrears.

The securities are redeemable at the option of QBE, with the written approval of APRA, on each interest reset date or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares, or written off, if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the VWAP of the shares in the five trading days before the date of issue of the securities.

Subordinated debt due 2043

On 17 November 2016, QBE exchanged \$372 million of the subordinated debt securities due 2041 for \$372 million of subordinated debt due 2043. On 28 November 2016, QBE raised an additional \$28 million through the same subordinated debt issue. The securities have a 27 year maturity and entitle holders to receive a fixed rate coupon of 7.50% per annum until 24 November 2023. The rate will reset in 2023 and 2033 to a rate calculated by reference to the then 10 year US dollar swap rate plus a margin of 6.03%. Interest is payable semi-annually in arrears.

QBE has an option to defer payment of interest in certain circumstances and such deferral will not constitute an event of default.

The securities are redeemable at the option of QBE, with the written approval of APRA, on each interest reset date or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares, or written off, if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the VWAP of the shares in the five trading days before the date of issue of the securities.

Subordinated debt due 2044

On 2 December 2014, the company raised \$700 million through the issue of subordinated debt securities with a 30 year maturity. The securities entitle holders to receive interest at a fixed rate of 6.75% per annum until 2 December 2024, at which time the rate will reset to a 10 year mid-market swap rate plus a margin of 4.3%. The rate will reset again, on the same basis, on 2 December 2034. Interest is payable semi-annually in arrears.

The securities are redeemable at the option of QBE, with the written approval of APRA, on 2 December 2024, 2 December 2034 or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares or written off if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the VWAP of the shares in the five trading days before the date of issue of the securities.

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Subordinated debt due 2045

On 12 November 2015, the company raised \$300 million through the issue of subordinated debt securities with a 30 year maturity. The securities entitle holders to receive interest at a fixed rate of 6.1% per annum until 12 November 2025, at which time the rate will reset to a 10 year mid-market swap rate plus a margin of 3.993%. The rate will reset again, on the same basis, on 12 November 2035. Interest is payable semi-annually in arrears.

The securities are redeemable at the option of QBE, with the written approval of APRA, on 12 November 2025 and 12 November 2035 or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares or written off if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the VWAP of the shares in the five trading days before the date of issue of the securities.

Subordinated debt due 2046

On 17 June 2016, QBE exchanged \$456 million of the \$1,000 million of the subordinated debt securities due 2041 for \$524 million of subordinated debt due 2046. The subordinated debt securities have a 30 year maturity and entitle holders to receive a fixed rate coupon of 5.875% per annum until 17 June 2026. The rate will reset in 2026 and 2036 to a rate calculated by reference to the then 10 year mid-market swap rate plus a margin of 4.395%. Interest is payable semi-annually in arrears.

The securities are redeemable at the option of QBE, with the written approval of APRA, on each interest reset date or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares, or written off, if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the VWAP of the shares in the five trading days before the date of issue of the securities.

Security arrangements

The claims of bondholders pursuant to the subordinated debt will be subordinated in right of payment to the claims of all senior creditors.

Additional Tier 1 instruments

In November 2017, the company issued \$400 million of perpetual capital notes. These notes entitle holders to receive a fixed rate coupon of 5.25% per annum payable semi-annually in arrears until 16 May 2025. The rate will reset in May 2025 and on every fifth anniversary thereafter by reference to a reset rate to be determined at that time plus a margin of 3.047%. Distributions are discretionary and non-cumulative and the notes have no fixed redemption date.

The notes are redeemable at the option of QBE, with the prior written approval of APRA, on each interest reset date or at any time in the event of certain tax or regulatory events. In the event that APRA were to declare a point of non-viability, the notes must be converted into a variable number of QBE ordinary shares (in accordance with a predetermined formula) and if not converted within five business days then the notes must be written off.

The notes were issued under the QBE Gender Equality Bond Framework, details of which can be found on the QBE website.

Capital securities

In 2007, QBE issued \$550 million of subordinated capital securities. Between 2008 and 2012, \$249 million of capital securities were repurchased by the Group for cash at a discount, and were held on the balance sheets of Group entities as an investment asset. The assets and the corresponding liabilities are eliminated on consolidation in the Group's balance sheet and the interest income and expense is eliminated on consolidation in the profit or loss.

On 1 June 2017, QBE repurchased the remaining capital securities and subsequently cancelled them in full.

5.

5.1.1 Fair value of borrowings

	2017 US\$M	2016 US\$M
Bank loans	7	10
Senior debt	589	601
Subordinated debt	3,056	2,833
Additional Tier 1 instruments	407	–
Capital securities	–	304
Total borrowings	4,059	3,748

Consistent with other financial instruments, QBE is required to disclose the basis of valuation with reference to the fair value hierarchy which is explained in detail in note 3.2.1. The fair value of the Group's borrowings are categorised as level 2 fair value measurements. Fixed and floating rate securities are priced using broker quotes and comparable prices for similar instruments in active markets. Where no active market exists, floating rate resettable notes are priced using par plus accrued interest.



How we account for the numbers

Borrowings are initially measured at fair value net of transaction costs directly attributable to the transaction and are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised through profit or loss over the period of the financial liability using the effective interest method.

5.1.2 Financing and other costs

	2017 US\$M	2016 US\$M
Financing costs	248	252
Other costs ¹	57	42
Total financing and other costs	305	294

1 2017 includes costs relating to the shareholder class action proceedings which the Group agreed to settle on 28 December 2017 without any admission of liability, subject to Court approval. No further impact on profit or loss is expected from this matter. 2016 includes a \$12 million write down of contingent consideration recognised in relation to the sale of Australian agencies in 2015 and a \$30 million cost of discontinuing certain North American agency relationships.

5.1.3 Movement in borrowings

	2017 US\$M	2016 US\$M
At 1 January	3,474	3,529
Changes from financing cash flows	79	17
Other non-cash changes	14	10
Foreign exchange	49	(82)
At 31 December	3,616	3,474

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

5.2 Cash and cash equivalents

	2017 US\$M	2016 US\$M
Fixed interest rate	30	30
Floating interest rate	542	817
	572	847

Restrictions on use

Included in cash and cash equivalents are amounts totalling \$60 million (2016 \$76 million) which are held in Lloyd's syndicate trust funds. In order to conduct underwriting business within some territories, Lloyd's syndicates are required to lodge assets in locally regulated trust funds. Under Lloyd's byelaws, these amounts can only be used to pay claims and allowable expenses of the syndicates and cannot be withdrawn from the trust funds until allowed to be distributed as profit once annual solvency requirements are met.

QBE has operations in many countries which have foreign exchange controls and regulations. The nature of the controls and regulations is highly dependent on the relevant country's banking practices, and these practices can vary from simple reporting requirements to outright prohibition of movement of funds without explicit prior central bank approval. The impact of these controls and regulations may be the restriction of the Group's capacity to repatriate capital and/or profits. Whilst QBE's operations in these countries are generally small, foreign exchange controls and regulations may impact our ability to repatriate funds.



How we account for the numbers

Cash and cash equivalents include cash at bank and on hand and deposits at call which are readily convertible to cash on hand and which are used for operational cash requirements. Amounts in cash and cash equivalents are the same as those included in the statement of cash flows.

The reconciliation of profit after income tax to cash flows from operating activities is included in note 8.3.

5.3 Equity and reserves



Overview

Ordinary shares in the company rank after all creditors, have no par value and entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

5.3.1 Share capital

	2017		2016	
	NUMBER OF SHARES MILLIONS	US\$M	NUMBER OF SHARES MILLIONS	US\$M
Issued ordinary shares, fully paid at 1 January	1,370	8,350	1,370	8,440
Shares issued under the Employee Share and Option Plan	–	1	–	1
Shares issued under bonus share plan	1	–	–	–
Shares bought back on-market and cancelled	(13)	(108)	–	–
Foreign exchange	–	688	–	(91)
Issued ordinary shares, fully paid at 31 December	1,358	8,931	1,370	8,350
Shares notified to the Australian Securities Exchange	1,359	8,937	1,371	8,357
Less: Plan shares subject to non-recourse loans, derecognised under IFRS	(1)	(6)	(1)	(7)
Issued ordinary shares, fully paid at 31 December	1,358	8,931	1,370	8,350

5.

5.3.2 Reserves

	2017 US\$M	2016 US\$M
Owner occupied property revaluation reserve¹		
At 1 January	7	9
Valuation decrease	–	(1)
Reclassification on disposal of owner occupied property	–	(6)
Deferred taxation	–	2
Foreign exchange	–	3
At 31 December	7	7
Cash flow hedges reserve²		
At 1 January	–	–
Transfers into reserve	(1)	–
At 31 December	(1)	–
Foreign currency translation reserve³		
At 1 January	(1,867)	(1,426)
Losses on translation	(236)	(443)
Gains (losses) on hedging transactions	146	(31)
Taxation	(20)	33
At 31 December	(1,977)	(1,867)
Share-based payment reserve⁴		
At 1 January	220	208
Options and conditional rights expense	39	58
Transfers from reserve on vesting of options and conditional rights	(74)	(38)
Foreign exchange	17	(8)
At 31 December	202	220
Associates⁵		
At 1 January	1	1
Movement in the year	(1)	–
At 31 December	–	1
Premium on purchase of non-controlling interests⁶		
At 1 January	(15)	(40)
Net changes in non-controlling interests	–	25
Foreign exchange	(1)	–
At 31 December	(16)	(15)
Total reserves at 31 December	(1,785)	(1,654)

1 Used to recognise fair value movements in the carrying value of owner occupied property.

2 Used to record gains or losses on cash flow hedges that are recognised directly in equity.

3 Exchange gains and losses arising on translation of a foreign controlled entity and related hedging instruments are taken to the foreign currency translation reserve, information on which is provided in notes 1.2.3 and 4.4. In the event of the disposal of a relevant net investment, the related movement in the reserve is reclassified to profit or loss.

4 Used to recognise the fair value of instruments issued as share-based payments.

5 Used to recognise the Group's share of other comprehensive income of associates.

6 Used to recognise movements in ownership interest that do not result in a change of control and represents the difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

5.4 Dividends



Overview

The Group's dividend policy sets the dividend payout ratio in an ordinary year at up to 65% of full year cash profit with a likely weighting of 40% for the interim dividend and 60% for the final.

	2017	2016	
	INTERIM	FINAL	INTERIM
Dividend per share (Australian cents)	22	33	21
Franking percentage	30%	50%	50%
Franked amount per share (Australian cents)	6.6	16.5	10.5
Dividend payout (A\$M)	302	453	288
Payment date	29 Sep 2017	13 April 2017	28 Sep 2016

On 26 February 2018, the directors announced a 30% franked final dividend of four Australian cents per share payable on 20 April 2018. The final dividend payout is A\$54 million (2016 A\$453 million).

	2017 US\$M	2016 US\$M
Previous year final dividend on ordinary shares – 50% franked (2015 fully franked)	342	317
Interim dividend on ordinary shares – 30% franked (2016 50% franked)	236	220
Bonus Share Plan dividend forgone	(8)	(2)
Total dividend paid	570	535

Dividend Reinvestment and Bonus Share Plans

The company operates a Dividend Reinvestment Plan (DRP) and a Bonus Share Plan (BSP) which allow equity holders to receive their dividend entitlement in the form of QBE ordinary shares.

The last date of receipt of election notices to participate in the DRP or the BSP is 12 March 2018.

Bonus Share Plan dividend forgone

The amount paid in dividends during the year has been reduced as a result of certain eligible shareholders participating in the BSP and forgoing all or part of their right to dividends. These shareholders were issued ordinary shares under the BSP. During the year 914,246 (2016 320,027) ordinary shares were issued under the BSP.

Franking credits

The franking account balance on a tax paid basis at 31 December 2017 was a surplus of A\$199 million (2016 A\$301 million). After taking into account the impact of franking on the final dividend recommended by the Board since year end, but not recognised as a liability at year end, as well as franking credits relating to the tax payments for the 2017 financial year, the franking account balance will have a surplus of A\$257 million (2016 A\$113 million).

The unfranked part of the dividend is declared to be conduit foreign income. For shareholders not resident in Australia, the dividend will not be subject to Australian withholding tax.

5.

5.5 Earnings per share

**Overview**

Earnings per share (EPS) is the amount of profit or loss after tax attributable to each share. Diluted EPS adjusts the EPS for the impact of shares that are not yet issued but which may be in the future, such as shares potentially issuable from convertible notes, options and employee share-based payments plans.

	2017 US CENTS	2016 US CENTS
Basic (loss) earnings per share	(91.5)	61.6
Diluted (loss) earnings per share	(91.5)	60.8

5.5.1 Reconciliation of earnings used in calculating earnings per share

	2017 US\$M	2016 US\$M
Net (loss) profit after income tax attributable to ordinary equity holders of the company used in calculating basic earnings per share	(1,249)	844
Add: finance costs of convertible securities	–	–
(Loss) earnings used in calculating diluted earnings per share	(1,249)	844

5.5.2 Reconciliation of weighted average number of ordinary shares used in calculating earnings per share

	2017 NUMBER OF SHARES MILLIONS	2016 NUMBER OF SHARES MILLIONS
Weighted average number of ordinary shares on issue	1,365	1,371
Weighted average number of non-recourse loan shares issued under the Employee Share and Option Plan (the Plan)	(1)	(1)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,364	1,370
Weighted average number of dilutive potential ordinary shares issued under the Plan ¹	–	19
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	1,364	1,389

1 11 million (2016 nil) potential ordinary shares issued under the Plan were excluded from the calculation because they are antidilutive.

**How we account for the numbers****Basic earnings per share**

Basic earnings per share is calculated by dividing net profit after income tax attributable to members of the company, adjusted for the cost of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the earnings figure used in the determination of basic earnings per share to exclude the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and adjusts the weighted average number of shares assumed to have been issued for no consideration. It also adjusts the weighted average number of shares to include dilutive potential ordinary shares and instruments with a mandatory conversion feature.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

5.6 Derivatives



Overview

Derivatives may be used as a tool to hedge the Group's foreign exchange exposures. Each controlled entity manages operational foreign exchange volatility by matching liabilities with assets of the same currency, as far as practicable. Forward foreign exchange contracts are used to hedge residual currency exposures, with both the foreign exchange and derivatives impact reported through profit or loss. Forward foreign exchange contracts may also be used to hedge the company's exposure to its net investments in foreign operations.

Interest rate swaps are used to hedge exposure to interest rate movements on the Group's borrowings.

Refer to note 4.4 for additional information relating to QBE's approach to managing interest rate risk and currency risk.

The Group's exposure to treasury derivatives at the balance date is set out in the table below:

	2017			2016		
	EXPOSURE US\$M	FAIR VALUE ASSET US\$M	FAIR VALUE LIABILITY US\$M	EXPOSURE US\$M	FAIR VALUE ASSET US\$M	FAIR VALUE LIABILITY US\$M
Forward foreign exchange contracts	3,386	223	144	1,731	151	147
Interest rate swaps	156	–	–	144	–	–

Forward foreign exchange contracts and interest rate swaps are categorised as level 2 in the fair value hierarchy. They are fair valued using present value techniques utilising observable market data including foreign exchange rates, forward rates and yield curves.



How we account for the numbers

Derivatives are initially recognised at fair value and are subsequently remeasured at fair value through profit or loss unless hedge accounting is applied.

In accordance with the criteria for hedge accounting, when a financial instrument is designated as being in a hedge relationship, the relevant controlled entity formally documents the relationship between the hedging instrument and hedged item, as well as its risk management objectives and its strategy for undertaking various hedging transactions. The relevant entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in fair values, cash flows or net investments in foreign operations.

Hedge accounting is discontinued when:

- the hedge no longer meets the criteria for hedge accounting;
- the hedging instrument expires or is sold, terminated or exercised;
- the hedged item matures, is sold or repaid; or
- the entity revokes the designation.

For qualifying cash flow hedges and hedges of net investments in foreign operations, the gain or loss associated with the effective portion of the hedge is initially recognised directly in other comprehensive income. The gain or loss on any ineffective portion of the hedging instrument is recognised through profit or loss immediately. In a cash flow hedge, when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is reclassified to profit or loss when the hedged item affects profit or loss. When a transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately reclassified to profit or loss. In hedges of net investments in foreign operations, the cumulative gain or loss is recycled to profit or loss on disposal.

6.

6. TAX



Overview

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 (note 6.1). 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.

Accounting income and expenses do not always have the same recognition pattern as taxable income and expenses, creating a timing difference as to when a tax expense or benefit can be recognised. These differences usually reverse over time but until they do, a deferred tax asset or liability is recognised on the balance sheet. Note 6.2 details the composition and movements in deferred tax balances and the key management assumptions applied in recognising tax losses.

The Group's approach to managing tax risk is disclosed in note 4.1.

Details of franking credits available to shareholders are disclosed in note 5.4.

6.1 Income tax

Reconciliation of prima facie tax to income tax expense:

	NOTE	2017 US\$M	2016 US\$M
(Loss) profit before income tax		(825)	1,072
Prima facie tax (credit) expense at 30%		(248)	322
Tax effect of non-temporary differences:			
Untaxed dividends		(8)	(6)
Change in US tax rate		230	–
Differences in tax rates		152	(58)
Other, including non-allowable expenses and non-taxable income ¹		204	10
Prima facie tax adjusted for non-temporary differences		330	268
Deferred tax assets de-recognised (re-recognised)		95	(51)
Under provision in prior years		3	11
Income tax expense		428	228
Analysed as follows:			
Current tax		248	269
Deferred tax		177	(52)
Under provision in prior years		3	11
		428	228
Deferred tax (credit) expense comprises:			
Deferred tax assets recognised in profit or loss	6.2.1	454	(50)
Deferred tax liabilities recognised in profit or loss	6.2.2	(277)	(2)
		177	(52)

¹ 2017 includes impact of goodwill impairment in North American Operations (note 7.2.1).

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017



How we account for the numbers

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries in which controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, as appropriate.

6.2 Deferred income tax

	NOTE	2017 US\$M	2016 US\$M
Deferred tax assets	6.2.1	514	778
Deferred tax liabilities	6.2.2	56	106

6.2.1 Deferred tax assets

The balance comprises temporary differences attributable to:

	NOTE	2017 US\$M	2016 US\$M
Amounts recognised in profit and loss			
Financial assets – fair value movements		1	4
Provision for impairment		18	20
Employee benefits		68	83
Intangible assets		158	219
Insurance provisions		348	532
Tax losses recognised		206	434
Other		178	128
		977	1,420
Amounts recognised in other comprehensive income and equity			
Capitalised expenses		1	1
Defined benefit plans		35	54
Other		3	3
		39	58
Deferred tax assets before set-off		1,016	1,478
Set-off of deferred tax liabilities	6.2.2	(502)	(700)
	6.2	514	778
Deferred tax assets before set-off analysed as follows:			
Recoverable within 12 months		59	74
Recoverable in greater than 12 months		957	1,404
		1,016	1,478

Movements:

	NOTE	2017 US\$M	2016 US\$M
At 1 January		1,478	1,446
Amounts recognised in profit or loss ¹	6.1	(454)	50
Amounts recognised in other comprehensive income ¹		(20)	4
Foreign exchange		12	(22)
At 31 December		1,016	1,478

¹ Includes the impact of the reduction of the US corporate tax rate to 21% which reduced the carrying value of the deferred tax asset in North American Operations by \$248 million. Of this, \$230 million was recognised in profit or loss and \$18 million was recognised in other comprehensive income.

6.

6.2.2 Deferred tax liabilities

The balance comprises temporary differences attributable to:

	NOTE	2017 US\$M	2016 US\$M
Amounts recognised in profit and loss			
Intangible assets		115	189
Insurance provisions		346	481
Financial assets – fair value movements		17	15
Other provisions		20	37
Other		56	82
		554	804
Amounts recognised in other comprehensive income and equity			
Owner occupied property		1	1
Defined benefit plans		3	1
		4	2
Deferred tax liabilities before set-off			
Set-off of deferred tax assets	6.2.1	(502)	(700)
	6.2	56	106
Deferred tax liabilities before set-off analysed as follows:			
Recoverable within 12 months		102	20
Recoverable in greater than 12 months		456	786
		558	806
Movements:			
	NOTE	2017 US\$M	2016 US\$M
At 1 January		806	855
Amounts recognised in profit or loss	6.1	(277)	(2)
Amounts recognised in other comprehensive income		2	(8)
Foreign exchange		27	(39)
At 31 December		558	806

**How we account for the numbers**

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill or if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset in the consolidated financial statements when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

6.2.3 Tax losses

The Group has not brought to account \$259 million (2016 \$192 million) of tax losses, which includes the benefit arising from tax losses in overseas countries. \$167 million of tax losses not brought to account have a life of between 2 and 20 years with the majority expiring in 15 to 20 years, and \$92 million have an indefinite life. This benefit will only be brought to account when the directors believe it is probable that it will be realised.

This benefit of tax losses will only be obtained if:

- the Group derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- the Group continues to comply with the conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.



Critical accounting judgements and estimates

Recoverability of deferred tax assets

QBE assesses the recoverability of deferred tax assets at each balance date. In making this assessment, QBE considers in particular the controlled entity's future business plans, history of generating taxable profits, whether the unused tax losses resulted from identifiable causes which are unlikely to recur and if any tax planning opportunities exist in the period in which the taxable losses can be utilised. Given the scope and complexity of the recent change in US tax legislation, QBE also recognises the potential for changes in interpretation as the legislation is tested in practice.

In North American Operations, a deferred tax asset of \$325 million (2016 \$573 million) has been recognised, comprising \$59 million (2016 \$388 million) of carry forward tax losses and \$266 million (2016 \$185 million) of deductible temporary differences, net of applicable offsetting deferred tax liabilities, as a result of insurance technical reserves and the tax deductibility of goodwill and other intangibles. Uncertainty continues to exist in relation to the utilisation of this asset which is subject to there being continued future taxable profits over the period of time in which the losses can be utilised. QBE has made a judgement that North American Operations will be able to generate sufficient taxable profits over the foreseeable future, based upon its future business plans. Key assumptions include a continuation of taxable profit driven by no material deterioration in the prior accident year central estimate, a sustained return to underwriting profitability, benefits flowing from initiatives to reduce the cost base of the division and future increases in investment yields.

Losses expire over the next 20 years, with the majority expiring between 2030 and 2034. The uncertainty around the recognition of the deferred tax asset will be resolved in future years if taxable profits are generated. Recovery of the asset continues to be sensitive to changes in the combined operating ratio, premium growth and investment yield assumptions as these items are the key drivers of future taxable income.

6.2.4 Tax consolidation legislation

On adoption of the tax consolidation legislation, the company and its wholly-owned Australian controlled entities entered into a tax sharing and tax funding agreement that requires the Australian entities to fully compensate the company for current tax liabilities and to be fully compensated by the company for any current tax or deferred tax assets in respect of tax losses arising from external transactions occurring after the date of implementation of the tax consolidation legislation. The contributions are allocated by reference to the notional taxable income of each Australian entity. The head entity is QBE Insurance Group Limited.

7.

7. GROUP STRUCTURE**Overview**

This section provides information to help users understand the QBE Group structure, including the impact of changes in the financial year. This includes acquisitions and disposals of businesses, intangible assets acquired or developed and the results of impairment reviews.

7.1 Acquisitions, disposals and assets held for sale**7.1.1 Acquisitions and disposals**

During the period, the Group disposed of Blue Ridge Indemnity Company, QBE Chile Seguros Generales, QBE Life (Australia) Limited and Southern Guaranty Insurance Company giving rise to a combined loss on sale of \$6 million.

7.1.2 Assets held for sale

Controlled entities classified as held for sale at the balance date were QBE Insurance (Thailand) Public Company Limited and Sinkaonamahasarn Company Limited, with net assets of \$35 million.

7.1.3 Classification of operations in Latin America as held for sale after the balance date

After 31 December 2017, the Group Board authorised a plan for the sale of operations in Argentina, Brazil, Colombia, Ecuador and Mexico. Sale agreements were subsequently entered into in late February 2018 with completion expected by the end of 2018, subject to regulatory approvals. The estimated aggregate consideration is \$409 million, subject to closing adjustments, resulting in an estimated gain on disposal of around \$100 million before reclassification of foreign currency translation reserve. After the reclassification of foreign currency translation reserve from equity to retained earnings through profit or loss, the estimated loss on disposal is around \$110 million.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

7.2 Intangible assets



Overview

Intangible assets are assets with no physical substance. The most significant classes of intangible assets are detailed below:

Lloyd's syndicate capacity

The Lloyd's syndicate capacity intangible asset relates to the syndicate capacity acquired as part of the acquisition of QBE Underwriting Limited (formerly trading as Limit) in 2000 and costs incurred as a result of increasing capacity since that date. Syndicate capacity is the aggregate of the premium limits of each member of that syndicate at a point in time. An existing capital provider has the first right to participate on the next year of account, giving the indefinite right to participate on all future years of account. The Group has demonstrated a long-term commitment to developing its operations at Lloyd's. The value of this asset is in the access it gives to future underwriting profits at Lloyd's. For these reasons, Lloyd's syndicate capacity is deemed to have an indefinite useful life.

Customer relationships

Customer relationships comprise the capitalisation of future profits relating to insurance contracts acquired and the expected renewal of those contracts. It also includes the value of the distribution networks and agency relationships. Customer relationships are amortised over remaining lives of up to 25 years depending on the classes of business to which the assets relate.

Brand names

These assets reflect the revenue generating ability of acquired brands. In some circumstances, brand names are considered to have an indefinite useful life due to the long-term nature of the asset. When there is a contractual limit on the use of the brand name, the asset is amortised over the remaining period, being in the range of up to 20 years.

Insurance licences

These assets give the Group the right to operate in certain geographic locations and to write certain classes of business with a potential to generate additional revenue. They are considered to have an indefinite useful life due to their long-term nature.

Software

This includes both acquired and internally developed software which is not integral or closely related to an item of hardware such as an underwriting system. Capitalised software is amortised over periods of up to 10 years, reflecting the period during which the Group is expected to benefit from the use of the software.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets acquired. Goodwill has an indefinite useful life and therefore is not subject to amortisation but is tested for impairment annually, or more often if there is an indication of impairment.

	IDENTIFIABLE INTANGIBLES						GOODWILL	TOTAL
	LLOYD'S SYNDICATE CAPACITY US\$M	CUSTOMER RELATION- SHIPS US\$M	BRAND NAMES US\$M	INSURANCE LICENCES US\$M	SOFTWARE US\$M	OTHER US\$M	US\$M	US\$M
2017								
Cost								
At 1 January	68	989	31	48	212	42	3,092	4,482
Additions/reclassifications	11	5	–	2	93	(6)	–	105
Disposals/transfers to assets held for sale ¹	–	(352)	(1)	(2)	(37)	(26)	(4)	(422)
Impairment	–	(6)	–	–	–	–	(700)	(706)
Foreign exchange	7	10	–	–	22	8	119	166
At 31 December	86	646	30	48	290	18	2,507	3,625
Amortisation								
At 1 January	–	(716)	(22)	–	(81)	(36)	–	(855)
Disposals/transfers to assets held for sale ¹	–	352	1	–	27	24	–	404
Amortisation ²	–	(42)	–	–	(33)	(2)	–	(77)
Foreign exchange	–	(5)	–	–	(12)	(1)	–	(18)
At 31 December	–	(411)	(21)	–	(99)	(15)	–	(546)
Carrying amount								
At 31 December	86	235	9	48	191	3	2,507	3,079

¹ Includes de-recognition of \$393 million of fully amortised intangible assets no longer in use.

² Amortisation of \$31 million is included in underwriting expenses as it relates to intangible assets integral to the Group's underwriting activities.

7.

2016	IDENTIFIABLE INTANGIBLES					GOODWILL	TOTAL	
	LLOYD'S SYNDICATE CAPACITY US\$M	CUSTOMER RELATION- SHIPS US\$M	BRAND NAMES US\$M	INSURANCE LICENCES US\$M	SOFTWARE US\$M	OTHER US\$M	US\$M	US\$M
Cost								
At 1 January	81	878	31	50	152	43	3,190	4,425
Additions/reclassifications	–	130	–	–	93	–	–	223
Disposals/transfer to assets held for sale	–	(5)	–	(2)	–	–	(2)	(9)
Impairment	–	(1)	–	–	–	–	(2)	(3)
Foreign exchange	(13)	(13)	–	–	(33)	(1)	(94)	(154)
At 31 December	68	989	31	48	212	42	3,092	4,482
Amortisation								
At 1 January	–	(692)	(22)	–	(73)	(34)	–	(821)
Disposals	–	3	–	–	–	–	–	3
Amortisation ¹	–	(40)	–	–	(29)	(2)	–	(71)
Foreign exchange	–	13	–	–	21	–	–	34
At 31 December	–	(716)	(22)	–	(81)	(36)	–	(855)
Carrying amount								
At 31 December	68	273	9	48	131	6	3,092	3,627

1 Amortisation of \$29 million is included in underwriting expenses as it relates to intangible assets integral to the Group's underwriting activities.



How we account for the numbers

Intangible assets are measured at cost less accumulated amortisation and impairment. Those with a finite useful life are amortised over their estimated useful life in accordance with the pattern of expected consumption of economic benefits, with amortisation expense reported in underwriting and other expenses or in amortisation and impairment of intangibles depending on the use of the asset. Intangible assets with an indefinite useful life are not subject to amortisation but are tested for impairment annually or more frequently if there are indicators of impairment. Intangible assets with a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

7.2.1 Impairment testing of intangible assets



Overview

An intangible asset's recoverable value is the greater of its value in use and its fair value less cost to sell.

For intangible assets with a finite life, if there are indicators that the intangible asset's recoverable value has fallen below its carrying value (e.g. due to changing market conditions), an impairment test is performed and a loss is recognised for the amount by which the carrying value exceeds the asset's recoverable value.

Intangible assets that have an indefinite useful life, such as goodwill, are tested annually for impairment or more frequently where there is an indication that the carrying amount may not be recoverable.

Goodwill is allocated to cash generating units, or groups of units, expected to benefit from synergies arising from the acquisition giving rise to the goodwill. Cash generating units or groups of cash generating units reflect the level at which goodwill is monitored for impairment by management. As the Group continues to acquire operations and reorganise the way that operations are managed, reporting structures may change, giving rise to a reassessment of cash generating units and/or the allocation of goodwill to those cash generating units.

The goodwill relating to certain acquisitions is denominated in currencies other than the US dollar and so is subject to foreign exchange movements.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

Goodwill is analysed by groups of cash generating units as follows:

	2017 US\$M	2016 US\$M
North American Operations	843	1,543
Australian & New Zealand Operations	1,217	1,128
European Operations	425	388
Other ¹	22	33
	2,507	3,092

¹ None of these cash generating units is individually significant.

Impairment losses

During 2017, \$700 million of goodwill in North American Operations was impaired. This was mainly due to updated assumptions in our business plan after consideration of second half year performance and taking into account the impact of a transaction in late 2017 to reinsure potentially volatile claims liabilities to a third party. Intangibles in Latin American Operations of \$6 million (2016 Australian & New Zealand Operations of \$3 million) were also impaired following management's review of expected future cash flows.



How we account for the numbers

Impairment testing of identifiable intangible assets

The recoverable amount of each intangible asset with an indefinite useful life has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

- cash flow forecasts relevant to the initial valuation of the identifiable intangible asset are reviewed and updated (if appropriate) by management. Cash flow forecasts are based on a combination of actual performance to date and management's expectations of future performance based on prevailing and anticipated market factors; and
- discount rates that include a beta and a market risk premium sourced from observable market information and a specific risk premium appropriate to reflect the nature of the risk associated with the intangible asset or the cash generating unit to which the asset is allocated.

Impairment testing of goodwill

The recoverable amount of each cash generating unit or group of cash generating units has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

- cash flow forecasts, including investment returns, based on the latest three year business plan. These forecasts are based on a combination of historical performance and management's expectations of future performance based on prevailing and anticipated market factors and the benefit of committed cost saving measures;
- terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year three. Growth rates reflect the long-term average of the countries relevant to the cash generating unit or group of cash generating units and are sourced from observable market information. The terminal growth rates used in management's impairment testing are: North American Operations 2.5% (2016 2.5%), Australian & New Zealand Operations 2.5% (2016 2.5%), European Operations 2.0% (2016 2.0%); and
- discount rates that reflect a beta and a market risk premium sourced from observable market information and a specific risk premium appropriate to reflect the nature of the business of each cash generating unit or group of cash generating units. The pre-tax discount rates used were: North American Operations 11.7% (2016 11.8%), Australian & New Zealand Operations 12.6% (2016 12.8%) and European Operations 8.9% (2016 9.6%). The post-tax discount rates used were: North American Operations 9.5% (2016 9.3%), Australian & New Zealand Operations 9.2% (2016 9.3%) and European Operations 7.6% (2016 8.0%). The slight increase in the post-tax discount rate applicable to North American Operations reflects an updated beta and long-term interest rate assumption as well as a revised tax impact due to the change in the US corporate tax rate.

7.



Critical accounting judgements and estimates

Uncertainty continues to exist in relation to the valuation of goodwill relating to North American Operations and, after recognising the above impairment, both the recoverable amount and the carrying value are \$3,176 million, resulting in nil headroom (2016 \$98 million) at the balance date. The goodwill impairment valuation therefore continues to be highly sensitive to a range of assumptions, in particular the forecast combined operating ratio used in the terminal value calculation, discount rate and long-term investment return. The impact of changes in key assumptions is shown in the table below and each change has been calculated in isolation from other changes. In practice, this is considered unlikely to occur due to interrelationships between assumptions.

KEY ASSUMPTION	ASSUMPTION %	SENSITIVITY %	IMPACT OF SENSITIVITY
Terminal value combined operating ratio	95.8	+1	Impairment of \$385 million
		-1	Increase headroom by \$382 million
Terminal value long-term investment return	4.25	+1	Increase headroom by \$415 million
		-1	Impairment of \$419 million
Post-tax discount rate	9.47	+1	Impairment of \$425 million
		-1	Increase headroom by \$565 million

7.3 Controlled entities



Overview

This section lists all of the Group's controlled entities. The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the company at 31 December 2017 and the results for the financial year then ended, or for the period during which control existed if the entity was acquired or disposed of during the financial year.

7.3.1 Controlled entities

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING	
		2017 %	2016 %
Ultimate parent entity			
QBE Insurance Group Limited	Australia		
Controlled entities			
Anex Jenni & Partner SA	Switzerland	100.00	100.00
Austral Mercantile Collections Pty Limited	Australia	100.00	100.00
Australian Aviation Underwriting Pool Pty Limited	Australia	100.00	100.00
Aviation Insurance Direct Pty Limited (dissolved 31 October 2017)	Australia	–	100.00
Aviation Underwriters of Asia Pacific Pty Limited (dissolved 31 October 2017)	Australia	–	100.00
Blue Ridge Indemnity Company (sold effective 1 April 2017) ¹	US	–	100.00
Burnett & Company, Inc.	US	100.00	100.00
C&C Cornejo & Cornejo CIA LTDA	Ecuador	99.50	99.50
CHU Underwriting Agencies (UK) Limited	UK	100.00	100.00
Colonial Insurance Agency Inc	Puerto Rico	100.00	100.00
Confoeta SA (liquidated 15 September 2017)	Ecuador	–	99.75
Elders Insurance (Underwriting Agency) Pty Limited	Australia	80.00	80.00
Equator Reinsurances Limited	Bermuda	100.00	100.00
FAI Insurances (Fiji) Limited (dormant)	Fiji	100.00	100.00
General Casualty Company of Wisconsin	US	100.00	100.00
General Casualty Insurance Company	US	100.00	100.00
Greenhill BAIA Underwriting GmbH	Germany	100.00	100.00
Greenhill International Insurance Holdings Limited	UK	100.00	100.00
Greenhill Sturge Underwriting Limited	UK	100.00	100.00

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	COUNTRY OF INCORPORATION/FORMATION	EQUITY HOLDING	
		2017 %	2016 %
Greenhill Underwriting Espana Limited	UK	100.00	100.00
Hoosier Insurance Company	US	100.00	100.00
Insurance Box Holdings Pty Limited	Australia	83.98	83.98
Insurance Box Pty Limited	Australia	83.98	83.98
Lifeco s.r.o.(dormant)	Czech Republic	100.00	100.00
MMWC Pty Limited (dissolved 31 October 2017)	Australia	–	100.00
National Farmers Union Property and Casualty Company	US	100.00	100.00
NAU Country Insurance Company	US	100.00	100.00
New Century Finance Corporation	Puerto Rico	100.00	100.00
North Pointe Insurance Company	US	100.00	100.00
OLS S.A. Operador Logistico del Ecuador (liquidated 10 February 2017)	Ecuador	–	99.98
Praetorian Insurance Company	US	100.00	100.00
PT QBE General Insurance Indonesia Formerly PT Asuransi QBE Pool Indonesia)	Indonesia	100.00	100.00
QBE (Jersey) GP II Limited (dissolved 16 October 2017)	Jersey	–	100.00
QBE (PNG) Limited	PNG	100.00	100.00
QBE Administration Services, Inc.	US	100.00	100.00
QBE Agencies Australia Holdings Pty Limited	Australia	100.00	100.00
QBE Agencies Holdings Pty Limited	Australia	100.00	100.00
QBE Americas, Inc.	US	100.00	100.00
QBE Asegurando LTDA (in liquidation)	Colombia	100.00	100.00
QBE Asia Pacific Holdings Limited	Hong Kong	100.00	100.00
QBE Atlantic, LLC (liquidated on 19 December 2017)	US	–	100.00
QBE Atlasz Ingatlankezelő zrt (in liquidation)	Hungary	100.00	100.00
QBE Brazil Seguros SA	Brazil	99.99	99.99
QBE Capital Funding II LP (dissolved 11 October 2017) ²	Jersey	–	–
QBE Capital Funding III Limited	Jersey	100.00	100.00
QBE Capital Funding IV Limited	Jersey	100.00	100.00
QBE Chile Seguros Generales SA (sold effective 19 May 2017) ¹	Chile	–	100.00
QBE Compania Argentina de Reaseguros SA	Argentina	100.00	100.00
QBE Corporate Limited	UK	100.00	100.00
QBE de Mexico Compania de Seguros SA de CV	Mexico	99.99	99.99
QBE Denmark A/S	Denmark	100.00	100.00
QBE Emerging Markets Holdings Pty Limited	Australia	100.00	100.00
QBE Employee Share Trust ²	Australia	–	–
QBE European Operations plc	UK	100.00	100.00
QBE European Services Limited	UK	100.00	100.00
QBE European Underwriting Services (Australia) Pty Limited	Australia	100.00	100.00
QBE Finance Holdings (EO) Limited	UK	100.00	100.00
QBE FIRST Enterprises, LLC	US	100.00	100.00
QBE FIRST Property Tax Solutions, LLC	US	100.00	100.00
QBE General Insurance (Hong Kong) Limited	Hong Kong	100.00	100.00
QBE Group Services Pty Ltd	Australia	100.00	100.00
QBE Group Shared Services Limited	UK	100.00	100.00
QBE Holdings (AAP) Pty Limited	Australia	100.00	100.00
QBE Holdings (EO) Limited	UK	100.00	100.00
QBE Holdings (Europe) Limited (dissolved 21 June 2017)	UK	–	100.00
QBE Holdings (LMI) Pty Limited (dissolved 31 October 2017)	Australia	–	100.00
QBE Holdings, Inc.	US	100.00	100.00
QBE Hongkong & Shanghai Insurance Limited	Hong Kong	74.47	74.47
QBE Insurance (Australia) Limited	Australia	100.00	100.00
QBE Insurance (Europe) Limited	UK	100.00	100.00
QBE Insurance (Fiji) Limited	Fiji	100.00	100.00
QBE Insurance (International) Pty Limited (formerly QBE Insurance (International) Limited)	Australia	100.00	100.00
QBE Insurance (Malaysia) Berhad	Malaysia	100.00	100.00
QBE Insurance (PNG) Limited	PNG	100.00	100.00
QBE Insurance (Singapore) Pte Ltd	Singapore	100.00	100.00
QBE Insurance (Thailand) Public Company Limited ³	Thailand	47.49	47.49
QBE Insurance (Vanuatu) Limited	Vanuatu	100.00	100.00

7.

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING	
		2017 %	2016 %
QBE Insurance (Vietnam) Company Limited	Vietnam	100.00	100.00
QBE Insurance Corporation	US	100.00	100.00
QBE Insurance Group of Puerto Rico Inc	Puerto Rico	100.00	100.00
QBE Insurance Holdings Pty Limited	Australia	100.00	100.00
QBE Insurance Services (Regional) Limited	UK	100.00	100.00
QBE Investments (Australia) Pty Limited	Australia	100.00	100.00
QBE Investments (North America), Inc.	US	100.00	100.00
QBE Irish Share Incentive Plan ²	Ireland	–	–
QBE Jersey Finance Limited (dissolved 19 October 2017)	Jersey	–	100.00
QBE Latin America Insurance Holdings Pty Ltd (formerly QBE Latin America Insurance Holdings SL)	Australia	100.00	100.00
QBE Lenders' Mortgage Insurance Limited	Australia	100.00	100.00
QBE Life (Australia) Limited ¹	Australia	–	100.00
QBE Management (Ireland) Limited	Ireland	100.00	100.00
QBE Management, Inc.	US	100.00	100.00
QBE Management Services (Philippines) Pty Limited	Australia	100.00	100.00
QBE Management Services (UK) Limited	UK	100.00	100.00
QBE Management Services Pty Limited	Australia	100.00	100.00
QBE Marine and Energy Services Pte Limited	Singapore	100.00	100.00
QBE Mortgage Insurance (Asia) Limited	Hong Kong	100.00	100.00
QBE Partner Services (Europe) LLP	UK	100.00	100.00
QBE Re (Europe) Limited	UK	100.00	100.00
QBE Re Services Pty Limited	Australia	100.00	100.00
QBE Regional Companies (N.A.), Inc.	US	100.00	100.00
QBE Reinsurance Corporation	US	100.00	100.00
QBE Seaboard Insurance Philippines Inc.	Philippines	59.50	59.50
QBE Seguros	Puerto Rico	100.00	100.00
QBE Seguros Colonial SA	Ecuador	100.00	100.00
QBE Seguros La Buenos Aires SA	Argentina	99.89	99.89
QBE Seguros SA	Colombia	98.85	98.85
QBE Services (Europe) Limited	UK	100.00	100.00
QBE Services Inc	Canada	100.00	100.00
QBE Servicios S.A. de C.V. (acquired 9 August 2017) ¹	Mexico	100.00	–
QBE SK s.r.o.	Slovakia	100.00	100.00
QBE Specialty Insurance Company	US	100.00	100.00
QBE s.r.o.	Czech Republic	100.00	100.00
QBE Stonington Insurance Holdings Inc	US	100.00	100.00
QBE Strategic Capital (Europe) Limited (formerly QBE Holdings (UK) Limited)	UK	100.00	100.00
QBE Strategic Capital Company Pty Limited	Australia	100.00	100.00
QBE UK Finance GP (dissolved 25 September 2017) ²	UK	–	–
QBE UK Finance III Limited (dissolved 28 February 2017)	UK	–	100.00
QBE UK Finance IV Limited	UK	100.00	100.00
QBE UK Share Incentive Plan ²	UK	–	–
QBE Underwriting Limited	UK	100.00	100.00
QBE Underwriting Services (Ireland) Limited	Ireland	100.00	100.00
QBE Underwriting Services (UK) Limited	UK	100.00	100.00
QBE Underwriting Services Limited	UK	100.00	100.00
QBE Workers Compensation (NSW) Limited	Australia	100.00	100.00
QBE Workers Compensation (SA) Limited (dissolved 31 October 2017)	Australia	–	100.00
QBE Workers Compensation (VIC) Pty Limited (formerly QBE workers Compensation (VIC) Limited)	Australia	100.00	100.00
Queensland Insurance (Investments) Limited	Fiji	100.00	100.00
Regent Insurance Company	US	100.00	100.00
Ridgwell Fox & Partners (Underwriting Management) Limited	UK	100.00	100.00
Sinkaonamahasarn Company Limited ⁴	Thailand	49.00	49.00
Southern Fire & Casualty Company	US	100.00	100.00
Southern Guaranty Insurance Company (sold effective 1 March 2017) ¹	US	–	100.00
Southern National Risk Management Corporation	US	100.00	100.00
Southern Pilot Insurance Company	US	100.00	100.00
Standfast Corporate Underwriters Limited	UK	100.00	100.00
Stonington Insurance Company	US	100.00	100.00
Strakh-Consult (in liquidation)	Ukraine	100.00	100.00

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	COUNTRY OF INCORPORATION/FORMATION	EQUITY HOLDING	
		2017 %	2016 %
Trade Credit Underwriting Agency NZ Limited	NZ	100.00	100.00
Trade Credit Underwriting Agency Pty Limited	Australia	100.00	100.00
Unigard Indemnity Company	US	100.00	100.00
Unigard Insurance Company	US	100.00	100.00
Westwood Insurance Agency	US	100.00	100.00

- 1 Disclosures relating to disposals of significant controlled entities are provided in note 7.1.1. The acquisition of QBE Servicios S.A. de C.V. had an immaterial impact.
- 2 QBE Capital Funding II LP, QBE Employee Share Trust, QBE Irish Share Incentive Plan, QBE UK Finance GP and QBE UK Share Incentive Plan have been included in the consolidated financial statements as these entities are special purpose entities that exist for the benefit of the Group.
- 3 For accounting purposes, QBE has management control of QBE Insurance (Thailand) Public Company Limited by reference to management agreements.
- 4 Although QBE has less than a 50% equity interest in Sinkaonamahasarn Company Limited, controlled entities have the right to acquire the remaining share capital.

All equity in controlled entities is held in the form of shares or through contractual arrangements.



How we account for the numbers

Controlled entities

Control exists when the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over it. All transactions between controlled entities are eliminated in full. Non-controlling interests in the results and equity of controlled entities are shown separately in the consolidated statement of comprehensive income, balance sheet and statement of changes in equity.

Where control of an entity commences during a financial year, its results are included in the consolidated statement of comprehensive income from the date on which control is obtained. Where control of an entity ceases during a financial year, its results are included for that part of the year during which the control existed.

A change in ownership of a controlled entity without the gain or loss of control is accounted for as an equity transaction.

8.

8. OTHER



Overview

This section includes other information that must be disclosed to comply with the Australian Accounting Standards or the *Corporations Act 2001*.

8.1 Other accounting policies

8.1.1 New and amended standards adopted by the Group

The Group adopted the following new or revised accounting standards which became effective for the annual reporting period commencing on 1 January 2017.

TITLE	
AASB 2016-1	Recognition of Deferred Tax Assets for Unrealised Losses
AASB 2016-2	Disclosure Initiative: Amendments to AASB 107
AASB 2017-2	Further Annual Improvements 2014-2016 Cycle

The adoption of these new or revised standards did not materially affect the Group's accounting policies or financial statements.

8.1.2 New accounting standards and amendments issued but not yet effective

TITLE		OPERATIVE DATE
AASB 15	Revenue from Contracts with Customers	1 January 2018
AASB 2014-10	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	1 January 2018
AASB 2016-5	Classification and Measurement of Share-based Payment Transactions	1 January 2018
AASB 2016-6	Applying AASB 9 <i>Financial Instruments</i> with AASB 4 <i>Insurance Contracts</i>	1 January 2018
AASB 2017-1	Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments	1 January 2018
AASB Interpretation 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
AASB 2017-3	Clarifications to AASB 4	1 January 2018
AASB 16	Leases	1 January 2019
AASB Interpretation 23	Uncertainty over Income Tax Treatments	1 January 2019
AASB 9	Financial Instruments	1 January 2018 ¹
AASB 17	Insurance Contracts	1 January 2021

¹ The Group intends to defer the application of AASB 9 as discussed below.

The Australian Accounting Standards and amendments detailed in the table above are not mandatory for the Group until the operative dates stated; however, early adoption is often permitted.

Other than AASB 9, the Group currently plans to adopt the standards and amendments detailed above in the reporting periods beginning on their respective operative dates. An initial assessment of the financial impact of the standards and amendments has been undertaken and they are not expected to have a material impact on the Group's financial statements, except where noted below.

AASB 9 was issued during 2014 and will replace existing accounting requirements for financial instruments. Having met the relevant criteria, the Group expects to defer adoption of AASB 9 to 1 January 2021 at the latest. The new requirements primarily relate to the Group's accounting for investments and borrowings:

- The Group's investments are currently designated as at fair value through profit or loss on initial recognition and are subsequently remeasured to fair value at each reporting date, reflecting the business model applied by the Group to manage and evaluate its investment portfolio. Under this business model, adoption of AASB 9 is not expected to result in significant changes to accounting for investments, with the potential exception of equity investments held by the Group for strategic purposes where changes in fair value may be presented in other comprehensive income.
- During 2016, the Group executed three debt exchanges, further details of which are included in note 5.1. These were accounted for as modifications to financial liabilities, resulting in recognition of \$117 million of premium which is being amortised to the first call dates. In July 2017, the IASB clarified that under AASB 9 this premium is expensed immediately. AASB 9 applies retrospectively, therefore, on adoption of AASB 9, the Group's opening retained earnings will reduce by the remaining unamortised premium and borrowings will increase by the same amount. The balance sheet impact would be offset by reduced interest expense over the remaining life of the debt. As at 31 December 2017 this balance is \$98 million.

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AASB 16 was issued during 2016 and will replace existing accounting requirements for leases, including disclosure requirements. Under current requirements, leases are classified based on their nature as either finance leases, which are recognised on the balance sheet, or operating leases, which are not recognised on the balance sheet. The application of AASB 16 will result in the recognition of all leases on the balance sheet in the form of a right-of-use asset and a corresponding lease liability, except for leases of low value assets and leases with a term of 12 months or less. As a result, the new standard is expected to impact leases which are currently classified as operating leases; primarily, leases over offices, equipment, and motor vehicles. A reliable estimate of the impact is still being determined.

On 18 May 2017, after around 20 years of development, the International Accounting Standards Board (IASB) issued IFRS 17, a new accounting standard for insurance contracts. The Australian equivalent, AASB 17, was adopted by the Australian Accounting Standards Board on 19 July 2017. AASB 17 will be effective for reporting periods beginning on or after 1 January 2021 and will be applicable to general, life and health insurance business. Given the broad scope, complexity and lack of general consensus on the interpretation of some key areas of the standard, the impact of AASB 17 on the consolidated Group's financial statements is still being determined; however, significant disclosure changes and some impact on profit or loss are expected. In particular, AASB 17 introduces a new general model for measuring and accounting for insurance contracts but permits application of a simplified measurement model (which is similar to the current basis on which general insurance is brought to account under AASB 1023) if the liability for remaining coverage under the simplified model would not materially differ from the general model. The Group has initiated a project to assess the impact of this change on both the financial statements and the broader business, with a view to achieving full compliance for the first applicable reporting date, being the half year ending 30 June 2021. This assessment has identified that a number of key requirements of AASB 17 remain subject to interpretation. We note the ongoing potential for changes in interpretation of the standard during 2018 as the IASB addresses challenges identified in relation to the practical implementation of the standard.

8.2 Contingent liabilities



Overview

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered to be less than probable but more likely than remote. If the expected settlement of the liability becomes probable, a provision is recognised.

On 1 October 2015, QBE sold its Mortgage & Lender Services business in the US. Whilst the purchaser assumed responsibility for all potential future litigation in relation to this business, the sale contract specifically excludes liabilities associated with class action litigation and regulatory examinations underway at the time of the sale. This business is subject to litigation and regulatory examinations in the normal course of business.

QBE is required to support the underwriting activities of the Group's controlled entities which are corporate members at Lloyd's of London. Funds at Lloyd's are those funds of the Group which are subject to the terms of the Lloyd's Deposit Trust Deed and are required to support underwriting for the following year and the open years of account, determined by a formula prescribed by Lloyd's each year. Letters of credit of \$1,716 million (2016 \$1,624 million) were issued in support of the Group's participation in Lloyd's, along with cash and investments of \$308 million (2016 \$75 million). In addition, a controlled entity has entered into various trust and security deeds with Lloyd's in respect of assets lodged to support its underwriting activities. These deeds contain covenants that require the entity to meet financial obligations should they arise in relation to cash calls from syndicate participations. A cash call would be made first on the assets held in syndicate trust funds and would only call on funds at Lloyd's after syndicate resources were exhausted. Only if the level of these trust funds was not sufficient would a cash call result in a draw down on the letters of credit and other assets lodged with Lloyd's.

In the normal course of business, the Group is also exposed to contingent liabilities in relation to claims litigation and regulatory examinations arising out of its insurance and reinsurance activities. The Group may also be exposed to the possibility of contingent liabilities in relation to non-insurance litigation, taxation and compliance matters.

8.3 Reconciliation of (loss) profit after income tax to cash flows from operating activities



Overview

AASB 1054 *Australian Additional Disclosures* requires a reconciliation of profit after income tax to cash flows from operating activities.

	2017 US\$M	2016 US\$M
(Loss) profit after income tax	(1,253)	844
Depreciation/impairment of property, plant and equipment	49	53
Amortisation and impairment of intangibles	783	74
Losses on sale of entities	6	–
Share of net loss of associates	1	–
Net foreign exchange losses (gains)	33	(125)
Fair value gains on financial assets	(226)	(109)
Unrealised losses on assets held for sale	–	3
Increase (decrease) in net outstanding claims	630	(1,009)
(Decrease) increase in unearned premium	(255)	119
(Increase) decrease in deferred insurance costs	(216)	480
Decrease in trade debtors	361	455
Increase in net operating assets	(283)	(13)
Increase (decrease) in trade payables	183	(280)
Decrease in net tax assets	336	24
Share-based payments expense	39	58
Decrease in net defined benefit obligation	(16)	(15)
Cash flows from operating activities	172	559

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

8.4 Share-based payments



Overview

Share-based payments are equity based compensation schemes provided to employees and executives. The company issues shares from time to time under an Employee Share and Option Plan (the Plan). Any full-time or part-time employee of the Group or any equally-owned joint venture who is offered shares or options is eligible to participate in the Plan.

8.4.1 Share schemes

A summary of the current deferred equity award plans together with the legacy deferred equity award plans is set out below.

Current deferred equity plans

PLAN	AVAILABLE TO	NATURE OF AWARD	VESTING CONDITIONS
Executive Incentive Plan (EIP) (2017)	Executives and other key senior employees	<ul style="list-style-type: none"> • 40% delivered in cash (20% in the case of the Group CEO). • 60% deferred as conditional rights to fully paid ordinary QBE shares (80% in the case of the Group CEO). 	<p>The conditional rights are deferred in four equal tranches, such that 25% vests on each of the first, second, third and fourth anniversaries of the award.</p> <p>EIP outcomes are subject to the achievement of:</p> <ul style="list-style-type: none"> • the Group's COR and cash ROE targets; • individual performance ratings; and • Group strategic priorities for Group staff and divisional strategic priorities and COR targets for divisional staff.

Additionally, for current QBE deferred equity plans:

- Plan rules provide suitable discretion for the Remuneration Committee to adjust any formulaic outcome to ensure that awards made under the EIP plans appropriately reflect performance.
- During the period from the grant date to the vesting date, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of the company. These conditional rights are subject to the same vesting conditions as the original grant of conditional rights.
- Recipients must remain in the Group's service throughout the service period in order for the awards to vest, except in cases where good leaver provisions apply. Vesting is also subject to malus provisions.
- Under good leaver provisions (e.g. retirement, redundancy, ill health, injury) a pro-rata amount of conditional rights remain subject to the performance and vesting conditions.
- Once vested, conditional rights can be exercised for no consideration.

Legacy deferred equity plans

PLAN	AVAILABLE TO	NATURE OF AWARD	VESTING CONDITIONS
Short-term incentive (STI) (2014–2016)	Executives and other key senior employees	<ul style="list-style-type: none"> 67% delivered in cash (50% in the case of the Group CEO). 33% deferred as conditional rights to fully paid ordinary QBE shares (50% in the case of the Group CEO). 	<p>The conditional rights are deferred in two equal tranches such that 50% vests on the first anniversary of the award and 50% vests on the second anniversary of the award.</p> <p>STI outcomes are subject to the achievement of:</p> <ul style="list-style-type: none"> the Group's ROE target; individual performance ratings; and for divisional staff, divisional return on allocated capital targets.
Long-term incentive (LTI) (2014–2016)	Executives	Conditional rights to fully paid ordinary QBE shares.	<p>On achievement of the performance measures (at the end of the three year performance period), conditional rights vest in three tranches as follows:</p> <ul style="list-style-type: none"> 33% at the end of the three year performance period; 33% on the first anniversary of the end of the performance period; and 34% on the second anniversary of the end of the performance period. <p>Vesting is subject to performance conditions as follows:</p> <ul style="list-style-type: none"> 50% of each tranche is subject to the achievement of Group ROE performance targets over a three year performance period; and 50% of each tranche is subject to the performance of the Group's relative total shareholder return over a three year performance period.
Long-term Incentive plan legacy scheme (2013)	Executives	Conditional rights to fully paid ordinary shares.	<p>Conditional rights vested over a five year service period.</p> <p>Vesting is also subject to performance conditions as follows:</p> <ul style="list-style-type: none"> 50% of the award is subject to the Group's average diluted EPS increasing by a compound average of 7.5% per annum over the five year period; and 50% of the award is subject to the Group's average ROE and combined operating ratio being in the top 10% of the top 50 largest global insurers and reinsurers as measured by net earned premium over the five year period.
QBE Incentive Scheme (2010–2013)	Executives and other key senior employees	<p>Conditional rights to fully paid ordinary QBE shares.</p> <p>The maximum deferred equity award was the lesser of 80% for executives and 66.67% for other key senior employees of the cash award earned or 100% of fixed remuneration for the financial year.</p>	The conditional rights are deferred in two equal tranches, with the first tranche vesting over a three year service period from the grant date and the second over five years.

Additionally, for legacy QBE deferred equity plans:

- Plan rules provide suitable discretion for the Remuneration Committee to adjust any formulaic outcome to ensure that awards made under the STI and LTI plans appropriately reflect performance.
- During the period from the grant date to the vesting date, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of the company. These conditional rights are subject to the same vesting conditions as the original grant of conditional rights.
- Recipients must remain in the Group's service throughout the service period in order for the awards to vest, except in cases where good leaver provisions apply. Vesting is also subject to malus provisions.
- Under good leaver provisions (e.g. retirement, redundancy, ill health, injury) a pro-rata amount of conditional rights remain subject to the performance and vesting conditions.
- Once vested, conditional rights can be exercised for no consideration.
- The Remuneration Committee has the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice to terminate employment on that date. In relation to the QBE Incentive Scheme, this only applies to awards made prior to 2012.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

8.4.2 Conditional rights

Details of the number of employee entitlements to conditional rights to ordinary shares granted, vested and transferred to employees during the year are as follows:

	2017 NUMBER OF RIGHTS	2016 NUMBER OF RIGHTS
At 1 January	25,129,726	19,734,647
Granted in the year	4,875,667	10,646,139
Dividends attaching in the year	882,299	1,219,401
Vested and transferred to employees in the year	(7,817,681)	(4,693,348)
Forfeited in the year	(4,236,599)	(1,777,113)
At 31 December	18,833,412	25,129,726
Weighted average share price at date of vesting of conditional rights during the year	A\$12.58	A\$11.20
Weighted average fair value of conditional rights granted during the year	A\$12.49	A\$9.80

8.4.3 Fair value of conditional rights

The fair value of conditional rights is determined using appropriate models including Monte Carlo simulations, depending on the vesting conditions. For conditional rights granted during the year, the following significant assumptions are used:

		2017	2016
Share price at grant date	A\$	10.01 – 13.58	9.33 – 12.44
Fair value of instrument at grant date	A\$	9.89 – 12.98	4.60 – 12.34
Expected life of instrument	Years	0.1 – 5.0	0.1 – 5.0

Some of the assumptions are based on historical data which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the amounts recognised in the financial statements.

8.4.4 Employee options

The market value of all shares underlying the options at the balance date is A\$0.2 million (2016 A\$0.2 million). During 2017, no options were cancelled or forfeited. At 31 December 2017, 17,000 remained (excluding notional dividends). The options were issued to employees in 2004 in lieu of shares under the Plan. The options vested immediately and are exercisable until March 2024.

8.4.5 Share-based payment expense

Total expenses arising from share-based payment awards under the Plan amounted to \$39 million (2016 \$58 million). These amounts are included in underwriting and other expenses.

8.4.6 Shares purchased on-market

The Group may purchase shares on-market to satisfy entitlements under employee share schemes. The Group acquired 13 million (2016 5 million) such shares during the period at an average price of A\$12.34 (2016 A\$10.96).



How we account for the numbers

The fair value of the employee services received in exchange for the grant of equity settled instruments is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of instruments that are expected to become exercisable.

The fair value of each instrument is recognised evenly over the service period ending at the vesting date; however, at each balance date, the Group revises its estimates of the number of instruments that are expected to become exercisable due to the achievement of non-market vesting conditions. The Group recognises the impact of the revision of original estimates, if any, in profit or loss with a corresponding adjustment to equity.

8.5 Key management personnel



Overview

AASB 124 *Related Party Disclosures* requires disclosure of the compensation of directors (executive and non-executive) and those persons having authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly. This group is collectively defined as key management personnel. Additional details in respect of key management personnel and their remuneration are shown in the Remuneration Report.

	2017 US\$000	2016 US\$000
Short-term employee benefits	15,249	17,474
Post-employment benefits	146	189
Other long-term employment benefits	92	164
Share-based payments	2,314	7,429
Termination benefits	7,223	3,042
	25,024	28,298



How we account for the numbers

Short-term employee benefits – profit sharing and bonus plans

A provision is recognised for profit sharing and bonus plans where there is a contractual obligation or where past practice has created a constructive obligation at the end of each reporting period. Bonus or profit sharing obligations are settled within 12 months from the balance date.

Post-employment benefits – defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays a fixed contribution into a fund during the course of employment and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions to defined contribution plans are expensed as incurred.

Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using high quality corporate bond yields with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the date:

- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

8.6 Defined benefit plans



Overview

Defined benefit plans are post-employment plans which provide benefits to employees on retirement, disability or death. The benefits are based on years of service and an average salary calculation. Contributions are made to cover the current cash outflows from the plans and a liability is recorded to recognise the estimated accrued but not yet funded obligations.

	DATE OF LAST ACTUARIAL ASSESSMENT	FAIR VALUE OF PLAN ASSETS		PRESENT VALUE OF PLAN OBLIGATIONS		NET RECOGNISED SURPLUSES (DEFICITS)	
		2017 US\$M	2016 US\$M	2017 US\$M	2016 US\$M	2017 US\$M	2016 US\$M
Defined benefit plan surpluses							
Iron Trades insurance staff trust	31 Dec 17	328	304	(295)	(277)	33	27
Defined benefit plan deficits¹							
Janson Green final salary superannuation scheme	31 Dec 17	183	171	(199)	(194)	(16)	(23)
QBE the Americas plan	31 Dec 17	243	228	(263)	(264)	(20)	(36)
Other plans ²	31 Dec 17	41	37	(65)	(63)	(24)	(26)
		467	436	(527)	(521)	(60)	(85)

1 Defined benefit plan obligations are funded.

2 Other plans includes \$11 million (2016 \$10 million) of defined benefit post-employment healthcare plan obligations that are not funded.

The measurement of assets and liabilities in defined benefit plans makes it necessary to use assumptions about discount rates, expected future salary increases, investment returns, inflation and life expectancy. If actuarial assumptions differ materially from actual outcomes, this could result in a significant change in employee benefit expense recognised in profit or loss or in actuarial remeasurements recognised in other comprehensive income, together with the defined benefit assets and liabilities recognised in the balance sheet.

The Group does not control the investment strategies of defined benefit plans; they are managed by independent trustees. Nonetheless, the Group has agreed, as part of ongoing funding arrangements, that the trustees should manage their strategic asset allocation in order to minimise the risk of material adverse impact. In particular, the Group has agreed with the trustee to reduce the level of investment risk by investing in assets that match, where possible, the profile of the liabilities. This involves holding a mixture of government and corporate bonds. The Group believes that due to the long-term nature of the plan liabilities, a level of continuing equity investment is also appropriate.

The charge recognised in profit or loss in the year of \$4 million (2016 \$2 million) is included in underwriting expenses. Total employer contributions expected to be paid to the various plans in 2018 amount to \$17 million.



How we account for the numbers

The surplus or deficit recognised in the balance sheet in respect of defined benefit superannuation plans is the present value of the defined benefit obligation at the balance date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate or government bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating the term of the related superannuation liability. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, and are shown in other comprehensive income. Past service costs are recognised immediately in profit or loss.

8.7 Remuneration of auditors



Overview

QBE may engage the external auditor for non-audit services other than excluded services subject to the general principle that fees for non-audit services should not exceed 50% of all fees paid to the external auditor in any one financial year. The Board believes some non-audit services are appropriate given the external auditor's knowledge of the Group. External tax services are generally provided by an accounting firm other than the external auditor. Consistent with prior periods, the external auditor cannot provide the excluded services of preparing accounting records or financial reports or acting in a management capacity.

	2017 US\$000	2016 US\$000
PricewaterhouseCoopers (PwC) Australian firm		
Audit or review of financial reports of the ultimate parent entity	1,326	1,435
Audit of financial reports of controlled entities	2,305	2,525
Audit of statutory returns	570	596
Other assurance services	472	900
Taxation services	122	295
Advisory services	1,610	1,713
	6,405	7,464
Related practices of PwC Australian firm (including overseas PwC firms)		
Audit of financial reports of controlled entities	10,148	9,772
Audit of statutory returns	2,288	2,270
Other assurance services	632	129
Taxation services	170	420
Advisory services	631	908
	13,869	13,499
	20,274	20,963
Audit and assurance services	17,741	17,627
Other services	2,533	3,336
	20,274	20,963
Other auditors		
Audit of financial reports of controlled entities	120	167
Other services	17	5
	137	172

Notes to the financial statements CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2017

8.8 Ultimate parent entity information



Overview

The *Corporations Act 2001* requires the disclosure of summarised financial information for the ultimate parent entity, QBE Insurance Group Limited.

8.8.1 Summarised financial data of QBE Insurance Group Limited (the company)

	2017 US\$M	2016 US\$M
Profit after income tax for the year	636	943
Other comprehensive (loss) income for the year	(21)	12
Total comprehensive income	615	955
Assets due within 12 months ¹	1,857	2,822
Shares in controlled entities	14,674	13,035
Total assets	16,531	15,857
Liabilities payable within 12 months ²	1,136	1,700
Borrowings	3,508	3,061
Total liabilities	4,644	4,761
Net assets	11,887	11,096
Share capital	8,931	8,350
Treasury shares held in trust	(50)	–
Reserves	148	169
Foreign currency translation reserve	302	87
Retained profits	2,556	2,490
Total equity	11,887	11,096

1 Includes amounts due from QBE Group companies of \$1,086 million (2016 \$551 million).

2 Includes amounts due to QBE Group companies of \$799 million (2016 \$1,575 million).

8.8.2 Guarantees and contingent liabilities

	COMPANY	
	2017 US\$M	2016 US\$M
Letters of credit issued in support of the Group's participation in Lloyd's of London	1,716	1,624
Letters of credit issued in support of insurance provisions of controlled entities ¹	842	716
Guarantees to investors in capital securities ²	–	354
Guarantees to investors in subordinated debt ²	1,437	329
Guarantees in relation to bank loans of controlled entities	7	10

1 Around \$250 million of additional letters of credit may be required in the event that a controlled entity is not approved as an admitted reinsurer in Puerto Rico. The approval process is well progressed.

2 Excludes capital securities and subordinated debts owned by the ultimate parent entity.

8.8.3 Tax consolidation legislation

The accounting policy in relation to the legislation is set out in note 6.2.4. On adoption of the tax consolidation legislation, the directors of the company and its wholly-owned Australian controlled entities entered into a tax sharing and tax funding agreement that requires the Australian entities to fully compensate the company for current tax liabilities and to be fully compensated by the company for any current tax or deferred tax assets in respect of tax losses arising from external transactions occurring after the date of implementation of the tax consolidation legislation. The contributions are allocated by reference to the notional taxable income of each Australian entity.

Details of franking credits available to shareholders are shown in note 5.4.



How we account for the numbers

The financial information of the ultimate parent entity of the Group has been prepared on the same basis as the consolidated financial report except for shares in controlled entities which are recorded at cost less any provision for impairment in the ultimate parent entity balance sheet.

Directors' declaration

FOR THE YEAR ENDED 31 DECEMBER 2017


In the directors' opinion:

- (a) the financial statements and notes set out on pages 92 to 164 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with accounting standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1.2.1 confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Group Chief Executive Officer and Group Chief Financial Officer required by section 295A of the *Corporations Act 2001* and as recommended under the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*.

Signed in SYDNEY this 26th day of February 2018 in accordance with a resolution of the directors.



W. Marston Becker
Director



Patrick Regan
Director

Independent auditor's report

TO THE SHAREHOLDERS OF QBE INSURANCE GROUP LIMITED



Report on the audit of the Financial Report

Our opinion

In our opinion:

The accompanying Financial Report of QBE Insurance Group Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Financial Report comprises:

- the consolidated balance sheet as at 31 December 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies; and
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

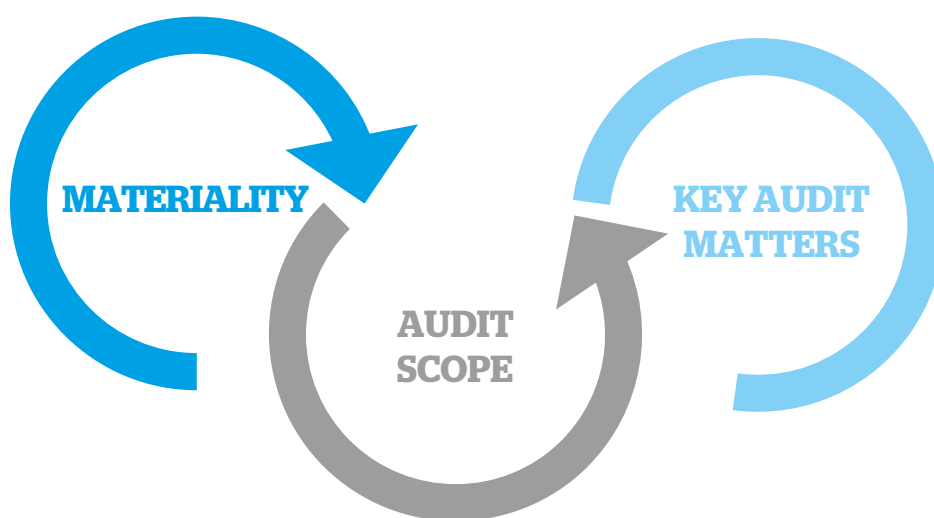
Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the Financial Report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the Financial Report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



MATERIALITY

- For the purpose of our audit we used overall Group materiality of \$61 million, which represents approximately 0.5% of the Group's net earned premium.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the Financial Report as a whole.
- We chose net earned premium as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Group and is not as volatile as other profit and loss measures. We selected 0.5% based on our professional judgement, noting that it is also within the range of commonly accepted revenue-related benchmarks.

Independent auditor's report

TO THE SHAREHOLDERS OF QBE INSURANCE GROUP LIMITED

AUDIT SCOPE

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
 - We ensured that the audit teams at both Group and operational levels possessed the appropriate skills and competencies needed for the audit of a complex global insurer. This included industry expertise in insurance, as well as IT specialists, actuarial, tax and valuation professionals.
 - We conducted an audit of the most financially significant operations being the North American Operations, European Operations, Australian & New Zealand Operations and Equator Re (the "Operations"). In addition, we performed specified risk focused audit procedures on certain account balances for other Corporate, Asia Pacific and Latin American entities within the Group.
 - For the work performed by auditors within PwC Australia or from other PwC network firms operating under our instructions, we determined the level of involvement we needed to have in their audit work to be satisfied that sufficient audit evidence had been obtained for the purposes of our opinion.
 - We kept in regular communication with audit teams throughout the year with phone calls, discussions and written instructions, where appropriate. Further, we visited and met with management and local audit teams in New York, London and Sydney.
 - We performed further audit procedures at a Group level over the remaining balances and the consolidation of the Group's reporting units.
-

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report for the current period. The key audit matters were addressed in the context of our audit of the Financial Report as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

KEY AUDIT MATTER

How our audit addressed the key audit matter

Valuation of net outstanding claims

(Refer to note 2.3) \$15,268 million

We considered the valuation of net outstanding claims a key audit matter balance because of the complexity involved in the estimation process and the significant judgements that the Group makes in determining the balance.

Note 2.3 to the financial statements describes the elements that make up the balance. We comment on the most judgemental aspects of these elements below.

(a) Gross discounted central estimate

(Refer to note 2.3.1) \$20,340 million

The estimation of outstanding claims involves significant judgement given the size of the liability and inherent uncertainty in estimating the expected future payments for claims incurred.

The valuation of outstanding claims relies on the quality of the underlying data. It involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts on the estimate. Claims estimates in respect of catastrophe events may involve additional uncertainty, particularly those occurring closer to the year end, given the materiality of amounts involved, and the inherent difficulty in initially assessing amounts until further evidence emerges.

In particular, judgement arises over the estimation of payments for claims that have been incurred at the reporting date but have not yet been reported to the Group as there is generally less information available in relation to these claims. Classes of business where there is a greater length of time between the initial claim event and settlement (such as workers' compensation, professional indemnity and other liability classes) also tend to display greater variability between initial estimates and final settlement.

The estimate of expected future payments is discounted to present value using a risk-free rate of return in order to reflect the time value of money. Judgement is involved in estimating the period over which claims are expected to settle.

Our audit procedures included evaluating the design effectiveness and implementation of key actuarial controls, including key data reconciliations and the Group's review of the estimates.

Historical claims data is a key input to the actuarial estimates. Accordingly, we tested a sample of controls and performed detailed testing over a sample of claims case estimates and settlements. No material issues arose and so, in the context of our audit materiality, we were satisfied with the adequacy of the data used in the actuarial estimates in our sample.

We determined those classes of business where claims reserve estimates present a higher risk and focused on classes which inherently involve greater levels of judgement and have historically shown greater year on year variation over previous estimates. In the current year these included large risk and catastrophe claims reserves related to Hurricanes Harvey, Irma and Maria, and certain longer tail liability portfolios.

In order to evaluate the Group's methodologies and assumptions, with particular focus on the higher risk areas, we:

- Evaluated whether the Group's actuarial methodologies were consistent with those used in the industry and with prior periods. We sought sufficient justification for any significant differences.
- Assessed key actuarial assumptions including claims ratios, and expected frequency and severity of claims. We considered these assumptions by comparing them with our expectations based on the Group's experience, current trends and benchmarks, and our own industry knowledge. For some classes of business, we also performed our own independent actuarial projections and compared the results with the Group's estimates. We concluded that the methodologies and assumptions tested were materially consistent with our independent expectations and analysis.
- Tested the discount applied, by territory and line of business, for classes of business where there is a greater length of time between the initial claim event and settlement.
- In the current year our testing included an additional focus on the estimates related to the catastrophic events that occurred during 2017, including the methodologies adopted, testing of available claims data and benchmarking of key assumptions against market data.

Together with PwC actuarial experts, we developed an understanding and evaluated the Group's actuarial practices and the Group's gross discounted central estimate. We also considered the work and findings of external actuarial experts engaged by the Group.

Independent auditor's report

TO THE SHAREHOLDERS OF QBE INSURANCE GROUP LIMITED

KEY AUDIT MATTER

How our audit addressed the key audit matter

(b) Reinsurance and other recoveries

(Refer to note 2.3.2) \$6,311 million

The valuation of reinsurance assets requires a significant level of judgement, given its inherent dependence on underlying estimates of gross outstanding claims.

In addition, significant judgement may be required by the Group to ensure contractual terms are correctly accounted for (such as the Group's aggregate large risk and catastrophe reinsurance program (GLRC)).

We obtained audit evidence in relation to the data and actuarial processes for estimating reinsurance recoveries on outstanding claims by performing the same audit procedures as those outlined above for gross claims estimates.

With regards to the GLRC contract, we gave particular focus to assessing and evaluating the Group's estimate of claims that will be subject to recovery under the contract. We inspected the work of the Group's actuarial experts, as well as directly testing a sample of relevant claims, and we confirmed the terms of the current year contract with the reinsurer.

To test other material reinsurance assets, including the program runoff reinsurance in North America and the reinsurance assets arising from the Group's catastrophe reinsurance contracts, we inspected a sample of relevant contracts to determine whether the key terms had been appropriately reflected in the financial statements.

(c) Risk margins and Probability of Adequacy (PoA)

(Refer to note 2.3.3) \$1,239 million

The net outstanding claims provision includes, in addition to the central estimate of the present value of the expected future payments, a risk margin which relates to the inherent uncertainty in that estimate. In determining the risk margin, the Group must make judgements about the variability of each class of business underwritten and the extent of correlation within each division and between different geographical locations.

Probability of Adequacy (PoA) is a measure of the estimated overall sufficiency of reserves including a risk margin in light of that variability.

We assessed the Board's approach to setting the risk margin in accordance with the requirements of Australian Accounting Standards, with a particular focus on the assessed level of uncertainty in the net central estimate leading to a change in the margin year on year. We evaluated these factors by considering the findings from our work performed on the net central estimate.

We tested the Group's actuarial calculation of the PoA for reasonableness and consistency with previous valuations. This included developing an understanding of and testing the actuarial techniques applied by the Group, and comparing the results with industry benchmarks. We found the variability assumptions to be aligned with industry benchmarks and prior year.

KEY AUDIT MATTER**How our audit addressed the key audit matter****Valuation of goodwill in North American Operations***(Refer to note 7.2.1) \$843 million*

We considered goodwill relating to North American Operations to be a key audit matter because of the financial significance of the carrying value, the impairment charge of \$700 million and because the impairment test remains sensitive to reasonably possible changes in assumptions.

The valuation is based on the management approved business plan for North American Operations. The most significant judgements required by the Group relate to the discount rate applied together with the assumptions supporting the underlying forecast cash flows, in particular the terminal growth rate, the forecast combined operating ratios in the projection period and investment return assumptions.

We have evaluated the Group's identification of the North American Operations cash generating unit and the related carrying value, and evaluated the process by which the relevant cash flow forecasts were developed.

We compared these forecasts with the management approved business plans and assessed the reasons underpinning the reduction in the forecast cash flows which triggered the impairment.

We were satisfied that the three year forecast used in the Group's valuation model was based on the management approved North American Operations business plan, and that the key assumptions were subject to oversight from the directors.

We tested the key assumptions and methodologies used in the model, in particular those relating to the discount rate and growth rates. To do this:

- We, together with PwC valuation experts, evaluated these assumptions with reference to valuations of similar companies.
- We compared the key assumptions with externally derived data where possible, including market expectations of investment return, projected economic growth and interest rates.
- We applied sensitivities in evaluating the Group's assessment of the planned growth rate in cash flows, including forecast premium growth and combined operating ratios.

We were satisfied that the growth rate assumptions were reasonable given the economic outlook and industry forecasts. Further, the discount rate used by the Group was consistent with market data and industry research available to us.

In testing the valuation model:

- We checked the calculations for mathematical accuracy.
- We considered the sensitivity of the calculation by varying the assumptions and applying other values within a reasonably possible range for North American Operations.
- We assessed the overall appropriateness of the assumptions when considered in the aggregate.

We also considered the work and findings of external valuation experts engaged by the Group.

The impairment assessment remains sensitive to a range of assumptions, in particular to changes in the discount rate and achievement of forecast improvements in investment returns and combined operating ratios. Accordingly, relevant disclosures have been made in note 7.2.1.

Independent auditor's report

TO THE SHAREHOLDERS OF QBE INSURANCE GROUP LIMITED

KEY AUDIT MATTER

How our audit addressed the key audit matter

Recoverability of deferred tax assets in North America

(Refer to note 6.2.3) \$325 million

We considered this a key audit matter because significant judgement is required by the Group in determining the recoverability of deferred tax assets arising from past tax losses because the realisation of tax benefits is dependent on future taxable profits and there are inherent uncertainties involved in forecasting such profits.

The deferred tax asset in North American Operations continues to be a material balance in the financial statements and the recoverability of the asset depends on the achievement of the Group's underlying business plans.

The reduction in the corporate tax rate in the United States from 35% to 21%, with effect from 1 January 2018, reduces the amount of tax payable on forecast future taxable income which therefore reduces the value of the deferred tax asset.

The ultimate recoverability of the deferred tax asset depends upon both continued improvement in the profitability of the North American business, the rate at which those profits will be taxed and the period over which tax losses will be available for recovery.

Our procedures included the following:

- Evaluated the progress made by the Group in improving the profitability of the business in recent periods, which included the remediation of the causes of past losses through, amongst other initiatives, run off reinsurance arrangements, implementation of a revised capital structure to reduce funding costs, business disposals, and other expense reduction initiatives.
- Assessed the credibility of the business plans used in the deferred tax asset recoverability assessment. These were based on the same three year forecast used in the goodwill valuation model, and were therefore assessed as part of our goodwill testing as outlined above.
- Assessed the tax rate applied to forecast future taxable profits in light of the substantive enactment in 2017 of tax law changes in the United States with effect from 1 January 2018.
- Together with PwC tax experts, we considered whether the tax losses are legally available for the forecast recoupment period.

Valuation of investments

(Refer to note 3.2) \$25,554 million

We considered this a key audit matter because this is the largest asset on the balance sheet, representing approximately 58% of total assets and our audit effort has increased in this area as the Group's investment portfolio has become more diversified in recent years.

In particular, there is significant focus on considering whether the level 3 investments are valued appropriately.

The valuation of financial investments held at fair value is based on a range of inputs. Many of the inputs required can be obtained from readily available liquid market prices and rates. Where observable market data is not available, for example, when determining the valuation of certain infrastructure debt, the Group is required to use significant judgement to develop estimates based on the most appropriate source data.

Our audit procedures over the valuation of investments held by the Group included:

- Assessed the design and tested the implementation and operating effectiveness of key controls over the investment function carried out by Group Investments, which is responsible for managing the majority of the Group's investments.
- Assessed the Group's valuation of individual investment holdings. Where readily observable data was available, we sourced that independently and compared it with the Group's valuation. For investments where there was less or limited observable market data, including level 3 holdings as disclosed in note 3.2.1, we assessed other relevant valuation data provided by third parties or for a sample of such investments carried out our own independent valuations.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's Annual Report for the year ended 31 December 2017 including Performance overview, Business review, Governance, Directors' Report, and Other information but does not include the Financial Report and our auditor's report thereon.

Our opinion on the Financial Report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the Financial Report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf.

This description forms part of our auditor's report.

Independent auditor's report

TO THE SHAREHOLDERS OF QBE INSURANCE GROUP LIMITED

Report on the Remuneration Report

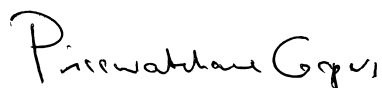
Our opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 62 to 88 of the Directors' Report for the year ended 31 December 2017.

In our opinion, the Remuneration Report of QBE Insurance Group Limited for the year ended 31 December 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



PricewaterhouseCoopers



RJ Clark
Partner



SJ Hadfield
Partner

Sydney
26 February 2018

Shareholder information

QBE is incorporated in Australia, is listed on the Australian Securities Exchange (ASX) and trades under the code "QBE".

Registered office

QBE Insurance Group Limited

Level 27, 8 Chifley Square
Sydney NSW 2000 Australia

Telephone: +61 2 9375 4444

Facsimile: +61 2 9231 6104

Website: www.qbe.com

QBE website

QBE's website provides investors with information about QBE including annual reports, corporate governance statements, sustainability report, half yearly reports and announcements to the ASX. The website also offers regular QBE share price updates, a calendar of events, a history of QBE's dividend and online access to your shareholding details via the share registry.

Shareholder information and enquiries

Enquiries and correspondence regarding shareholdings can be directed to QBE's share registry:

Computershare Investor Services Pty Limited (Computershare)

GPO Box 2975
Melbourne VIC 3001 Australia

452 Johnston Street
Abbotsford VIC 3067 Australia

Telephone: 1300 723 487 (Australia)

Telephone: +61 3 9415 4840 (International)

Web: www.computershare.com.au

Email: qbe.queries@computershare.com.au

For security purposes, you will need to quote your Securityholder Reference Number (SRN) or Holder Identification Number (HIN).

If you are broker (CHESS) sponsored, queries relating to incorrect registrations and changes to name and/or address can only be processed by your stockbroker. Please contact your stockbroker. Computershare cannot assist you with these changes.

Shareholding details online

Manage your shareholding online by visiting QBE's share registry, Computershare. Log onto www.investorcentre.com.au to view your holding balance and dividend statements, to update your address (if you are registered with an SRN) or direct credit instructions, provide DRP or BSP instructions or change/add your TFN/ABN details.

You may also register to receive shareholder documentation electronically including your dividend statement, notice of meeting and proxy and annual reports.

Privacy legislation

Chapter 2C of the *Corporations Act 2001* requires information about you as a security holder (including your name, address and details of the securities you hold) to be included in QBE's share register. These details must continue to be included in the public register even if you cease to be a security holder. A copy of the privacy policy is available on Computershare's website.

Relevant interests register

Nasdaq OMX Pty Ltd of Level 8, 155 George Street, Sydney NSW 2000 Australia maintains QBE's register of information about relevant interests. Shareholders and other parties can telephone Nasdaq OMX on +61 2 8076 2600 or facsimile on +61 2 8076 2601 if they wish to inspect this register.

Dividends

QBE pays cash dividends to shareholders resident in Australia and New Zealand by direct credit. Shareholders in the UK and the US also have the option to receive their cash dividends by direct credit, although it is not mandatory. The benefit to shareholders of the direct credit facility is access to cleared funds quickly and securely – reducing the risk of cheques being lost or stolen. Shareholders in other countries will receive cheque payments in Australian dollars if they have not elected to receive their payment by direct credit. Shareholders receive a dividend statement for tax records, either by post or by email depending on the selected communications option.

Eligible shareholders can participate in QBE's Dividend Reinvestment Plan (DRP) and Bonus Share Plan (BSP) when the plans are active. The DRP enables you to subscribe for additional shares. The BSP is a bonus share plan whereby the dividend entitlement is forgone for bonus shares in lieu of the dividend. In order to participate in either the DRP or BSP, you must have a minimum shareholding of 100 shares and have a registered address in Australia or New Zealand.

Participants may change their election to participate in the DRP and BSP at any time. DRP/BSP election cut-off dates and application forms are available from QBE's website.

Shareholder information CONTINUED

Tax File Number (TFN), Australian Business Number (ABN) or exemption – Australian residents

You can confirm whether you have lodged your TFN, ABN or exemption by visiting Computershare's Investor Centre. If you choose not to lodge these details, QBE is obliged to deduct tax at the highest marginal rate (plus the Medicare levy) from the unfranked portion of dividends paid. Australian shareholders living abroad should advise Computershare of their resident status.

Conduit foreign income (CFI)

Shareholders will receive CFI credits in respect of the whole unfranked portion of QBE dividends. These credits exempt non-resident shareholders from Australian withholding tax.

Unpresented cheques/unclaimed money

Under the *Unclaimed Moneys Act* unclaimed dividends six or more years old must be given to the ACT Public Trustee. It is very important that shareholders bank outstanding dividend cheques promptly and advise Computershare immediately of changes of address or bank account details.

Recent QBE dividends

DATE PAID	TYPE	RECORD DATE	AUSTRALIAN CENTS PER SHARE	FRANKING %
28 March 2013	Final	8 March 2013	10	100
23 September 2013	Interim	2 September 2013	20	100
31 March 2014	Final	13 March 2014	12	100
23 September 2014	Interim	29 August 2014	15	100
13 April 2015	Final	6 March 2015	22	100
2 October 2015	Interim	28 August 2015	20	100
14 April 2016	Final	11 March 2016	30	100
28 September 2016	Interim	26 August 2016	21	50
13 April 2017	Final	10 March 2017	33	50
29 September 2017	Interim	25 August 2017	22	30
20 April 2018	Final	9 March 2018	4	30

Annual General Meeting

The Annual General Meeting of QBE Insurance Group Limited will be held at 10.00am on Thursday, 3 May 2018 in the Ballroom 3 and 4, The Westin Sydney, No 1 Martin Place, Sydney, NSW 2000.

The Annual General Meeting will be webcast at www.group.qbe.com/investor-centre/annual-general-meeting and an archive copy uploaded for later viewing.

Voting rights of ordinary shares

The constitution provides for votes to be cast:

- on a show of hands, one vote for each shareholder; and
- on a poll, one vote for each fully paid ordinary share.

Annual Report mailing list

Amendments to the *Corporations Act 2001* have removed the obligation for companies to mail an annual report to shareholders. To improve efficiency, save costs and reduce our impact on the environment by minimising unnecessary use of paper and printing resources, the Annual Report is published on our website at www.qbe.com.

If you wish to receive a hard copy of the Annual Report, please update your communication preferences by logging into your shareholding at www.investorcentre.com.

QBE does not produce a concise financial report.

Top 20 shareholders as at 31 January 2018

NAME	NUMBER OF SHARES	% OF TOTAL ¹
HSBC Custody Nominees (Australia) Limited	545,001,636	40.09
JP Morgan Nominees Australia Limited	206,905,101	15.22
Citicorp Nominees Pty Limited	121,963,417	8.97
National Nominees Limited	82,552,697	6.07
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	26,667,367	1.96
BNP Paribas Nominees Pty Ltd (DRP)	20,764,412	1.53
Citicorp Nominees Pty Limited (Colonial First State Investment A/C)	14,176,109	1.04
HSBC Custody Nominees (Australia) Limited (NT Commonwealth Super Corp A/C)	9,179,769	0.68
Argo Investments Limited	6,045,491	0.44
AMP Life Limited	5,407,617	0.40
Australian Foundation Investment Company Limited	5,400,000	0.40
CPU Share Plans Pty Ltd (QBE RTS Unallocated A/C)	5,251,656	0.39
HSBC Custody Nominees (Australia) Limited – A/C 2	4,727,581	0.35
CPU Share Plans Pty Ltd (QBE Employees Vested Control A/C)	4,077,581	0.30
Milton Corporation Limited	2,399,375	0.18
RBC Investor Services Australia Nominees Pty Limited (MBA A/C)	2,285,031	0.17
Navigator Australia Ltd (MLC Investment Settlement A/C)	2,083,024	0.15
Nulis Nominees (Australia) Limited (Navigator Master Plan Settlement A/C)	1,805,073	0.13
Netwealth Investments Limited (WRAP Services A/C)	1,796,197	0.13
HSBC Custody Nominees (Australia) Limited – GSCO ECA	1,783,815	0.13
	1,070,272,949	78.73

¹ Percentage of total at date of notice.

QBE substantial shareholders as at 31 January 2018

NAME	NUMBER OF SHARES	% OF TOTAL	DATE OF NOTICE
BlackRock Group (and its associated entities)	68,960,758	5.02	3 May 2017

Distribution of shareholders and shareholdings as at 31 January 2018

SIZE OF HOLDING	NUMBER OF SHAREHOLDERS		NUMBER OF SHARES	
	NUMBER	%	NUMBER	%
1 to 1,000	65,844	53.84	28,824,158	2.12
1,001 to 5,000	46,113	37.70	103,405,566	7.61
5,001 to 10,000	6,621	5.41	46,660,640	3.43
10,001 to 100,000	3,585	2.93	74,784,768	5.50
100,001 and over	138	0.12	1,105,921,189	81.34
Total	122,301	100.00	1,359,596,321	100.00

Shareholdings of less than a marketable parcel as at 31 January 2018

	SHAREHOLDERS		SHARES	
	NUMBER	% OF TOTAL	NUMBER	% OF TOTAL
Holdings of 47 or fewer shares	4,957	4.05%	105,890	0.01%

Financial calendar

YEAR	MONTH	DAY	ANNOUNCEMENT
2018	February	26	Results and dividend announcement for the year ended 31 December 2017
	March	8	Shares begin trading ex dividend
		9	Record date for determining shareholders' entitlement to 2017 final dividend
		12	DRP/BSP election close date – last day to nominate to participate in the Dividend Reinvestment Plan or the Bonus Share Plan
	April	20	Payment date for the 2017 final dividend
	May	3	2018 Annual General Meeting
	June	30	Half year end
	August	16¹	Results and dividend announcement for the half year ending 30 June 2018
		23¹	Shares begin trading ex dividend
		24¹	Record date for determining shareholders' entitlement to 2018 interim dividend
		27¹	DRP/BSP election close date – last day to nominate to participate in the Dividend Reinvestment Plan or the Bonus Share Plan
	October	5¹	Payment date for the 2018 interim dividend
	December	31	Year end

¹ Dates shown may be subject to change.

10 year history

FOR THE YEAR ENDED 31 DECEMBER

		2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Gross written premium	US\$M	14,191	14,395	15,092	16,332	17,975	18,434	18,291	13,629	11,239	11,015
Gross earned premium	US\$M	14,446	14,276	14,922	16,521	17,889	18,341	17,840	13,432	10,943	10,773
Net earned premium	US\$M	12,041	11,066	12,314	14,084	15,396	15,798	15,359	11,362	9,446	9,293
Claims ratio	%	70.9	58.2	60.4	63.2	64.5	66.0	68.2	59.9	60.3	57.6
Commission ratio	%	17.6	18.4	17.2	16.8	16.8	16.2	14.9	15.5	16.2	17.2
Expense ratio	%	16.3	17.4	17.3	16.1	16.5	14.9	13.7	14.3	13.1	13.7
Combined operating ratio	%	104.8	94.0	94.9	96.1	97.8	97.1	96.8	89.7	89.6	88.5
Investment income		–									
before investment gains/losses	US\$M	589	641	541	676	691	723	948	658	832	1,237
after investment gains/losses	US\$M	812	746	665	814	772	1,227	767	657	1,153	1,199
Insurance (loss) profit	US\$M	(98)	1,075	1,031	1,074	841	1,262	1,085	1,703	1,609	1,830
Insurance (loss) profit to net earned premium	%	(0.8)	9.7	8.4	7.6	5.5	8.0	7.1	15.0	17.0	19.7
Financing and other costs	US\$M	305	294	244	297	345	324	275	222	191	223
Operating (loss) profit before income tax	US\$M	(825)	1,072	953	931	(448)	941	868	1,551	1,891	2,028
after income tax and non-controlling interests	US\$M	(1,249)	844	687	742	(254)	761	704	1,278	1,532	1,558
Number of shares on issue ¹	millions	1,358	1,370	1,370	1,363	1,247	1,194	1,112	1,048	1,020	982
Shareholders' funds	US\$M	8,859	10,284	10,505	11,030	10,356	11,358	10,386	10,311	9,164	7,834
Total assets	US\$M	43,862	41,583	42,176	45,000	47,271	50,748	46,737	41,386	36,723	33,967
Net tangible assets per share ¹	US\$	4.29	4.90	5.07	5.32	4.75	4.49	3.93	4.78	4.64	4.04
Borrowings to shareholders' funds	%	40.8	33.8	33.6	32.5	44.1	43.4	45.8	31.5	29.1	32.9
Basic (loss) earnings per share ¹	US cents	(91.5)	61.6	50.3	57.4	(22.8)	65.1	64.9	123.7	152.8	175.0
Basic (loss) earnings per share - cash basis ²	US cents	(18.9)	65.5	65.3	63.5	62.9	89.1	73.0	127.7	156.4	177.2
Diluted (loss) earnings per share	US cents	(91.5)	60.8	49.8	55.8	(22.8)	61.6	61.3	119.6	149.9	172.2
Return on average shareholders' funds	%	(13.0)	8.1	6.4	6.9	(2.3)	7.0	6.8	13.1	18.0	22.3
Dividend per share	Australian cents	26	54	50	37	32	50	87	128	128	126
Dividend payout	A\$M	356	741	685	492	394	593	956	1,336	1,306	1,187
Total investments and cash ³	US\$M	26,141	25,235	26,708	28,583	30,619	31,525	28,024	25,328	22,448	19,995

¹ Reflects shares on an accounting basis.

² Earnings per share on a cash basis is calculated with reference to cash profit, being profit after tax adjusted for amortisation and impairment of intangibles and other non-cash items net of tax.

³ Includes financial assets at fair value through profit or loss, cash and cash equivalents and investment properties.

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Glossary

Accident year experience	The matching of all claims occurring (regardless of when reported or paid) during a given 12 month period with all premium earned over the same period.
Acquisition cost	The total of net commission and operating expenses incurred in the generation of net earned premium and often expressed as a percentage of net earned premium.
Admitted insurance	Insurance written by an insurer that is admitted (or licensed) to do business in the (US) state in which the policy was sold.
Agent	One who negotiates contracts of insurance or reinsurance as an insurance company's representative i.e. the agent's primary responsibility is to the insurance carrier, not the insurance buyer.
Attritional claims ratio	Total of all claims with a net cost of less than \$2.5 million as a percentage of net earned premium.
Broker	One who negotiates contracts of insurance or reinsurance on behalf of an insured party, receiving a commission from the insurer or reinsurer for placement and other services rendered. In contrast with an agent, the broker's primary responsibility is to the insurance buyer not the insurance carrier.
Capacity	In relation to a Lloyd's member, the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate, the aggregate of each member's capacity allocated to that syndicate.
Cash profit	Net profit after tax attributable to QBE shareholders, adjusted for the post-tax effect of amortisation and impairment of intangibles and other non-cash items. This definition is used for the purpose of the Group's dividend policy.
Casualty insurance	Insurance that is primarily concerned with the losses resulting from injuries to third persons or their property (i.e. not the policyholder) and the resulting legal liability imposed on the insured. It includes, but is not limited to, general liability, employers' liability, workers' compensation, professional liability, public liability and motor liability insurance.
Catastrophe reinsurance	A reinsurance contract (often in the form of excess of loss reinsurance) that, subject to specified limits and retention, compensates the ceding insurer for losses related to an accumulation of claims resulting from a catastrophe event or series of events.
Claim	The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.
Claims incurred	The aggregate of all claims paid during an accounting period adjusted by the change in the claims provision for that accounting period.
Claims provision	The estimate of the most likely cost of settling present and future claims and associated claims adjustment expenses plus a risk margin to cover possible fluctuation of the liability.
Claims ratio	Net claims incurred as a percentage of net earned premium.
Coefficient of variation	The measure of variability in the net discounted central estimate used in the determination of the probability of adequacy.
Combined operating ratio	The sum of the net claims ratio, commission ratio and expense ratio. A combined operating ratio below 100% indicates profitable underwriting results. A combined operating ratio over 100% indicates unprofitable underwriting results.
Commercial lines	Refers to insurance for businesses, professionals and commercial establishments.

Commission	Fee paid to an agent or broker as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer and the marketing methods.
Commission ratio	Net commission expense as a percentage of net earned premium.
Credit spread	The difference in yield between two bonds and a reference yield (e.g. LIBOR, BBSW or a fixed sovereign bond yield).
Credit spread duration	The weighted average term of cash flows for a corporate bond. It is used to measure the price sensitivity of a corporate bond to changes in credit spreads.
Deductible	The amount or proportion of some or all losses arising under an insurance contract that the insured must bear.
Deferred acquisition costs	Acquisition costs relating to the unexpired period of risk of contracts in force at the balance date which are carried forward from one accounting period to subsequent accounting periods.
Excess of loss reinsurance	A form of reinsurance in which, in return for a premium, the reinsurer accepts liability for claims settled by the original insurer in excess of an agreed amount, generally subject to an upper limit.
Expense ratio	Underwriting and administrative expenses as a percentage of net earned premium.
Facultative reinsurance	The reinsurance of individual risks through a transaction between the reinsurer and the cedant (usually the primary insurer) involving a specified risk.
General insurance	Generally used to describe non-life insurance business including property and casualty insurance.
Gross claims incurred	The amount of claims incurred during an accounting period before deducting reinsurance recoveries.
Gross earned premium (GEP)	The proportion of gross written premium recognised as income in the current financial year, reflecting the pattern of the incidence of risk and the expiry of that risk.
Gross written premium (GWP)	The total premium on insurance underwritten by an insurer or reinsurer during a specified period, before deduction of reinsurance premium.
Incurred but not reported (IBNR)	Claims arising out of events that have occurred before the end of an accounting period but have not been reported to the insurer by that date.
Insurance profit	The sum of the underwriting result and investment income on assets backing policyholders' funds.
Insurance profit margin	The ratio of insurance profit to net earned premium.
Inward reinsurance	See Reinsurance.
Large individual risk and catastrophe claims ratio	The aggregate of claims each with a net cost of \$2.5 million or more as a percentage of net earned premium.
Lenders' mortgage insurance (LMI)	A policy that protects the lender (e.g. a bank) against non-payment or default on the part of the borrower on a residential property loan.

Glossary CONTINUED

Lead/non-lead underwriter	A lead underwriter operates in the subscription market and sets the terms and price of a policy. The follower or non-lead is an underwriter of a syndicate or an insurance company that agrees to accept a proportion of a given risk on terms set by the lead underwriter.
Letters of credit (LoC)	Written undertaking by a financial institution to provide funding if required.
Lloyd's	Insurance and reinsurance market in London. It is not a company but is a society of individuals and corporate underwriting members.
Lloyd's managing agent	An underwriting agent which has permission from Lloyd's to manage one or more syndicates and carry on underwriting and other functions for a member.
Long-tail	Classes of insurance business involving coverage for risks where notice of a claim may not be received for many years and claims may be outstanding for more than one year before they are finally quantifiable and settled by the insurer.
Managing General Agent (MGA)	A wholesale insurance agent with the authority to accept placements from (and often to appoint) retail agents on behalf of an insurer. MGAs generally provide underwriting and administrative services such as policy issuance on behalf of the insurers they represent. Some may handle claims.
Maximum event retention (MER)	An estimate of the largest claim to which an insurer will be exposed (taking into account the probability of that loss event at a return period of one in 250 years) due to a concentration of risk exposures, after netting off any potential reinsurance recoveries and inward and outward reinstatement premiums.
Modified duration	The weighted average term of cash flows in a bond. It is used to measure the price sensitivity of a bond to changes in interest rates.
Multi-peril crop scheme	US federally regulated crop insurance protecting against crop yield losses by allowing participating insurers to insure a certain percentage of historical crop production.
Net claims incurred	The amount of claims incurred during an accounting period after deducting reinsurance recoveries.
Net claims ratio	Net claims incurred as a percentage of net earned premium.
Net earned premium (NEP)	Net written premium adjusted by the change in net unearned premium.
Net investment income	Gross investment income including foreign exchange gains and losses and net of investment expenses.
Net written premium (NWP)	The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.
Outstanding claims liability	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.
Personal lines	Insurance for individuals and families, such as private motor vehicle and homeowners' insurance.
Policyholders' funds	The net insurance liabilities of the Group.
Premium	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.

Premium solvency ratio	Ratio of net tangible assets to net earned premium. This is an important industry indicator in assessing the ability of general insurers to settle their existing liabilities.
Prescribed Capital Amount (PCA)	This comprises the sum of the capital charges for asset risk, asset concentration risk, insurance concentration risk and operational risk as required by APRA. The PCA must be disclosed at least annually.
Probability of adequacy	A statistical measure of the level of confidence that the outstanding claims liability will be sufficient to pay claims as and when they fall due.
Proportional reinsurance	A type of reinsurance in which the original insurer and the reinsurer share claims in the same proportion as they share premiums.
Prudential Capital Requirement (PCR)	The sum of the Prescribed Capital Account (PCA) plus any supervisory adjustment determined by APRA. The PCR may not be disclosed.
Recoveries	The amount of claims recovered from reinsurance, third parties or salvage.
Reinsurance	An agreement to indemnify a primary insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the primary insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedant or ceding company and is said to place outward reinsurance.
Reinsurance to close	A reinsurance agreement under which members of a syndicate, for a year of account to be closed, are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.
Reinsurer	The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer. The term includes retrocessionaires, being insurers that assume reinsurance from a reinsurer.
Retention	That amount of liability for which an insurance company will remain responsible after it has completed its reinsurance arrangements.
Retrocession	Reinsurance of a reinsurer by another reinsurance carrier.
Return on allocated capital (RoAC)	Divisional management-basis profit as a percentage of allocated capital as determined by the Group's economic capital model.
Return on equity (ROE)	Group statutory net profit after tax as a percentage of average shareholders' funds.
Short-tail	Classes of insurance business involving coverage for risks where claims are usually known and settled within 12 months.
Stop loss reinsurance	A form of excess of loss reinsurance which provides that the reinsurer will pay some or all of the reassured's losses in excess of a stated percentage of the reassured's premium income, subject (usually) to an overall limit of liability.
Surplus (or excess) lines insurers	In contrast to "admitted insurers", every US state also allows non-admitted (or "surplus lines" or "excess lines") carriers to transact business where there is a special need that cannot or will not be met by admitted carriers. The rates and forms of non-admitted carriers generally are not regulated in that state, nor are the policies back-stopped by the state insolvency fund covering admitted insurance. Brokers must inform insurers if their insurance has been placed with a non-admitted insurer.

Glossary CONTINUED

Syndicate	A member or group of members underwriting insurance business at Lloyd's through the agency of a managing agent.
Survival ratio	A measure of how many years it would take for dust disease claims to exhaust the current level of claims provision. It is calculated on the average level of claims payments in the last three years.
Total shareholder return (TSR)	A measure of performance of a company's shares over time. It includes share price appreciation and dividend performance.
Treaty reinsurance	Reinsurance of risks in which the reinsurer is obliged by agreement with the cedant to accept, within agreed limits, all risks to be underwritten by the cedant within specified classes of business in a given period of time.
Underwriting	The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.
Underwriting expenses	The aggregate of policy acquisition costs, excluding commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
Underwriting result	The amount of profit or loss from insurance activities exclusive of net investment income and capital gains or losses.
Underwriting year	The year in which the contract of insurance commenced or was underwritten.
Unearned premium	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
Volume weighted average price (VWAP)	A methodology used for determining the share price applicable to dividend and other share related transactions.
Written premium	Premiums written, whether or not earned, during a given period.

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