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QBE

11 December 2018

The Manager
Market Announcements Office
ASX Limited
Level 4
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

MARKET UPDATE

We refer to the attached presentation for release to the market.

Yours faithfully

Carolyn Scobie
Company Secretary

Attachment

MARKET RELEASE

11 December 2018

QBE UPDATES ON PORTFOLIO SIMPLIFICATION, 2019 REINSURANCE RENEWAL AND A THREE-YEAR OPERATIONAL EFFICIENCY INITIATIVE[1]

QBE has completed the Group's portfolio simplification agenda with the sale of its insurance operations in Puerto Rico, Indonesia and the Philippines.[2]

At the same time, QBE has fully placed its 2019 reinsurance program and announces a three-year operational efficiency program targeting net cost savings of $130M and an expense ratio of around 14% in 2021.

2019 reinsurance program

The recently finalised 2019 reinsurance program is structured to better suit the Group's simplified portfolio and improving underwriting risk profile.

Key features of the Group's 2019 reinsurance program include:

- significantly reduced catastrophe retention;
- greatly increased protection against catastrophe severity;
- protection against frequency of medium-sized catastrophes;
- significantly reduced large individual risk claim retention;
- improved protection against large individual risk claim severity; and
- increased quota share protection to further reduce claims volatility.

The Group's 2019 reinsurance program strikes an appropriate balance between cost, balance sheet protection, capital strength and earnings volatility.

We have moved to a more conventional reinsurance structure with significantly increased catastrophe protection that will deliver better profit outcomes in extreme (severe or benign) catastrophe years as would have been the case in 2017 and 2015 respectively.

To demonstrate the extent to which our exposure to more extreme catastrophic events has been reduced, our 1:20 and 1:200 year probable maximum loss (PML) for Australian cyclone events will fall by around 20% and 35% respectively, while our 1:20 and 1:200 year PML for North American hurricane will fall by around 20% and 25% respectively.

Reflecting the strengthened catastrophe protection, the new structure delivers a modest uplift in both our S&P and APRA capital ratios.

1 All figures in US$ unless otherwise stated

2 Sales subject to regulatory approval

The 2019 program is expected to save around $125M in reinsurance costs; however, this will be more than offset by an increase in the budgeted allowance for large individual risk and catastrophe claims to around $1.4BN, up from around $1.2BN currently, given greater variability around reinsurance recoveries.

Notwithstanding the resulting headwind of around $50M-$100M, we remain confident of achieving an improved combined operating ratio and higher overall profitability in 2019 compared with 2018, underpinned by the premium rate increases we are achieving, expected ongoing improvement in the Group's attritional claims ratio and the recently commenced efficiency program.

Over time the Brilliant Basics program is expected to drive a further reduction in claims costs due to improved pricing adequacy, better risk selection and more effective claims management.

Operational efficiency

Having recently announced the consolidation of our regional footprint into three divisions, North America, International Markets and Australia Pacific, QBE has commenced a three-year operational efficiency program.

The Group will work to make its operations more effective and streamlined, consolidating technology tools, reducing IT run costs and re-engineering and automating processes.

Key features of the Group's 2019-2021 operational efficiency program include:

- more than $200M in gross cost savings by 2021 before underlying inflation and further investment in the Brilliant Basics program, technology and digitisation;
- around $130M net reduction in expenses by 2021 from around $1.8BN currently;
- targeting an expense ratio of around 14% by 2021 representing an improvement of around 1.5%, inclusive of very modest and selective premium growth; and
- around $95M of restructuring costs to be incurred over 2019-2020.

As part of this program, we are investing in our people and ways of working to ensure we operate more efficiently. At the same time, we are investing in technology initiatives, such as the consolidation of underwriting platforms in North America and a more advanced workflow tool for our European underwriters.

None of these technology investments are individually material but they will collectively support our Brilliant Basics agenda of better pricing, risk selection and claims management as well as better outcomes for our customers and our brokers. Our investment will also allow us to retire numerous legacy applications, thereby reducing our IT run costs.

We have a clear set of initiatives to achieve the targeted efficiency outcomes and, most importantly, to ensure that our people are engaged, accountable and will be measured on their performance.

Further details are included in a presentation lodged with the ASX.

- ENDS –

MARKET RELEASE
11 December 2018

TELECONFERENCE

QBE Group CEO, Pat Regan, will hold a teleconference today from 9.00am to 10.00am AEDT.

PARTICIPATION CODE: 245655

DIAL IN NUMBERS:
Australia: 1800 908 299
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Q&A SESSION (VIA TELECONFERENCE)

- To participate in the teleconference, you will need a touchtone phone
- 10 minutes prior to the briefing, please dial your call-in number and follow the prompts
- To ask a question during the question and answer session:
  - Press * then 1 on your phone to enter the Q&A queue
  - Press * then 2 on your phone to withdraw your question
- If you are disconnected for any reason during the teleconference, redial your call-in number

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QBE Insurance Group Limited is listed on the Australian Securities Exchange, is one of the top 20 global insurance and reinsurance companies as measured by net earned premium and has operations in 31 countries.

QBE Insurance Group

Market update

Tuesday 11 December 2018

All figures in US$ unless otherwise stated

Discussion points

Our agenda: simplify, focus and drive performance

2019 reinsurance program

Operational efficiency

Our agenda: simplify, focus and drive performance

Simplified and more focused

Portfolio simplification complete

Puerto Rico, Indonesia and Philippines now sold[1]

LatAm, Thailand, Travel and NA personal lines

Cell performance reviews

Strong performance mgmt and clear accountability

Driving consistency of performance and earnings quality

>500 reviews YTD

Brilliant Basics build accelerating

Global underwriting and claims standards in place

Improved risk selection and reduced Cat exposures

Pricing momentum

3Q average rate increase of 5.9%[2]

Building on 1H18 rate increase, 3Q YTD average rate increase 5.0%[2]

Strong balance sheet

2018 buyback commitment complete

PCA stable at upper end of range

Drive performance

New reinsurance program complements Brilliant Basics

Operational efficiency: competitiveness and scalability

1. Sales subject to regulatory approval
2. Excludes CTP

2019 reinsurance program

Simpler, more sustainable reinsurance structure

Expiring 2018 structure

"In-the-money" aggregate treaty

- Combined limit for Cat and Large Risk
- Locked-in cost of Cat and Large Risk of $1.2BN (QBE retention)
- Rising exposure to single reinsurer

Conventional treaties

- Cat retention: $600M
- Risk retention $100M

2019 structure

2019 structure fully placed (50% for 2 years)[1]

- Early placement led to favourable terms; avoided pricing uptick post recent Cat activity

Stronger catastrophe reinsurance protection

- Reduced peak[2] ($400M) & non-peak ($100M) retentions
- Significantly increased Cat limit
- Aggregate protection for frequency of medium-sized events
- Very significant reduction in probable maximum loss scenarios

Risk XOL structure supported by Brilliant Basics

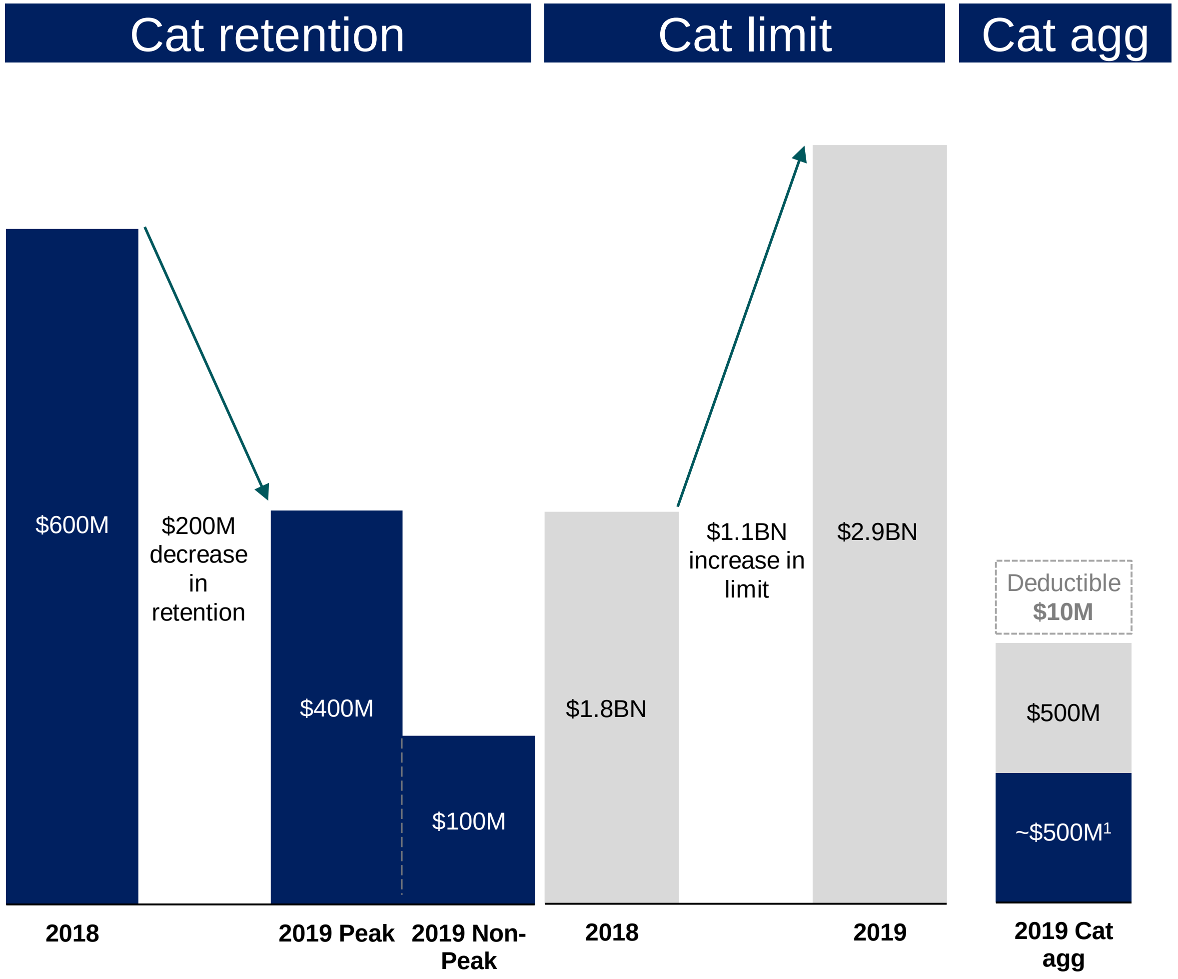
- Lower retention on any single Large Risk claim
- $50M retention with $25M sub-layer after three claims

Equator Re 50% quota share further protects severity

- Reduces peak peril first event retention by up to $162.5M[3]
- Further reduces Large Risk retention by up to $22.5M[3]

1. 50% of core catastrophe, risk and quota share covers placed for 2 years, subject to final confirmation
2. Peak perils defined as cyclone, hurricane & typhoon, and earthquake (and fire following) in respects Australia, New Zealand (quake only) and US (excluding Puerto Rico). All other perils are non-peak
3. Retentions for major divisions (International, Australia Pacific, North America) range from $50M to $150M for Cat and typically $5M to $20M for Risk (retentions vary by product). Aggregate deductibles apply on some risk covers

Cat: 2019 program provides greater balance sheet protection



- Limit increased by $1.1BN
- Retention has reduced by $200M and drops to $100M on the second event
- Additional cover reduces retention to $100M for non-peak perils[2]
- Aggregate cover to protect against frequency of medium sized events
- Equator Re 50% quota share further reduces catastrophe retention
- Significant reduction in probable maximum loss

1. Final placed retention likely to be a mix of terms in the $500M to $515M range
2. Peak perils defined as cyclone, hurricane & typhoon, and earthquake (and fire following) in respects Australia, New Zealand (quake only) and US (excluding Puerto Rico). All other perils are non-peak
3. Peak, non-peak and aggregate limits contain shared limits which can only be fully used once in different parts of the program. See appendix for a more detailed explanation

Significantly reduced catastrophe exposure in 2019

Region & Peril[1]	1:20 Year	1:200 Year
Australian and New Zealand earthquake	-20%	-50%
Australian cyclone	-20%	-35%
North American earthquake	-10%	-25%
North American windstorm	-20%	-25%

2019 catastrophe program significantly reduces probable maximum loss (PML)

Additional Cat limit and lower Cat retention are main drivers

Wrap and Equator Re quota share also contribute

Portfolio optimisation benefit

Portfolio simplification has also contributed to PML reductions

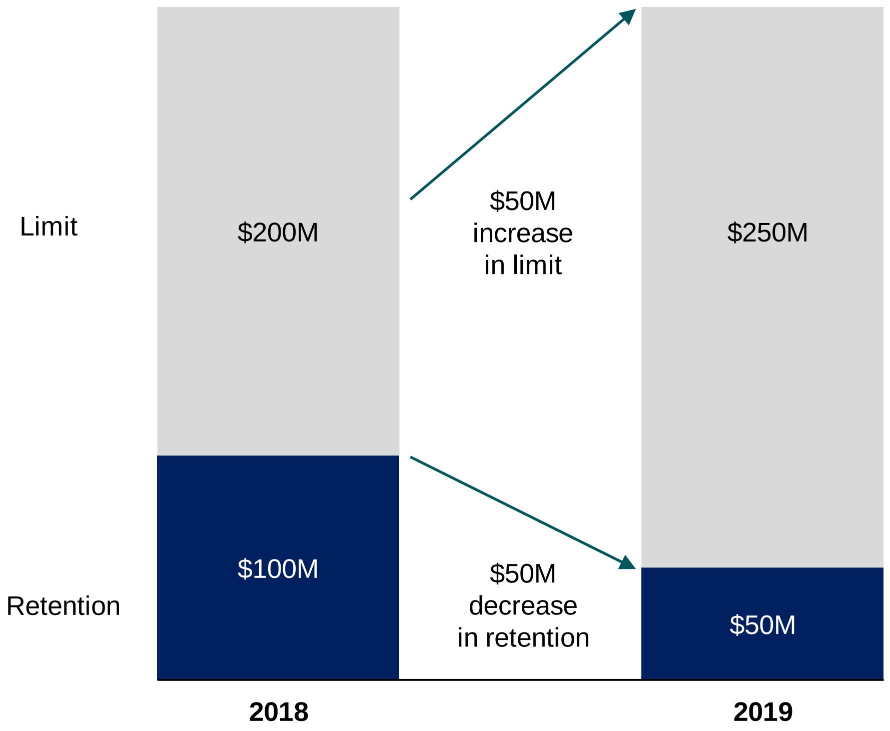
APRA Capital benefit reflects PML reduction

~$100M[2] APRA PCA benefit driven by North America 1/200 year OEP[1] reduction

1. Approximate impact on Occurrence Exceedance Probability (OEP) 3Q18 with 2019 Reinsurance vs 3Q17 with 2018 Reinsurance
2. Reflects reduction in APRA ICRC of around $100M at 31/12/18 versus 31/12/17 (subject to APRA approval)

Risk: Aggregate cover replaced by lower retention on excess of loss cover

Brilliant Basics supports a reduction in Large Risk claims allowance over time

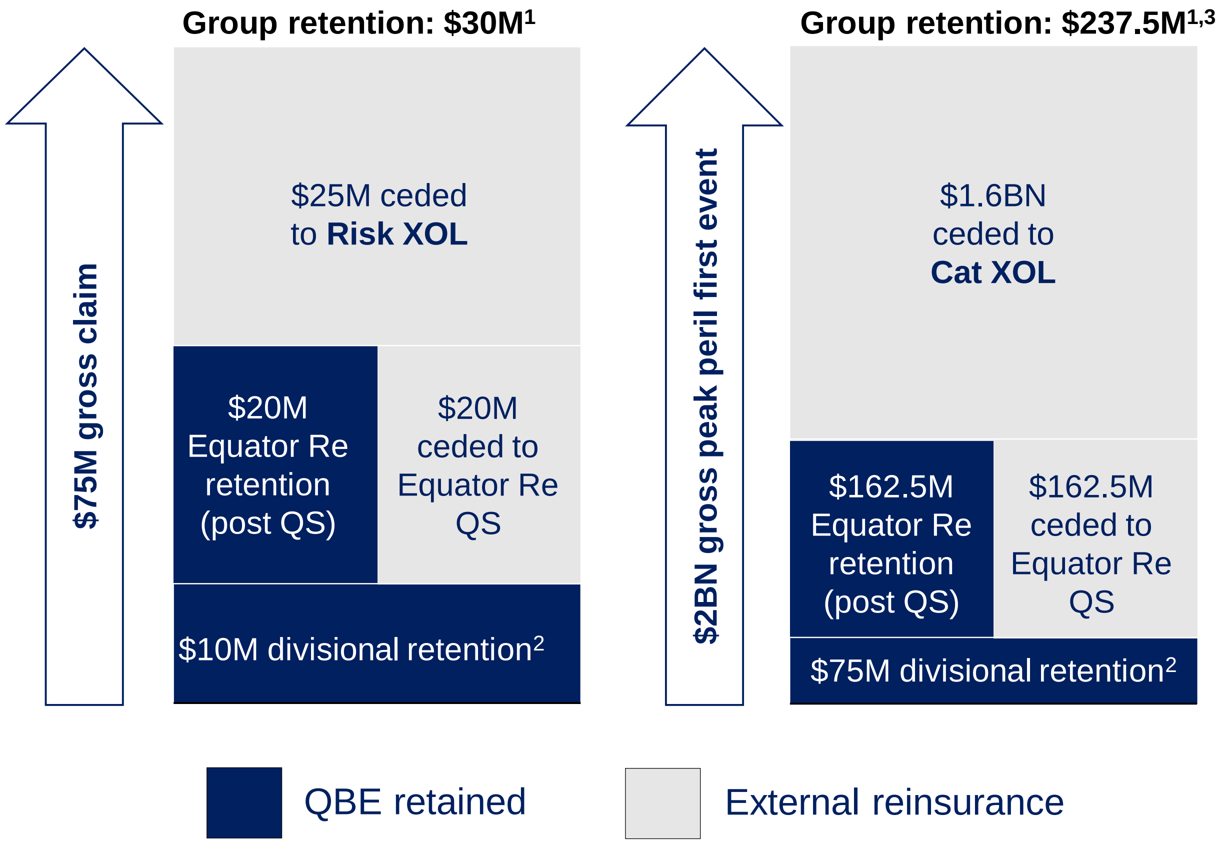


- Retention reduced to $50M
- Retention drops to $25M after three $50M claims[1]
- Equator Re 50% quota share further reduces exposure to Large Risks

1. $75M aggregate deductible that can be eroded by any combination of claims to the $25M xs $25M layer

Equator Re's 50% quota share significantly reduces Large Risk and Cat volatility

Example 1: $75M NA factory fire **Example 2: $2BN Qld cyclone**



Equator Re absorbs a substantial amount of the Group's Large Risk and Cat volatility

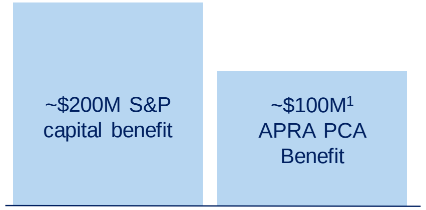
- Divisions purchase Large Risk and Cat reinsurance from Equator Re to reduce their retentions
- Equator Re cedes 50% of the premium and claims via an external quota share
- Equator Re's quota share cession will increase to 50% in 2019 (from 40% in 2018)

1. Examples are illustrative and retentions will vary depending on mix of claims by division and product
2. Retentions for major divisions (International, Australia Pacific, North America) range from $50M to $150M for Cat and typically $5M to $20M for Risk (retentions vary by product). Aggregate deductibles apply on some risk covers
3. Group retention could reach $250M depending upon the extent of any additional exposure through International Markets – this example assumes nil. The net cost of a large but reasonably foreseeable North American hurricane could be as much as $300M, depending upon the extent of exposure through International Markets, including no more than a $150M North America retention, a $50M International Markets retention and a $100M Equator Re retention

2019 reinsurance program impacts

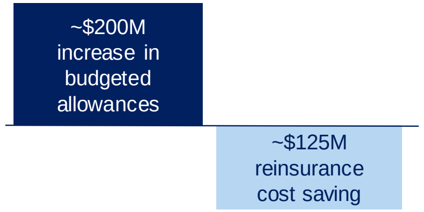
Optimising cost, balance sheet protection, capital preservation

- Balance sheet protection stronger than previous structure
  - ✓ S&P capital benefit of ~$200M
  - ✓ APRA PCA benefit of ~$100M[1]
- Better P&L outcomes in extreme (severe or benign) catastrophe years



Higher budgeted Risk and Cat claims allowance, partly offset by lower cost of reinsurance program (~$125M)

- A conventional "out-of-the-money" program with more variability around recoveries
- Higher budgeted Risk and Cat claims allowance (increased by ~$200M to ~$1.4BN), partly offset by lower reinsurance cost
- P&L headwind of around $50M-$100M in 2019
- Brilliant Basics expected to drive Risk and Cat claims allowance down over time



Positive impact on attritional and expense ratios

1. Reflects ~$100M reduction in APRA ICRC at 31/12/18 versus 31/12/17 (subject to APRA approval)

Operational efficiency

Targeting expense ratio <14% by 2021

>$200M gross savings by 2021, before inflation and further investment in:

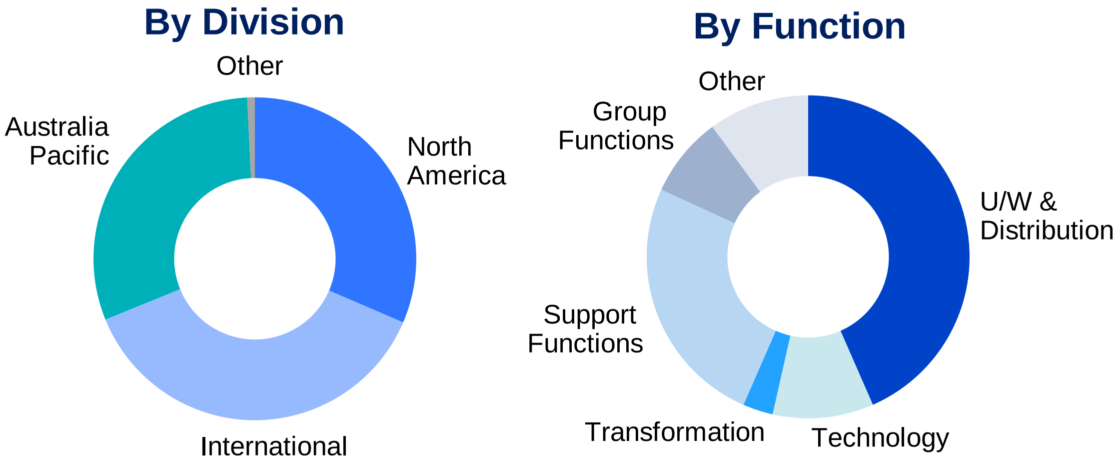
- Brilliant Basics capability
- Technology
- Digital

~$130M net reduction in expenses by 2021

Target expense ratio ~14% by 2021 (~1.5% improvement)

~$95M restructuring charge over two years (outside of U/W result)

Current profile of QBE expense base (~$1.8BN)



Simplifying and reducing expense base

	FY19	FY20	FY21
~$130M[1] Net cost-out phased over 3 years	~30%	~35%	~35%
~$95M Restructuring costs over 2 years	~60%	~40%	

1. Reflects earned net cost reduction in respective financial years (before restructuring costs)

Building a simpler, stronger QBE

Focused regional footprint and a 'Lean & Activist' Group Head Office

Simpler and more streamlined businesses

More sustainable operating platform with right-sized functions and infrastructure

Digital & Process Transformation: improved customer outcomes

Building a modern technology estate

Accelerating Brilliant Basics

Program is underpinned by a clear set of initiatives and direct accountability

Technology Enablement

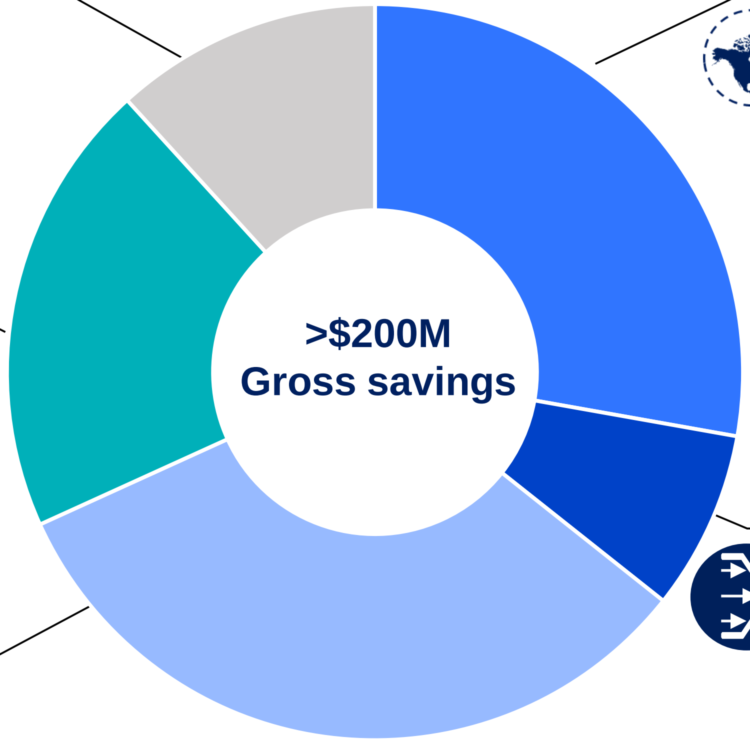
- Application rationalisation
- Legacy decommissioning
- Journey to the cloud

Process Excellence

- Simplification
- End-to-end process improvement
- Digitisation
- Automation

Tactical

- Real estate optimisation
- Procurement
- Consulting and T&E



North America

- More focused business
- Right-size functions and infrastructure
- Technology rationalisation
- Simplification via sale of Personal Lines

Simplified Operating Model

- Synergies through re-pointing Asia & Pacific, reducing regional infrastructure
- 'Lean & Activist' Group Head Office
- Rationalising organisational structure in Australia & New Zealand

Questions & Answers

Disclaimer

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

The information is supplied in summary form and is therefore not necessarily complete. Prior to making a decision in relation to QBE’s securities, products or services, investors, potential investors and customers must undertake their own due diligence as to the merits and risks associated with that decision, which includes obtaining independent financial, legal and tax advice on their personal circumstances. No representation or warranty is made as to the accuracy, completeness or reliability of the information.

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

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

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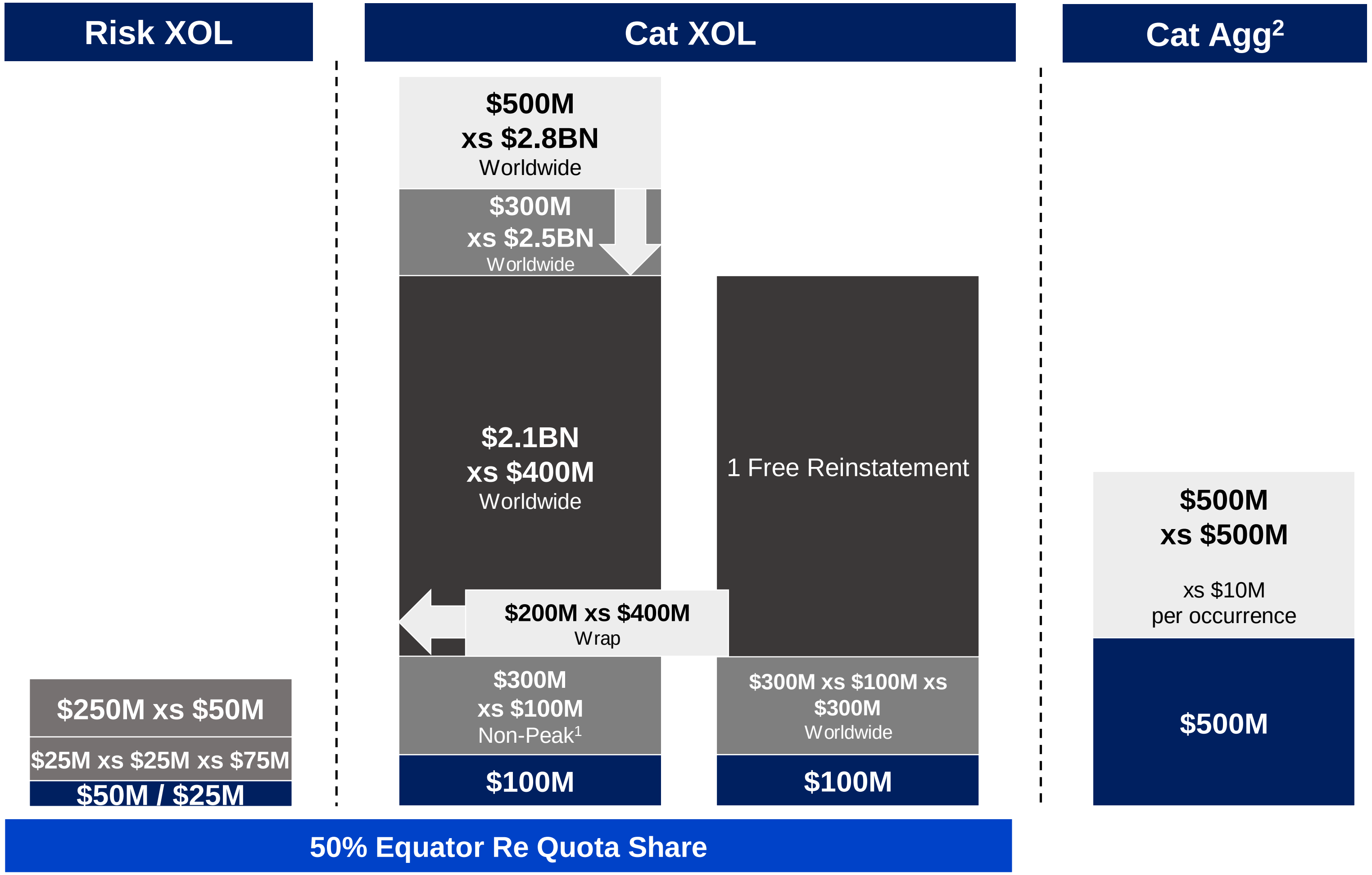
Appendices

2019 global reinsurance program



Main Cat XOL limit

- $2.1BN xs $400M

$300M Top or Drop or Non-Peak[1] limit

- Top: $300M xs $2.5BN **or**
- Non-Peak[1]: $300M xs $100M **or**
- Drop: $300M xs $100M xs $300M

$500M Top or Agg or Wrap limit

- Top: $500M xs $2.8BN (or $2.5BN) **or**
- Agg: $500M xs $500M[2] Cat Aggregate **or**
- Wrap: $200M xs $400M including QBE Re & s.1036 retained loss and EQ Re Share

1. Peak perils defined as cyclone, hurricane & typhoon, and earthquake (and fire following) in respects Australia, New Zealand (quake only) and US (excluding Puerto Rico). All other perils are non-peak
2. Final placed retention likely to be a mix of terms in the $500M to $515M range

Glossary of reinsurance terms

Term	Definition
Aggregate reinsurance	An aggregate excess of loss reinsurance treaty indemnifies the insurance company (the reinsured) for an aggregate (or cumulative) amount of losses in excess of a specified aggregate amount. An inner deductible generally applies i.e. the treaty only applies to losses in excess of a stated dollar amount.
Catastrophe claim	A loss event resulting from natural perils with two or more claimants where individual claims within the event can be of any size so long as the aggregate cost of these claims exceeds $2.5m (net of non-aggregate reinsurance) (QBE definition)
Catastrophe reinsurance	A reinsurance contract (often in the form of excess of loss reinsurance) that, subject to specified limits and retention indemnifies the ceding insurer for losses related to an accumulation of claims resulting from a catastrophe event or series of events. The definition of a 'catastrophe' in the reinsurance contract will differ to the QBE definition of a Catastrophe.
Excess of loss reinsurance (XOL)	A form of non-proportional 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.
Gross claims incurred	The amount of claims incurred during an accounting period before deducting reinsurance recoveries.
Large Risk claim	Claims that have a net of non-aggregate reinsurance value greater than US$2.5 million that are not defined as a Catastrophe. (QBE definition)
Large individual risk and catastrophe claims ratio	The aggregate of claims each with a net cost of US$2.5 million or more as a percentage of net earned premium. (QBE definition)
Limit	The total amount of losses to be paid by an insurer (or reinsurer) under an insurance (or reinsurance) policy, expressed either on a per occurrence basis (e.g. per accident or event) or on an aggregate basis.
Proportional reinsurance	A type of reinsurance in which the reinsurer shares a proportional part of the ceded premiums and losses of the ceding company.
Quota share treaty	A type of proportional reinsurance where premiums and claims are shared based on an agreed percentage.
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.
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.
Syndicate	A member or group of members, underwriting insurance business at Lloyd's through the agency of a managing agent.
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.