



14 October 2014

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

Dear Sir/Madam,

**QBE European Operations Investor and Analyst Day presentation – 14 October 2014**

Please find attached a copy of a presentation from QBE European Operations to be delivered today in London.

Yours faithfully

A handwritten signature in blue ink, appearing to be "P Horton", written in a cursive style.

Peter Horton  
**Company Secretary**

Encl.

# **QBE Insurance Group**

## **Investor and analyst day presentation**

**European Operations business review**

October 2014



# EO business review - agenda

		Page No.
EO divisional overview Richard Pryce – Chief Executive Officer	09.00 – 10.30	<a href="#">3 - 19</a>
EO capital and reserving update David Winkett – Chief Financial Officer	10.30 – 11.30	<a href="#">20 - 27</a>
Risk and Solvency II Phil Dodridge – Chief Risk Officer	11.30 – 12.30	<a href="#">28 - 35</a>
Lunch	12.30 – 13.30	
International markets Colin O'Farrell – Chief Underwriting Officer, International Markets	13.30 – 14.15	<a href="#">36 - 43</a>
Global reinsurance Jonathan Parry – Chief Underwriting Officer, Reinsurance	14.15 – 15.00	<a href="#">44 - 50</a>
Retail Richard Pryce – Chief Executive Officer	15.00 – 15.45	<a href="#">51 - 57</a>
Close	15.45 – 16.00	<a href="#">58</a>

# EO divisional overview

Richard Pryce, Chief Executive Officer



# Contents

- Market positioning and environment
- Underwriting structure and management team
- Performance
- Ambition and strategic priorities

# Market positioning - current state

**Specialist commercial insurer and reinsurer, comprising strong UK commercial presence, multi-line global reinsurer, international specialty P&C business and smaller European business**

- With a full year GWP expectation of £2.8bn at H1 2014 (including £0.15bn of global reinsurance risks written by QBE NA but managed by QBE EO), EO has diverse product and geographical mix focused on commercial lines with minimal (<2%) personal lines, split:
  - Retail Markets 51% (UK & Ireland, Europe and Financial and Specialty Markets (F&SM))
  - International Markets 29%
  - Global Reinsurance 20%
- Balanced risk portfolio comprising circa 48% long-tail vs 52% short tail exposures by GWP
- Strong leadership position enabling us to set and/or influence pricing and terms for approximately 76% of GWP
- A leading London market presence equating to approximately 80% of GWP and 3rd largest underwriter at Lloyd's with circa. 6% capacity share of Lloyd's market
- Lloyd's vs non-Lloyd's: 43% and 57% respectively by GWP
- Owned and managed outlets in 8 European countries and offices in Houston, New Orleans, Toronto, Vancouver, Dubai, Tokyo and Singapore

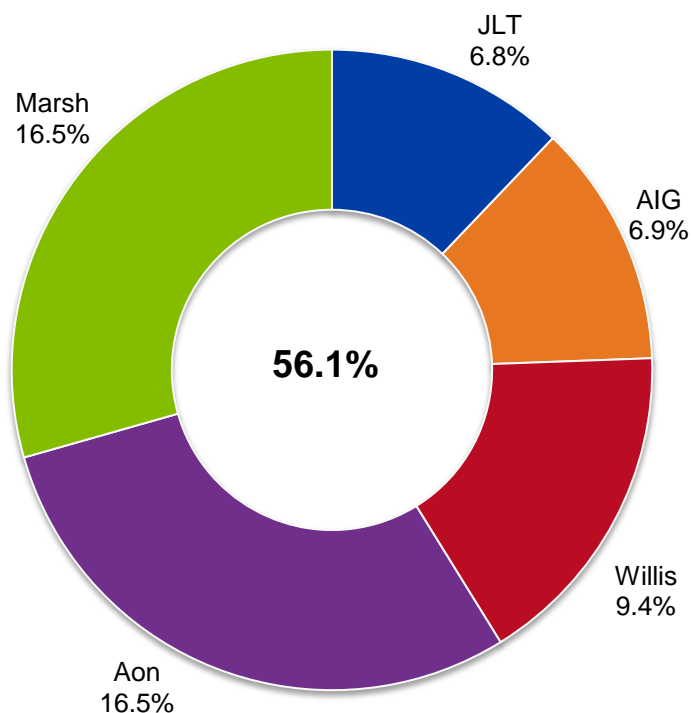
*Source: QBE Insurance Group Report H1 2014 (adjusted to include QBE NA reinsurance)*

# Market positioning – GWP by domicile of assured

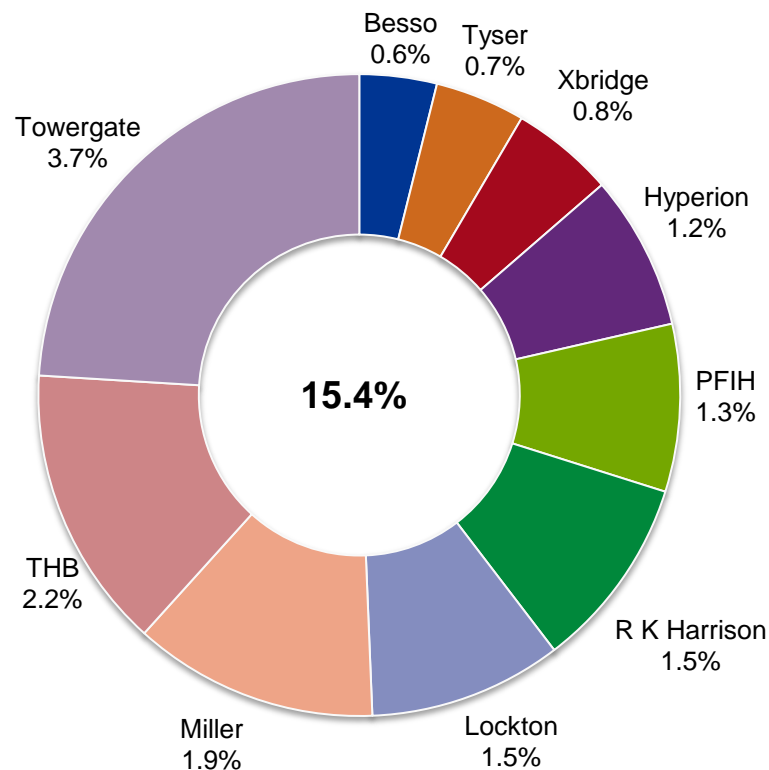


# Market positioning – GWP by broker

## Top 5



## Next 10



*The remaining 28.5% of our business is sourced from approximately 3,800 brokers*

# Market environment - challenging

**Significant competition in most of our operating divisions, with excess capital and strong appetite creating difficult trading environment, placing increasing pressure on margins over recent years**

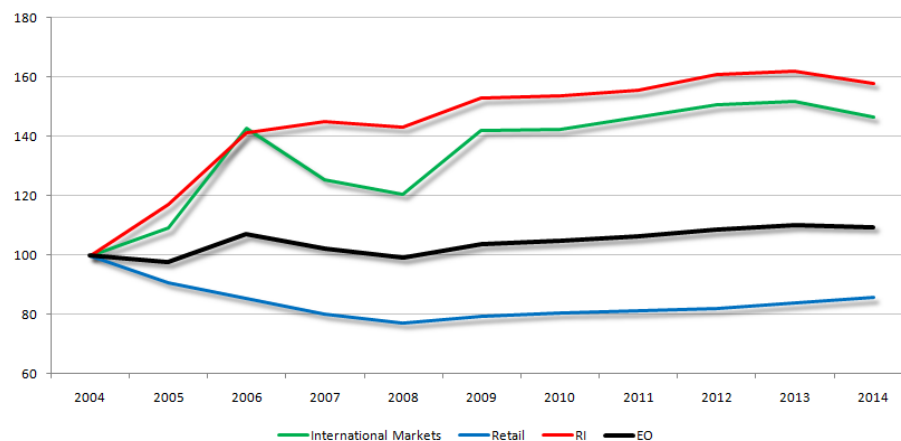
- Economic environment showing signs of improvement, but most European countries unlikely to experience material growth over next 3 years
- Challenges to traditional reinsurance industry due to influx of external capital and changes in buying by cedents
- Globalisation and localisation of traditional markets, resulting in reduced quantity/quality business to London
- Increasing financial expectations of all brokers, using facilities and packaging to drive increased earnings
- Increasing influence and sophistication of major brokers as they seek to use data and alternative structures, marginalising insurers' returns
- Increased client sophistication and service requirements
- Increasing regulatory demands
- Heightened demand for talent at all levels due to new entrants and expansion of existing players

# Market environment - rate experience

## H1 experience vs full year plan

	Full Year Plan	Q1 YTD Actual	Q2 YTD Actual
Brussels	0.6%	0.6%	0.5%
Dublin	-2.2%	-2.6%	-4.8%
London	-2.8%	-4.4%	-6.2%
USA	-1.1%	-4.0%	-4.8%
<b>Reinsurance</b>	<b>-1.4%</b>	<b>-2.2%</b>	<b>-3.5%</b>
Canada & Middle East	0.1%	-0.1%	-1.0%
Marine	0.9%	1.8%	0.5%
Energy & Political	-5.0%	-4.1%	-5.0%
International P&C	0.3%	-1.1%	-3.2%
BM	2.7%	0.3%	-1.1%
<b>International Markets</b>	<b>-0.6%</b>	<b>-1.0%</b>	<b>-3.0%</b>
Europe	0.8%	1.3%	0.6%
UK&I	3.1%	3.2%	2.6%
F&SM	0.8%	0.4%	2.2%
<b>Retail</b>	<b>2.5%</b>	<b>2.6%</b>	<b>2.2%</b>
<b>Total</b>	<b>0.7%</b>	<b>0.5%</b>	<b>-0.9%</b>

## Prior year experience



# Underwriting management structure

**The restructure of our insurance underwriting business implemented in 2013 continues to deliver greater external clarity, stronger internal accountability across our key geographies and better cross company collaboration**

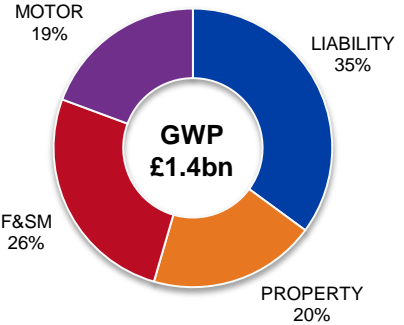
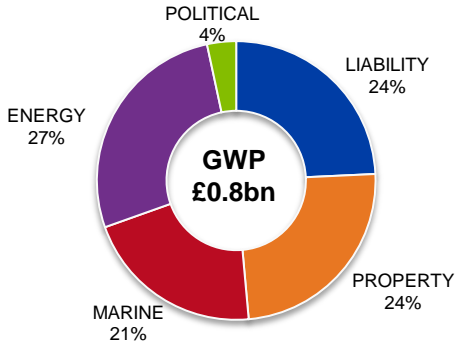
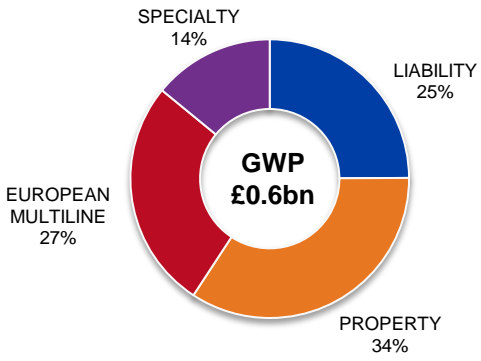
The structure allows us to better respond to the evolving and increasingly sophisticated needs of our brokers in particular the "big 5", who supply over 50% of our business. It also provides increased engagement and improved support to meet the different demands of our clients.

Key features include:

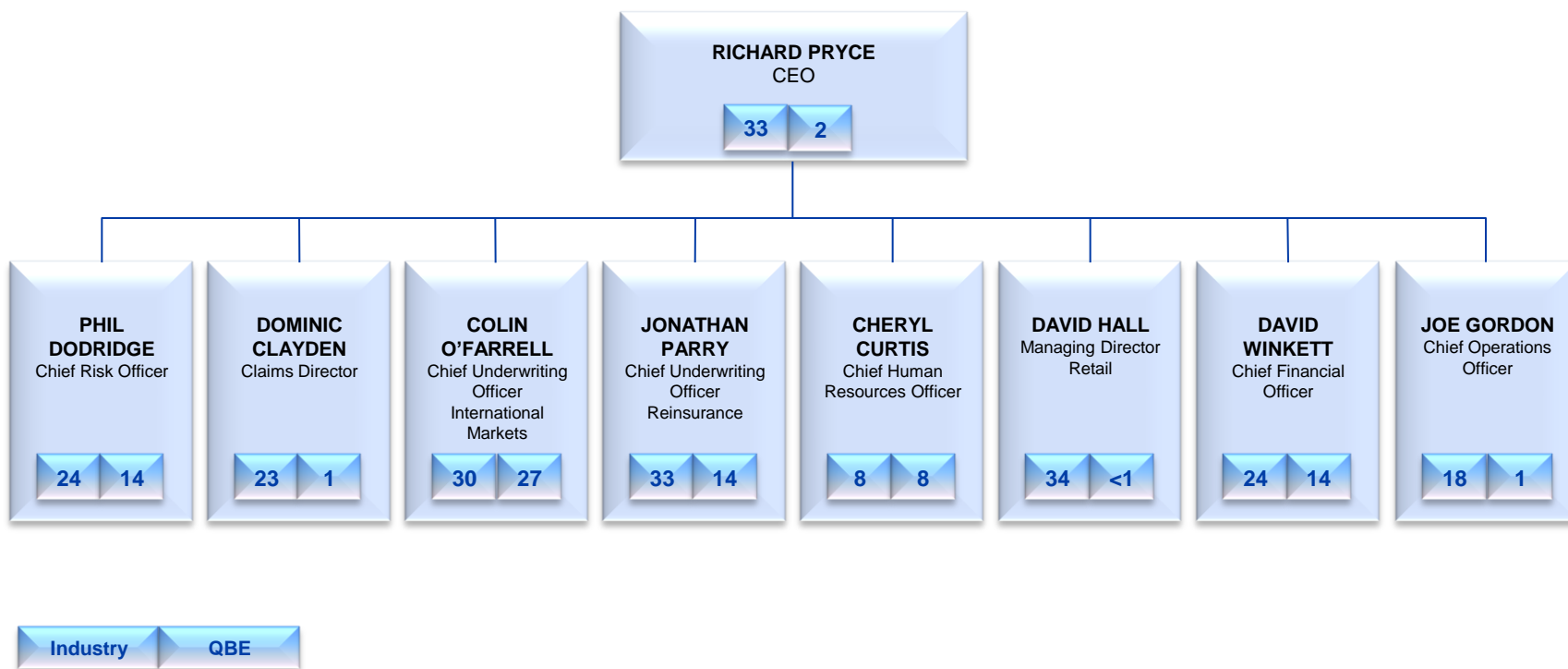
- Market facing and client centric
- Maintains underwriting excellence, discipline and leadership
- Flexible and responsive to markets
- Leverages core capabilities - underwriting excellence and product focus
- Maximises our distribution capability
- Creates clear career paths and new opportunities for our people

A new distribution & relationship management function across all divisions has also been established to build and expand upon QBE's existing broker partnerships while developing a more joined up client engagement proposition

# Underwriting management structure

	<b>Retail</b> <i>David Hall</i>	<b>International Markets*</b> <i>Colin O'Farrell</i>	<b>Global Re*</b> <i>Jonathan Parry</i>
Products	<p>Property, Liability, Motor, Financial &amp; Specialty Markets (F&amp;SM)</p>  <p><b>GWP £1.4bn</b></p>	<p>Marine, Energy, Political Risk &amp; Violence, International Property, International Liability,</p>  <p><b>GWP £0.8bn</b></p>	<p>Property, Casualty/US Multiline, European Multiline, Specialty</p>  <p><b>GWP £0.6bn</b></p>
Distribution	<p>London 8 UK Regional offices 6 European countries</p>	<p>London, Toronto, Vancouver, Singapore, Dubai, New Orleans, Houston</p> <p><i>*Excludes aviation</i></p>	<p>London, New York*, Tokyo Brussels, Dublin</p> <p><i>*Includes QBE NA</i></p>
Legal Entity	<p>Lloyd's Company</p>	<p>Lloyd's Company</p>	<p>Lloyd's Company</p>

# Senior management team



# Performance - improvement

Despite the challenging environment we are well positioned to withstand the prevailing conditions and recommence profitable growth in many areas of our business

- **Profitable growth** – identifying growth opportunities over the next three years has been at the centre of our strategic planning. We have acted decisively in identifying and disposing of non-core assets and the closing or restructuring of underperforming portfolios, namely:
  - Closed branches (Insurance) – Dublin, Switzerland and Belgium
  - Central & Eastern Europe (CEE) offices renewal rights sold – Bulgaria and Romania
  - Ceased portfolios – medmal (Italian and Spanish), aviation and bloodstock
  - Ongoing – Reduced Delegated Underwriting Authorities. Sale of residual CEE offices and reduced direct property catastrophe exposures
- **Medmal portfolio** – successfully reinsured our QBE Insurance (Europe) Ltd (QIEL) company Italian and Spanish medical malpractice claims exposures, with effect from 01/07/14.
- **Claims service** – work is ongoing on restructuring our claims proposition as we seek to improve service and performance to brokers and clients and optimise technical claims handling, governance and oversight

# Performance - H1 2014 management result compared to plan and prior year

**Solid progress across the majority of our business despite increasingly challenging market conditions**

		H1 14 Plan	H1 14 Actual	H1 13 Actual
Gross written premium	£m	1,900.5	1,616.3	2,038.0
Gross earned premium	£m	1,612.3	1,476.5	1,595.7
Net earned premium	£m	1,356.6	1,215.1	1,294.4
Claims ratio	%	60.7	59.7	61.4
Commission ratio	%	17.8	18.8	19.1
Expense ratio	%	15.5	15.7	13.8
<b>Combined ratio</b>	<b>%</b>	<b>94.0</b>	<b>94.2</b>	<b>94.3</b>
<b>Insurance margin</b>	<b>%</b>	<b>8.8</b>	<b>8.9</b>	<b>8.4</b>
ROAC	%	12.6	12.1	13.2

**GWP** expected to reduce (due to disposals and portfolio restructures) however, down more than plan to £1,616m due to worse than anticipated market conditions (particularly for International Markets and Global Reinsurance), coupled with FX impact of stronger sterling (£40m vs plan)

**Claims ratio** 1% better than plan and 1.7% better than prior year. Catastrophe losses above plan (UK flooding and storm activity in January and weather related losses across continental Europe in June) offset by a significant drop in large loss activity and positive prior year developments during the first six months relative to the same period last year

**Commission ratio** worse than plan but better than prior year. Activity to reduce our reliance on certain large delegated underwriting agreements has contributed positively

**Expense ratio** lower profit commission credit from Syndicate 386 coupled with suppressed net earned premium has pushed the expense ratio up, despite operating below budget in cash terms as we continue to manage headcount effectively

Source: EO Management Accounts H1 2014 (excludes quota share of EO's Lloyd's business to Equator Re and other local management adjustments)

# Performance - H1 2014 competitor analysis

	Lloyd's				Non-life			
								
Business segment	Group	Group	Group	Group	UK	UK + Ireland	UK	UK
GWP	£2,193m <sup>1</sup>	£1,891m	£979m	£646m <sup>1</sup>	£1,988m	£1,785m <sup>2</sup>	£1,340m <sup>3</sup>	£1,094m <sup>2</sup>
GWP growth (LCY) <sup>4</sup> GWP growth (GBP) <sup>5</sup>	10.9% 2.6%	2.8% 2.8%	(3.8)% (3.8)%	1.0% (6.6)%	(7.3)% (7.3)%	4.4% 0.8%	(18.5)% (18.5)%	13.7% 9.8%
Loss ratio <sup>6</sup> (Impact of reserve releases)	51% (+2.4%-pts)	54% (+3.6%-pts)	38% (+14.0%-pts)	51% (+9.1%-pts)	61% (n.a.)	69% (n.a.)	68% (n.a.)	66% (n.a.)
COR <sup>6</sup>	85%	87%	82%	90%	94%	98%	105%	98%
Investment yield (annualised) <sup>6</sup>	1.6%	2.6%	2.0%	2.1%	n.d.	n.d.	n.d.	n.d.
ROE (annualised) <sup>6</sup>	17.1%	16.2%	18.9%	17.0%	n.d.	n.d.	n.d.	n.d.

Notes: (1) GWP is reported in USD and has been converted using the average USD-GBP FX rate for H1 2014;  
(2) GWP is reported in EUR and has been converted using the average EUR-GBP FX rate for H1 2014;  
(3) RSA premiums relates to NWP;  
(4) GWP growth figures relate to local currency;  
(5) GWP growth figures relate to GWP converted to GBP using relevant average FX rate for H1 2014;  
(6) Profitability ratios as reported

Source: Macquarie Capital H1 Results Analysis - September 2014

# Performance - 2015 outlook

- EO does not anticipate:
  - any material change in market conditions
  - any more major portfolio changes/disposals
- Focus will be on profitable growth, based on those market segments identified in strategic planning
- Key drivers of growth will be:
  - Improved client engagement to drive increased retention and new business
  - Development of existing distribution outlets
  - Potential new distribution outlets:
    - Reinsurance - Bermuda Re
    - Latin America – Miami (specialty large accounts)

# Quantum Operational Transformation Program

## KEY FACTS



- 23% of EO UK FTE's impacted:
  - » 280 roles moving to GSSC
  - » 110 roles moving to UK SSC
  - » 67 roles eliminated (efficiencies)
- Transitions complete by Q1 2015

*\* HR transitions on hold for 2014*

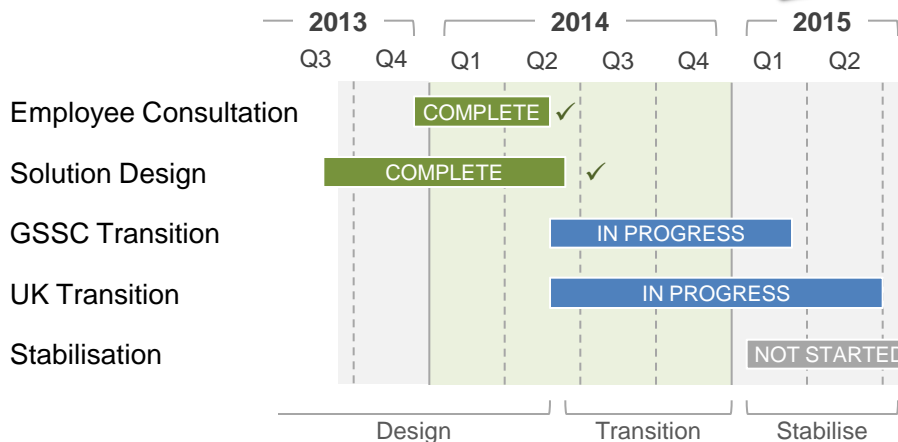
## STATUS



Program is on-track.

- » Key processes live for finance, claims and underwriting admin
- » Total of 239 roles already live in GSSC and UK SSC; remainder in training
- » Bulk of redundancies due Nov to Jan

## MILESTONE PLAN



## RISK MANAGEMENT



150 identified risks being pro-actively managed

Key risks:

Key Risk	Impact	Likelihood	Status
Attrition	H	H	Orange square
Service Disruption	H	M	Orange square
Regulatory	H	L	Green square
Program Delays	M	M	Green square

# Ambition

## Profitably develop our market leading position in chosen markets and specialisms and grow sub-scale businesses

- Maintain a largely defensive position in 2014 and limited growth in 2015, with expectation to achieve more significant growth by 2017 through organic “business as usual” growth and key selected initiatives as a result of our most recent strategic planning
- Immediate focus remains on mid to large corporate, specialty lines and reinsurance. No personal lines and limited short-term SME appetite
- No expectation of material acquisition or change in market conditions
- Negligible economic growth assumed
- Deliver consistent top quartile performance compared to relevant peer group, equivalent to top decile cross-cycle performance
- No significant additional investment expected, but we will deliver cost saving initiatives resulting in a 2% COR improvement by 2017

# Strategic priorities

EO's strategic priorities are aligned to QBE Group's global vision, objectives and the value creation model and support its long-term growth ambitions

Enhanced **product leadership** through quality underwriting, claims and risk management capability

Maximise value of existing **distribution** with selective enhancement and investment

Build out industry leading **client engagement** function across the business including multinational capability

Continue to refine the **Target Operating Model** and complete Quantum operational change to deliver greater efficiencies and expense savings

Enhance and live by our **Employee Value Proposition** (EVP) to attract, retain and motivate employees

# Capital and reserving update

David Winkett, Chief Financial Officer

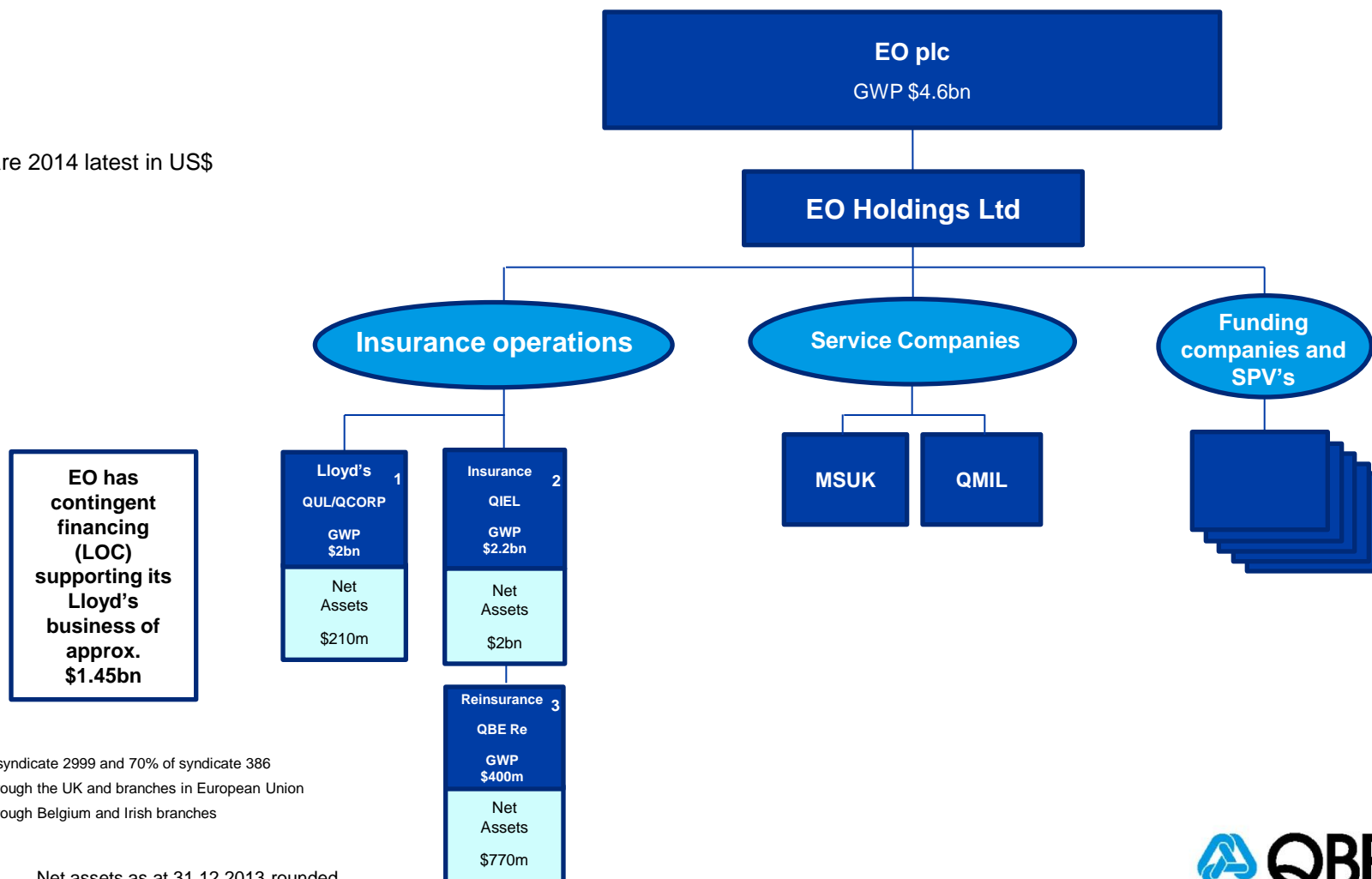


# Contents

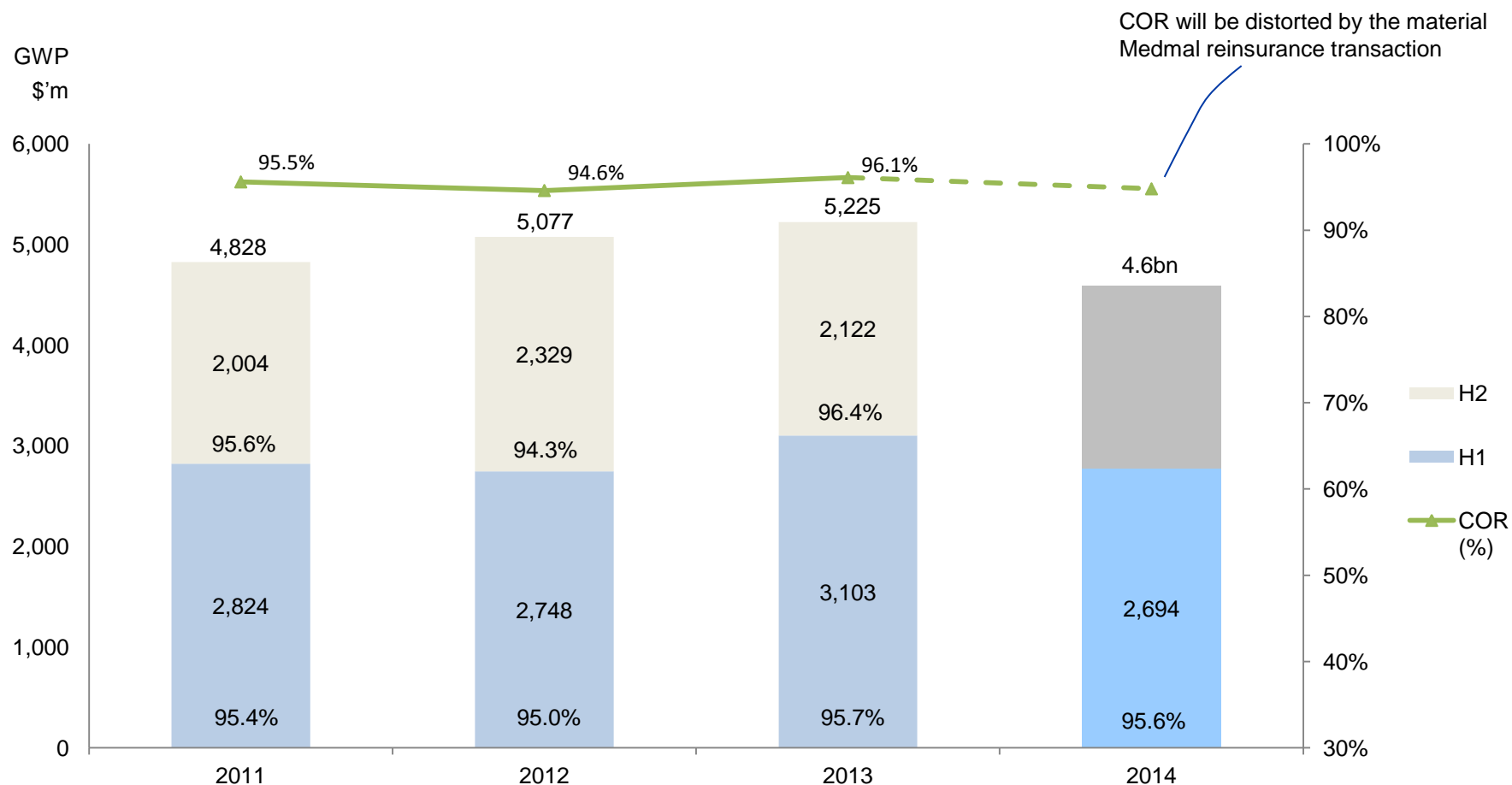
- EO corporate structure
- Recent performance
- Capital update
- EO reserving
- Conclusions

# Corporate Structure – simplified group

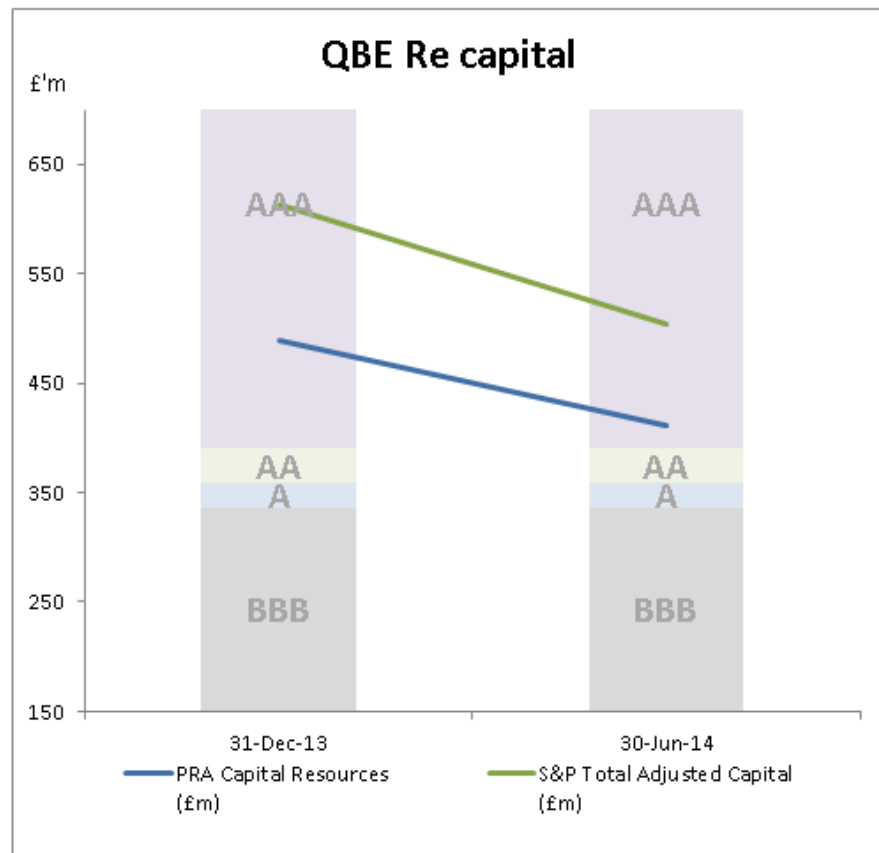
GWP are 2014 latest in US\$



# Performance – Group statutory result



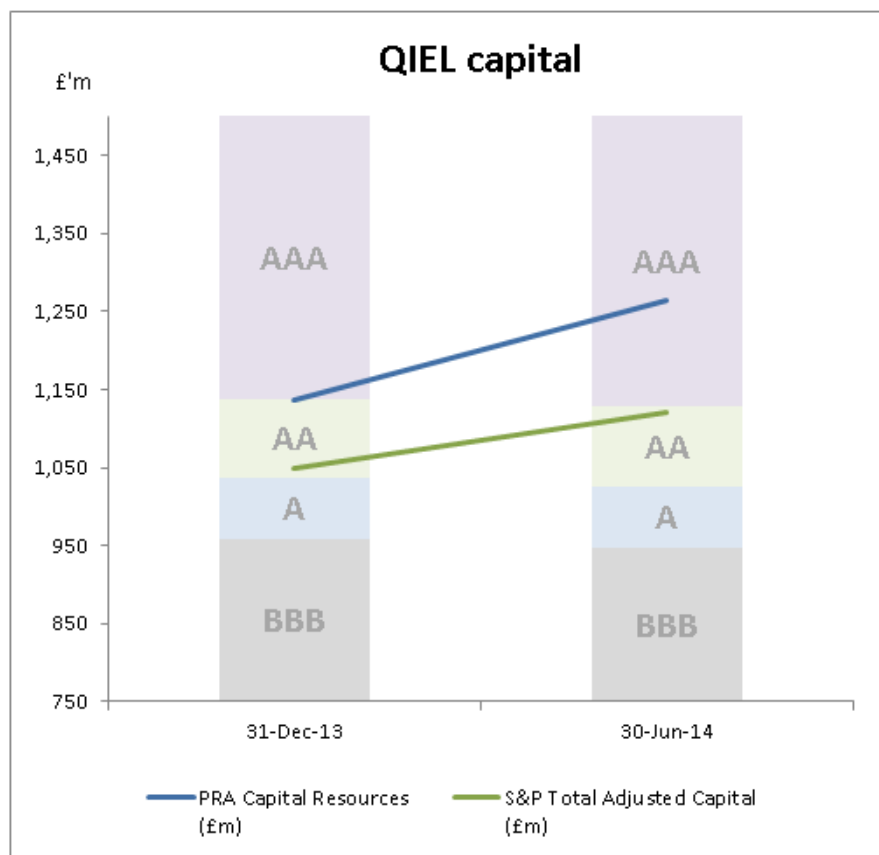
# Capital – QBE Re



- Excess capital has built up in QBE Re through corporate consolidation and retained profits
- Dividend declared in H1 2014
- Right-sizing QBE Re
  - Target capital level probably the higher of \$500m and S&P A/AA frontier
  - Strategic growth plans should utilise QBE Re capital more efficiently
  - New Bermuda branch from 1 Jan 2015
- Short term the excess capital is fungible and utilised by QBE Re's parent QIEL

Source: derived from audited and unaudited 31.12.2013 and 30.06.2014 financial statements respectively

# Capital – QIEL



- QIEL performance has been the weakest of EO entities due to reserve volatility
- Approx \$390m of potentially volatile medmal reserves reinsured in H2 2014
- Regulatory capital increased during H1 2014 from subsidiary dividend and parent capital injection
- Capital metrics likely to remain until after Solvency II implementation and/or to move QBE Re internally

Source: derived from audited and unaudited 31.12.2013 and 30.06.2014 financial statements respectively

# EO reserving

	Held reserves <sup>1</sup> £'000
QIEL	2,050
QBE Re	850
Lloyd's	1,950
	4,850

- Comprehensive reserving process using March and September data
- Monthly roll forward i.e. actual vs. expected plus large & CAT movements
- External review conducted annually concurrent with Q3 (Sept data) reserving
- EO PoA similar to overall Group PoA although varies by entity

- Uncertainties
  - Long tail disease
  - Inflation sensitivity
  - Recent growth areas
- Opportunities
  - Medmal reserves of approx \$390m now reinsured
  - Potential for Quantum to impact claims procurement and handling
  - Claims analytics
- Accident year data & processes being constructed / refined as most data sources are underwriting year

<sup>1</sup> Source: unaudited 30 June balance sheets pre Equator QS, rounded to nearest £50m

# Conclusions

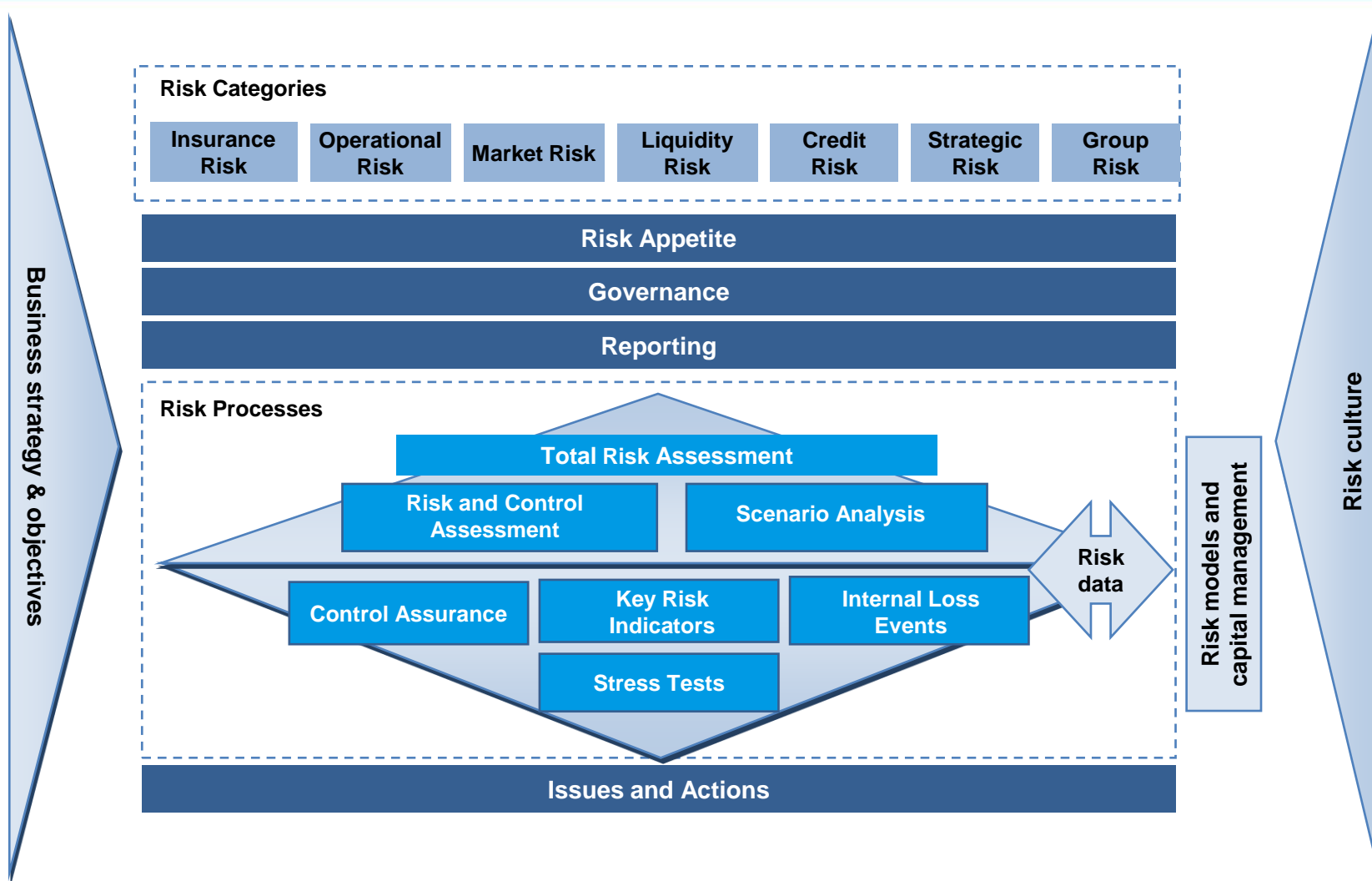
- Corporate structure stable with only changes being:
  - potential separation of QIEL and QBE Re
  - remaining CEE branch “disposals”
- All EO regulated entities have standalone capital sufficient to support target S&P ratings and accommodate planned growth
- Short-term (2014/2015) QIEL and QBE Re capital level excessive but should be optimised post Solvency II
- Refinancing risk of letters of credit for FAL mitigated by most being termed-out to 2 years
- EO plc has Solvency II considerations when determining target capital levels and sources of own funds
- 2015 offers a window of opportunity to implement strategic capital plan in advance of Solvency II go-live
- Plan to return say, 75% of cash earnings each year to Group
- Reserves are relatively stable with potential volatility reduced by transactions like Medmal

# Risk and Solvency II

Phil Dodridge, Chief Risk Officer



# Risk framework



# Evolving role of the CRO team



Particular focus on:

- Achieving business plans (validation and stress testing)
- Challenge and oversight of business performance and reserving
- Review and challenge of strategic plans and projects
- Risk culture
- Risk and capital assessments (regulatory perspective)
- Risk metrics and reporting
- Deep dives and lessons learned

# Risk culture

- Risk culture has been a key area of focus for Executive Management and Boards
- A high level assessment of risk culture across EO was undertaken with a deep dive review in underwriting
- This has found that our leaders take risk seriously and encourage this behaviour across the organisation
- Whilst overall we are in line with the market, there are areas for enhancement

# External risks

Risk	Comments / Mitigation
Ongoing soft market conditions	Business has been non-renewed if it is not meeting our profit expectations. Acceptable new business is hard to come by. Top line has reduced
Potential for increasing claims activity including impact on reserves, e.g. inflation	Certain lines experienced increased claims activity from the economic downturn. However, more recent experience has trended positively. Reinsurance of medmal reserves has helped reduce exposure
Collapse of Euro zone, severe currency depreciation	Investment exposure to Euro zone is closely monitored and managed. Our insurance exposure to Euro zone reduces on the expected sale of remaining Central Eastern European businesses
Large / catastrophe losses beyond planned allowance	Catastrophe exposures are closely monitored including regular modelling and stress testing. Actual large / cat losses are reported monthly against plan. Large individual risk and catastrophe claims YTD slightly better than plan
Regulatory uncertainty	Both PRA and FCA under the Bank of England are raising the bar on how they expect firms to interpret and implement regulations
Group contagion, e.g. rating downgrade	As global collaboration increases, so do dependencies. EO maintains an appropriate independent system of governance, whilst fully engaging with and influencing QBE Group

# Internal risks

Risk	Comments / Mitigation
Failure to manage underwriting performance	Significant remediation undertaken at both a risk and portfolio level since 2012. Largely complete and improvement is evident in the resulting performance metrics
Failure to grow core business	After a year of defensive positioning, focus has now turned to selective growth through a number of strategic initiatives
Loss of key staff	After years of below average staff turnover, there has been an increase in turnover although less so for key staff. This is due to the buoyant employment market (particularly in London) and the internal changes such as front office restructuring and Quantum. It has provided an opportunity to promote individuals from within the organisation and introduce fresh talent from outside
Transformation instability, e.g. offshoring, IT initiatives	Several change programs are underway to gain efficiencies and provide a more resilient / scalable operating model. There is strong governance and risk oversight. Programs are on track with no major issues
Deterioration of staff morale	Tough market conditions and the level of internal change has impacted staff morale. However, benefits of change are becoming apparent and future focus is now around growth initiatives. Employee Value Proposition (EVP) has been formalised.

# EO's risk map

The diagram demonstrates the seven risk categories and 23 individual risk types



1. Business product, market, distribution approach
2. Capital structure and management
3. Acquisition decision and negotiation
4. Tax planning and decisioning
5. Investment strategy
6. Underwriting and pricing
7. Insurance concentrations
8. Reserving
9. Reinsurance
10. Reinsurance counterparty credit and other recoveries
11. Premium and other counterparty credit
12. Investment counterparty default
13. Investment market movement
14. Foreign exchange rate movement
15. Liquidity risk
16. Internal fraud
17. External fraud
18. Employment practices
19. Improper business practices
20. Disasters and other events (including business continuity)
21. Technology and infrastructure failures
22. Business and transaction processing
23. Group risk

# Solvency II

- Solvency II regulations will be in force from 1 January 2016
- The industry still has a lot to complete particularly for those wanting to apply for internal model approval
- QBE EO is seeking internal model approval with PRA and Lloyd's. In turn, Lloyd's will be seeking their own internal model approval with PRA
- There is a material variance between the capital requirement under our internal model and the regulatory standard formula, driven mainly by the catastrophe risk charge (natural and man-made) and diversification credit
- QBE has a detailed plan in place with additional resource to implement Solvency II, governed by a dedicated Steering Group that meets monthly and supported by external assurance
- The Bank of England and PRA continue to raise the bar on internal models with a broader agenda to increase capital requirements across the industry
- The specific key challenges for EO revolve around the depth of documentation required on the rationale and on the validation of expert judgement. In addition, there is significant work to prepare for the Pillar 3 reporting requirements
- Some aspects of Solvency II requirements are still being clarified
- From a broad market perspective, Solvency II is a European agenda driven by EIOPA. This should result in a general improvement to risk management and capital levels across the market, although there may not be complete consistency across the EU

# International Markets

Colin O'Farrell, Chief Underwriting Officer

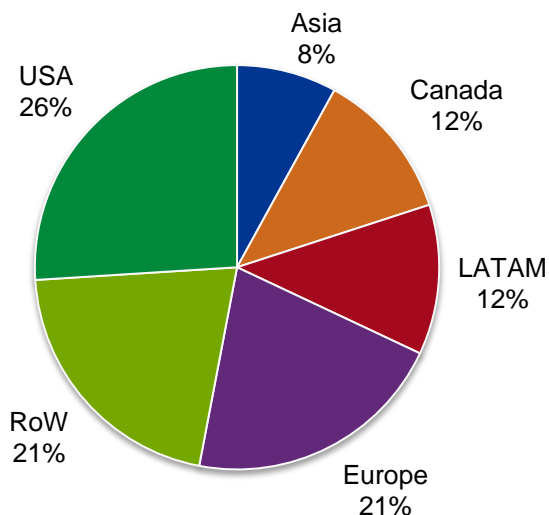


# Current state

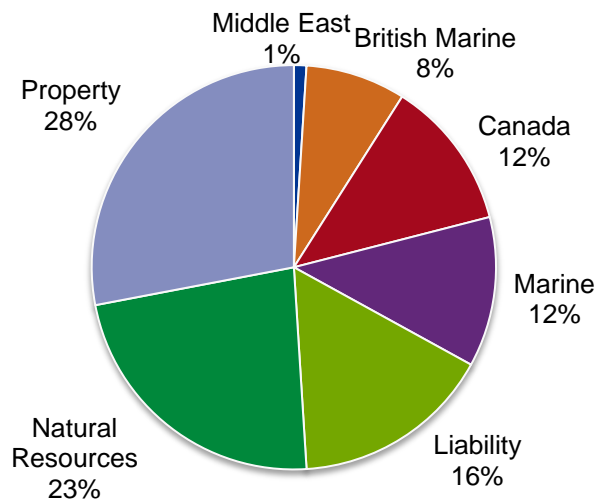
With a full year GWP expectation of £0.8bn at H1 2014 (excluding aviation), International Markets represents circa 8% of QBE Group. Risks are written via both Lloyd's (Syndicates 1036<sup>1</sup> and 1886<sup>1</sup>) and QBE Insurance (Europe) Ltd paper.

- Our business is globally diverse and we operate from seven office locations:
  - London, Canada (Toronto/Vancouver), USA (New Orleans/Houston), Singapore and Dubai
- Approximately 90% of GWP is written in London and 69% in a lead and/or influencing capacity

**GWP by Geography**  
(domicile of assured)



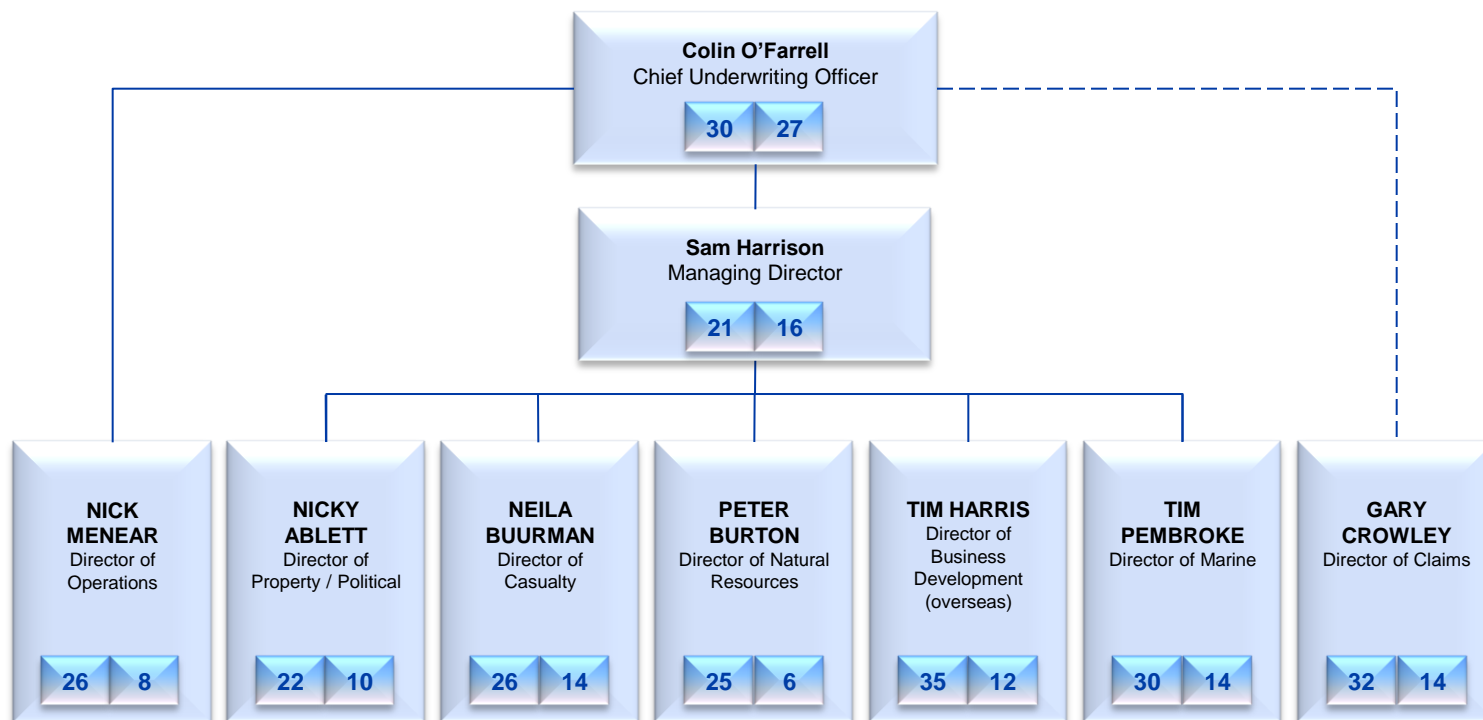
**GWP by Division**



Source: 2014 GWP full year outlook - QBE Insurance Group Report H1 2014 (adjusted to exclude aviation)

(1) Sub-syndicates of umbrella Syndicate 2999.

# Senior management team (effective 1/10/2014)



# Market dynamics

- All London carriers suffering rating pressure due to surplus of capacity at both local and global level
- We have positioned ourselves for profitable growth exporting our expertise through managed operations and/or QBE's strong local network
- Global brokers continue to evolve their operating models through client data analytics and aligning homogenous products with single carriers
- Strong regional brokers respond to changes in global brokers dynamics by acquiring independent agency business

# Market dynamics – by product

**Marine** – opportunities to participate on marine SME facilities as the broking community commoditise low premium business. Multinational sector is a key growth area

**Natural Resources** – whilst rates down due to exceptional results, opportunities to grow exist through downstream class and our regional distribution hubs

**Casualty** – changing dynamics of the retail distribution chain (especially Australia) means our focus is on growth of facultative risk profile rather than distribution via MGAs. Ability to leverage with presence in QBE emerging markets division, our key differentiator

**Property** – difficult market conditions in London but opportunities exist in local markets, particularly Canada and efforts focused on these for profitable growth

**British Marine** – generally steady environment for P&I, Hull continues to be very difficult and competitor activity in this sector remains very strong

**Canada** – Our increasingly localised presence and investment in people and products will provide further growth

**Middle East** – our ability to build out from our current core portfolio is challenging. A strategic review is planned to conclude by Q1 2015

# H1 2014 management result compared to plan

(excluding aviation)

		H1 14 Plan	H1 14 Actual
Gross written premium	£m	638.2	468.7
Gross earned premium	£m	527.0	462.7
Net earned premium	£m	408.7	354.2
Claims ratio	%	59.8%	52.4%
Commission ratio	%	19.6%	21.2%
Expense ratio	%	12.0%	12.9%
<b>Combined ratio</b>	<b>%</b>	<b>91.4%</b>	<b>86.5%</b>
<b>Insurance margin</b>	<b>%</b>	<b>11.0%</b>	<b>15.9%</b>
ROAC	%	15.1%	18.6%

**GWP** 26% down on plan. The main components are market environment, whereby new business volumes are down, rebased underwriting strategy for our open market Property business and the strengthening of sterling against key overseas earnings

Overall year to date premium rate reductions for renewing business of -3% against full underwriting year plan -0.6% reflect current market conditions across all classes of business

**Claims ratio** of 52.4% is better than plan due to improved claims experience in the majority of classes. We have enjoyed benign risk and catastrophe loss activity against plan in the current year to date

**Commission ratio** adverse to plan due to product mix

**Expense ratio** of 12.9% was slightly adverse to plan driven by lower NEP

**Combined ratio** better than plan at 86.5%, resulting in a net underwriting result of £47.9m versus planned £35.3m

Source: EO Management Accounts H1 2014 (adjusted to exclude aviation)

# Strategic initiatives

## QBE Oil & Gas

Oil & Gas business is a core product to International Markets for which we have an established true market leadership and a consistent record of profitability. Establishing a global brand and product offering to both wholesale and retail markets will enable profitable growth beyond our mature presence in the London Market

## Underwriting Hubs and Global Collaboration

Exporting underwriting expertise to existing managed operations in Burnett and Singapore, developing a new hub in Miami for LATAM and collaboration with existing QBE offices will balance income dependency, provide solid platforms for the deployment of industry specialist products such as QBE Oil & Gas and enable profitable growth, especially in retail sectors

## Industry Specialisation

Development of Industry specialist products sold both in the wholesale markets of London and Singapore together with a retail offering through existing or new regional underwriting hubs will drive top line growth and profitability. Areas of focus will be Oil & Gas, Ports and a Political Violence cross sell with the QBE global property proposition

## Cargo Multinational

Global companies require multinational risk solutions in a market of limited alternatives

## Canada

There is opportunity for QBE to grow its Canadian presence through offering product diversity and an e-trading platform for brokers

# Next steps

- Ensure our underwriting distribution model is multi-faceted enabling a dynamic and geographically agile underwriting strategy:
  - maintain London portfolio which is core to our business in a challenging environment and continue to deliver market leading results
  - continue to build out our global distribution with opening of key new hubs to support our strategic initiatives
- Continue to offer our specialist products distributed through QBE local networks where the local brand value is high (e.g. P&I via QBE Australia)
- Continue to refine out target operating model to drive cost efficiencies

# Global reinsurance

Jonathan Parry, Chief Underwriting Officer



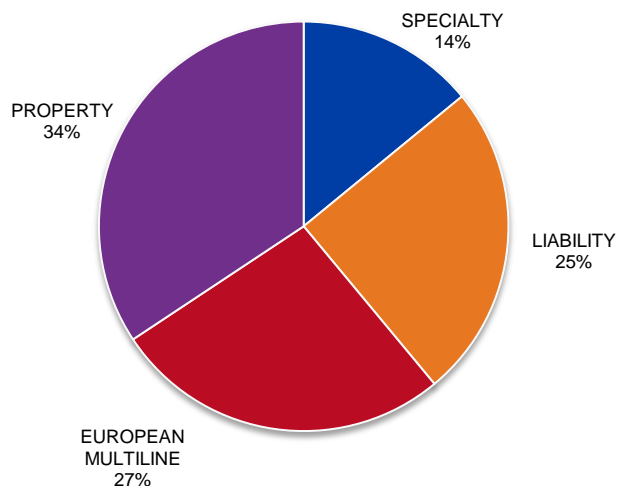
# Current state

With a full year GWP expectation of £0.6bn at H1 2014 (including QBE NA reinsurance), Global Re represents circa 6% of QBE Group. Risks are written via both Lloyd's (Syndicate 566<sup>1</sup>) and QBE Re company paper

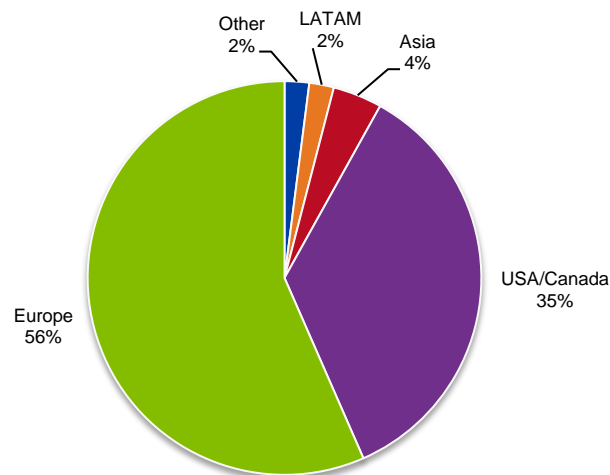
Managed from London via four office locations: London 34%; New York 25%; Brussels 26%; Dublin 15%, the portfolio comprises a diverse product and geographical range

Approximately 58% of GWP is written in a lead and/or influencing capacity

**GWP by Product**



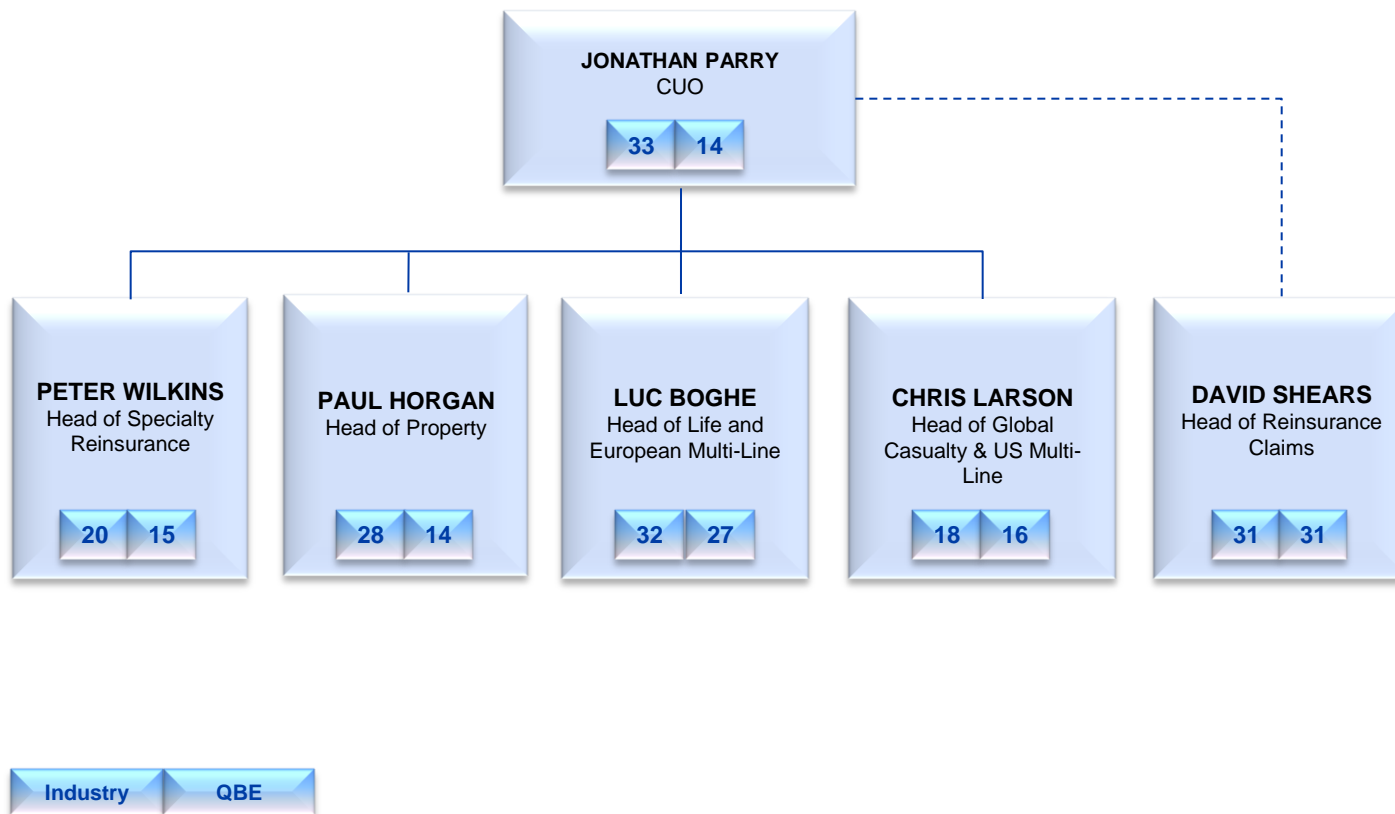
**GWP by Geography**  
(domicile of assured)



Source: 2014 GWP full year outlook - QBE Insurance Group Report H1 2014 (adjusted to include QBE NA reinsurance)

(1) Sub-syndicate of umbrella Syndicate 2999.

# Senior management team



# Market dynamics

- Cedents retaining more business to protect net premium
- Deteriorating market conditions particularly for catastrophe business
- Over-capacity due to capital market entities chasing higher returns
- Increased appetite from existing reinsurers following very profitable 2013
- Majority of reinsurers seeing GWP reduction, however some are growing mainly by accepting very low margin business
- Soft underlying insurance market also affecting reinsurers

# Market dynamics – by product

**Specialty** – difficult market conditions as downward rating pressure continues to grow, albeit not as excessive as other classes of business. Loss impacted aviation and marine business should see rate rises. A&H continues to perform well as we continue to look for opportunities and develop our US platform

**European Multiline** – very competitive P&C market, particularly with new entrants in Zurich, coupled with existing reinsurers who want to keep/defend at minimum their positions. More potential for life business

**Casualty/US Multiline** – continued pressure with new capacity and interest in casualty coupled with cedents retaining more net and combining of programs. With regards to the US multiline business, margins continue to tighten with new entrants to the space

**Property** – challenging market in all territories, with too much capacity chasing too little business. Opportunity to grow our property pro-rata book over time. Opening of the Bermuda branch is an opportunity to build out our distribution platform

# H1 2014 management result compared to plan

(including QBE NA reinsurance)

		H1 14 Plan	H1 14 Actual
Gross written premium	£m	593.5	459.3
Gross earned premium	£m	366.6	297.6
Net earned premium	£m	316.7	256.9
Claims ratio	%	59.1%	55.2%
Commission ratio	%	18.4%	20.8%
Expense ratio	%	8.1%	10.7%
<b>Combined ratio</b>	<b>%</b>	<b>85.6%</b>	<b>86.7%</b>
<b>Insurance margin</b>	<b>%</b>	<b>17.9%</b>	<b>17.3%</b>
ROAC	%	19.4%	17.2%

**GWP** reduced significantly relative to plan due to excess capital and increased client retention, coupled with FX impact of strengthened sterling. We have maintained underwriting discipline and allowed risks to lapse where pricing is considered inadequate

Overall year to date premium rate reductions for renewing business of -3.5% against full underwriting year plan -1.4% reflect current market conditions across all classes of business

**Claims ratio** better than plan due to benign catastrophe experience

**Commission ratio** increased due principally to change in business mix

**Expense ratio** increased due principally to impact of reduced NEP

Source: EO Management Accounts H1 2014 (adjusted to include QBE NA reinsurance)

# Strategic initiatives & next steps

<b>Property pro-rata</b>	Historically underweight
<b>Life (short term mortality)</b>	Develop in US, Europe and Latin America
<b>US A&amp;H</b>	Expand US portfolio writing both treaty and facultative
<b>Potential distribution opportunities</b>	<ol style="list-style-type: none"><li>1. Bermuda (approval received)</li><li>2. Miami</li><li>3. Singapore</li></ol>
<b>Client focus</b>	Continue focus on existing clients and ability to cross-sell other products
<b>Target operating model</b>	Finalise to support future growth, including new hires where required

# Retail Markets

Richard Pryce, Chief Executive Officer



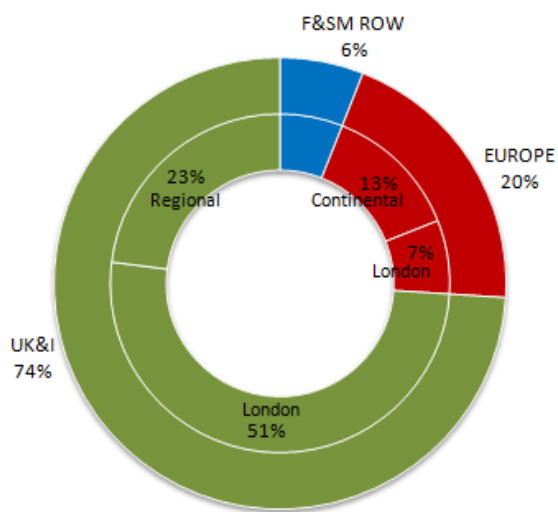
# Current state

With a full year GWP expectation of £1.4bn at H1 2014, Retail Markets represents circa 14% of QBE Group. Comprising a diverse book of commercial business written via both QBE Insurance (Europe) Ltd and Lloyd's (Syndicate 386 and 1886<sup>1</sup>) paper. Risks are written via a branch network and managed through two divisions: UK & Ireland and; Europe. In addition, Financial Lines and Specialty Casualty products are offered globally and managed as a specialist business unit (F&SM)

Clients vary from large corporate to SME businesses trading via e-trading platforms

Approximately 88% of GWP is written in a lead and/or influencing capacity

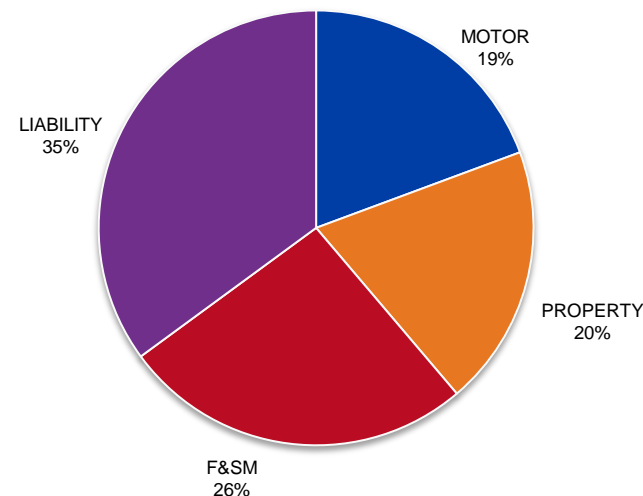
## GWP by Division



## GWP by Branch

<u>Continental Europe</u>	
France	6.2%
Italy	2.9%
Germany	1.6%
Spain	1.5%
Nordics	1.4%
<u>UK Regional</u>	
London Market	60.3%
London	4.4%
Stafford	4.3%
Bristol	4.0%
Manchester	4.0%
Birmingham	3.3%
Glasgow	2.9%
Leeds	2.9%

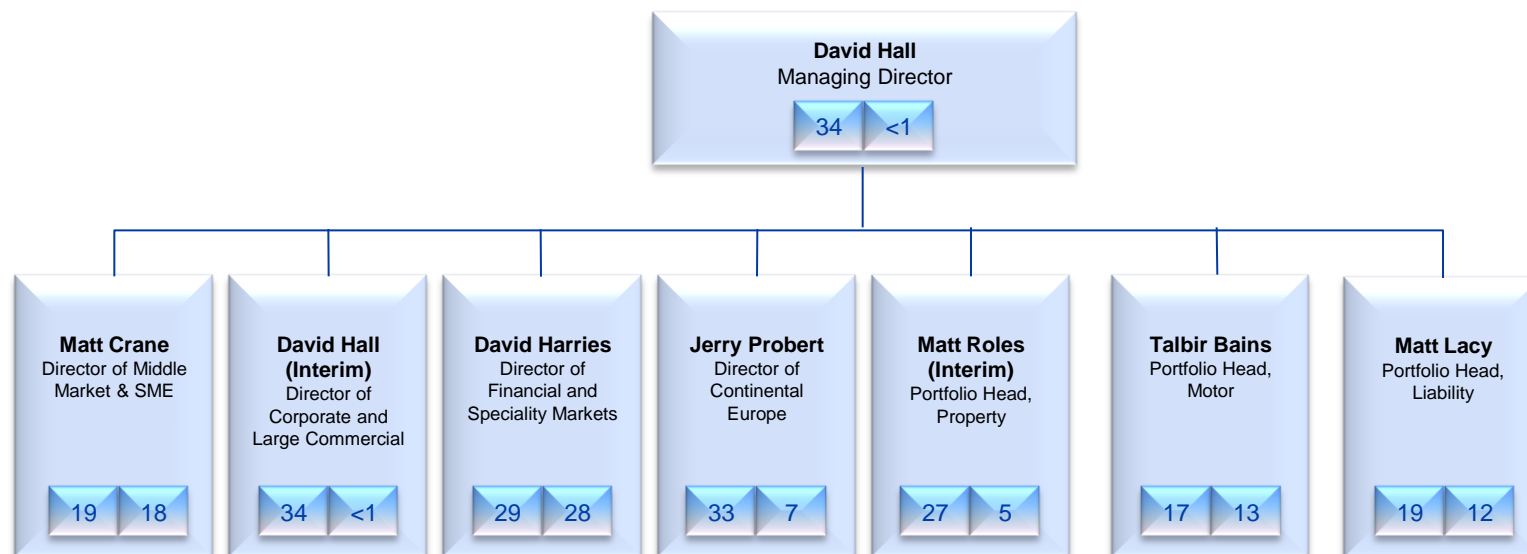
## GWP by Product



Source: 2014 GWP full year outlook - QBE Insurance Group Report H1 2014

(1) Sub-syndicate of umbrella Syndicate 2999.

# Senior management team (effective 1/11/2014)



# Market dynamics

QBE's corporate recognition is growing and we are in a good position to grow even within mature markets

- Tough trading conditions, SME and Middle Market accounts placed on price ahead of value
- Corporate clients increasingly require close dialogue and relationships with their insurers.
- Brokers account for a large share of our market place and QBE is building capability to increase market share with its chosen partners
- Suppressed economic activity across total geography but signs of improvement being seen in UK & Ireland
- More MGAs are being created by brokers to consolidate value and heighten returns but there is a new space for niche area developments
- Rates increasing slightly within UK & Ireland and are level across other regional geographies

# H1 2014 management result compared to plan

		H1 14 Plan	H1 14 Actual
Gross written premium	£m	749.5	750.3
Gross earned premium	£m	749.6	751.3
Net earned premium	£m	664.4	656.5
Claims ratio	%	61.2%	63.4%
Commission ratio	%	16.2%	16.5%
Expense ratio	%	16.4%	14.8%
<b>Combined ratio</b>	<b>%</b>	<b>93.9%</b>	<b>94.7%</b>
<b>Insurance margin</b>	<b>%</b>	<b>8.4%</b>	<b>7.9%</b>
ROAC	%	13.3%	12.5%

**GWP** in line with plan reflecting modest rate increases in UK&I and level across other geographies. Overall year to date premium rate increases for renewing business of 2.2% against full underwriting year plan 2.5%

**Claims ratio** adversely impacted by UK flooding and storm activity in January

**Commission ratio** slightly adverse to plan due to business mix changes

**Expense ratio** is showing real savings against planned expenditure driven by headcount below plan

**Combined ratio** worse than plan due to adverse claims experience mentioned above

Source: EO Management Accounts H1 2014

# Strategic initiatives

- Customer Value Proposition - closer to client, and improving relationships via expertise, products and delivery all supported by client engagement function
- Industry segmentation – e.g. create a European real estate/property owner underwriting team centre of expertise to deliver sustainable profitable growth
- Greater focus on growing SME and lower middle market business
- Build out underweight territories e.g. selected European countries
- Improve operational efficiency and expense ratio

# Next steps

## People & places

- Selective quality recruitment to deliver strategic priorities and future growth
- Encourage entrepreneurial business building behaviours
- Communicate our enhanced value proposition to our colleagues and customers

## Client sector focus

- Create a client reflective culture to improve retention and increase client penetration
- Establish a client solutions practice containing program solutions architects to support growth
- Define customer value propositions for each of the three client sectors: SME, Middle Market and Corporate / Large Commercial
- Harness both claims and risk engineering insights to support client solutions practice and improve industry risk specialisation

## Operational transformation completion

- Complete Quantum and continue to refine front office to create greater efficiency/focus
- Refine and build a scalable multinational proposition for corporate clients
- Design and build a market leading cross-geography e-trading platform for SME business

# Close

Richard Pryce, Chief Executive Officer



# Thank you

**Richard Pryce**

Chief Executive Officer

Telephone: +44 (0)20 7105 4580

[richard.pryce@uk.qbe.com](mailto:richard.pryce@uk.qbe.com)



# Important disclaimer

The information in this presentation provides an overview of the results for the half year ended 30 June 2014.

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

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

This presentation contains certain "forward-looking statements". The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings, financial position, performance, and our pro forma capital plan are also forward-looking statements.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of QBE that may cause actual results to differ materially from those expressed or implied in such statements including the key risks identified on pages 48 and 49. 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 overall reduction in premium rates; 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; 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.

Certain financial data included in this report are "non-GAAP financial measures" under Regulation G of the U.S. Securities Exchange Act of 1934, as amended. The disclosure of such non-GAAP financial measures in the manner included in this presentation would not be permissible in a registration statement under the Securities Act. These non-GAAP financial measures do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similarly titled measures presented by other entities, nor should they be construed as an alternative to other financial measures determined in accordance with IFRS. Although QBE believes these non-GAAP financial measures provide useful information to users in measuring the financial performance and condition of its business, readers are cautioned not to place undue reliance on any non-GAAP financial measures and ratios included in this presentation.

This presentation does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States. The securities referenced herein have not been, and will not be, registered under the U.S. Securities Act of 1933 (the "Securities Act") or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States absent registration except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and any other applicable securities laws.

This presentation has not been approved for the purposes of section 21 of the UK Financial Services and Markets Act 2000 and is directed only at and may only be communicated to persons who (i) fall within Article 49(2)(a) to (d) of the UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "FPO"); or (ii) have professional experience in matters relating to investments, being investment professionals as defined in Article 19(5) of the FPO; or (iii) persons outside the UK in accordance with Article 12 of the FPO (all such persons together defined as "relevant persons"). The information contained in this presentation must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.