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19 October 2016

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

Dear Sir/Madam

**QBE ANNOUNCES AN EXCHANGE OFFER FOR ANY AND ALL OF THE
OUTSTANDING U.S.\$ 538,608,000 7.25% FIXED RATE RESET GUARANTEED
EXCHANGEABLE SUBORDINATED CALLABLE NOTES DUE 2041 ISSUED BY QBE
CAPITAL FUNDING III LIMITED AND GUARANTEED BY QBE ("EXISTING NOTES")**

Please find attached an announcement for release to the market.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Carolyn Scobie", followed by a period.

Carolyn Scobie
Group General Counsel and Company Secretary

Encl.



MARKET RELEASE

19 October 2016

QBE ANNOUNCES AN EXCHANGE OFFER FOR ANY AND ALL OF THE OUTSTANDING U.S.\$ 538,608,000 7.25% FIXED RATE RESET GUARANTEED EXCHANGEABLE SUBORDINATED CALLABLE NOTES DUE 2041 ISSUED BY QBE CAPITAL FUNDING III LIMITED AND GUARANTEED BY QBE ("EXISTING NOTES")

QBE today announced that it has commenced a private invitation to certain Eligible Holders (as defined below) of Existing Notes to tender any and all of their Existing Notes (CUSIP: G7306BAA2 and 74734PAA0; ISIN US74734PAA03 and USG7306BAA29) in exchange (the "**Exchange Offer**") for new U.S.\$-denominated, 7.25% Fixed Rate Subordinated Notes due 2043 ("**New Notes**") to be issued by QBE. The complete terms of the Exchange Offer are set out in a confidential exchange offer memorandum dated October 19, 2016 (the "**Exchange Offer Memorandum**") and related letter of transmittal.

The Exchange Offer will expire at 11:59 p.m., New York City time, on November 16, 2016, unless extended or terminated by QBE in its sole discretion (as such time may be extended by QBE, the "**Expiration Time**"). Eligible Holders who validly tender and who do not validly withdraw Existing Notes at or prior to 5:00 p.m., New York City time, on November 1, 2016 (as such time may be extended by QBE, the "**Early Participation Time**") and whose Existing Notes are accepted for exchange, will receive U.S.\$1,000 principal amount of New Notes for each U.S.\$1,000 principal amount of Existing Notes tendered (the "**Early Exchange Consideration**"). In order to encourage Eligible Holders to tender early, this amount includes an early participation premium of U.S.\$30 principal amount of New Notes for each U.S.\$1,000 principal amount of Existing Notes tendered (the "**Early Participation Premium**"). Eligible Holders who validly tender and who do not validly withdraw Existing Notes after the Early Participation Time but at or prior to the Expiration Time and whose Existing Notes are accepted for exchange, will receive U.S.\$970 principal amount of New Notes for each U.S.\$1,000 principal amount of Existing Notes tendered (which is equal to the Early Exchange Consideration less the Early Participation Premium).

Tenders of Existing Notes in the Exchange Offer may be validly withdrawn at any time at or prior to 5:00 p.m., New York City time, on November 1, 2016 (as such time may be extended by QBE, the "**Withdrawal Time**"). QBE may extend the Early Participation Time without extending the Withdrawal Time, unless required by law (as determined by QBE in its sole discretion). Existing Notes tendered after the Withdrawal Time may not be withdrawn, except where additional withdrawal rights are required by law (as determined by QBE in its sole discretion).

Consummation of the Exchange Offer is subject to a number of conditions set forth in the Exchange Offer Memorandum and the related letter of transmittal.

The Exchange Offer is being undertaken as a specific measure to improve capital efficiency by means of the replacement of the Existing Notes which are amortizing from a Tier 2 Capital perspective with the New Notes, which will qualify as Tier 2 Capital under the Australian Prudential Regulation Authority's ("**APRA**") capital adequacy framework and which will include the following terms:

- term of 27 years;
- interest will accrue at a fixed rate of 7.25% per annum and be payable semi-annually in arrears;

- interest will be reset on the seventh, and thereafter each fifth subsequent, anniversary of the issue date;
- QBE has an option to defer payment of interest in certain circumstances (and such deferral will not constitute an event of default);
- QBE has an option to redeem the New Notes at face value on each Interest Rate Reset Date and for certain tax and regulatory events (in each case subject to APRA's prior written approval);
- if APRA determines QBE to be non-viable, all the New Notes (or in certain circumstances some of them) will convert into QBE ordinary shares or, if conversion does not occur within a specified time period, be written off;
- events of default are limited to:
 - non-payment of principal and interest within a certain period after due; and
 - the occurrence of certain events in connection with the winding-up of QBE, and remedies for defaults are limited; and
- the New Notes will be governed by New York law, other than provisions related to subordination, conversion and write-down, which will be governed by Australian law.

The principal amount of the New Notes to be issued will be a minimum aggregate principal amount of U.S.\$300,000,000 or higher depending on the level of participation in the Exchange Offer. To the extent that the level of participation in the Exchange Offer is less than U.S.\$300,000,000, we intend, subject to market conditions, to offer for purchase an aggregate principal amount of additional New Notes such that the aggregate principal amount of the New Notes (including both the New Notes issued in the Exchange Offer and such additional New Notes) will be equal to or greater than U.S.\$300,000,000. QBE expects to make a determination as to whether or not additional New Notes will be offered at or prior to 9:00 a.m., New York City time, on November 2, 2016 (though such time may be extended by QBE in its sole discretion). Such additional New Notes (if any) will have the same terms as, and be fungible with, the New Notes issued in the Exchange Offer.

Details in relation to the results of participation in the Exchange Offer will be the subject of further announcements following completion of the Early Participation Time and completion of the Expiration Time.

No shareholder approval is needed for the offer and the issue of the New Notes.

QBE has not registered, and will not register, the New Notes (including any New Notes to be issued for additional capital) under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), any state securities laws or the securities laws of any other jurisdiction. The New Notes may not be offered or issued in the United States or to any U.S. persons except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act. The New Notes will be offered for exchange only to (1) "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) in the United States and (2) persons other than "U.S. persons" (as defined in Rule 902 under the Securities Act) outside the United States in compliance on Regulation S under the Securities Act. Only holders of Existing Notes who complete and return an eligibility certification at www.dfking.com/qbe, who are referred to as "**Eligible Holders**" are authorized to receive and review the Exchange Offer Memorandum and accompanying letter of transmittal and to participate in the Exchange Offer. No assurance can be given that the Exchange Offer will be completed.

Holders of the Existing Notes who desire a copy of the eligibility letter may contact the D.F. King & Co., Inc., the Information and Exchange Agent for the Exchange Offer, by telephone at +1 (212) 269-5550 or at +1 (800) 966-9021 or by email at qbe@dfking.com.

This announcement does not constitute an offer to purchase, nor a solicitation of an offer to sell, the Existing Notes or an offer to sell, nor a solicitation of an offer to buy, any New Notes (including any New Notes to be issued for additional capital), nor shall any such offer, solicitation or sale occur in any state or jurisdiction in which such offer, solicitation or sale would be unlawful. The Existing Notes were issued outside Australia to wholesale investors, and any person who is considering participating in the offer must obtain a copy of the Exchange Offer Memorandum relating to the offer from the Company (details below) or the Information and Exchange Agent. A resident of Australia may only

participate in the Exchange Offer if it holds Existing Notes and is eligible to do so under the terms set out in the Exchange Offer Memorandum.

For further information, please contact:

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