2017 AGM

CHAIRMAN'S ADDRESS

I am pleased to be with you for this morning's QBE Annual General Meeting. In addition to myself, you will hear from Group Chief Executive Officer John Neal as we discuss QBE's performance and achievements over the past year and our strategy and plans for the future.

In 2016 your company recorded a net profit after tax of $844 million and an adjusted combined operating ratio of 93%. This result was at the better end of our target range and an important milestone in our journey to delivering steady increases in QBE's fundamental value.

Notably, this was QBE's best financial performance since 2010 and a direct reflection of the significant improvement in QBE's underwriting, the quality of our balance sheet, our strengthened talent pool and our reset cost base.

In May 2016 we provided an update to investors to illustrate how we believe we can further improve underwriting performance and return on equity. As we continue this journey I can assure you we are always striving to find ways to improve the performance of our business and to deliver improved results for shareholders.

It is important in considering this annual result, and our expectations for the future, to make reference to market conditions and trends in the insurance industry. I will share some thoughts on the market before highlighting the achievements of our operating divisions during the year. Finally, I will provide insights into the Board's priorities for 2017 and our role in guiding QBE's strategy before John Neal provides a more detailed overview of operational performance and the strategies that underpin our confidence in the outlook for QBE.

The external conditions that insurers have been grappling with for several years were maintained in 2016, with the market continuing to be characterised by surplus capital which in turn placed downward pressure on pricing across most of the globe, particularly in commercial lines. These trends have been able to persist for an extended period as industry underwriting profits have generally been maintained by relatively low catastrophe claims and declining reinsurance costs coupled with continued prior accident year claims releases and cost efficiencies.

We expect pricing in 2017 to be more stable, with the near-term pricing outlook broadly flat in most territories other than Australia, where insurance market pricing started to improve in mid-2016 following a period of unsustainable price declines coupled with claims inflation.

This means that as we execute our plans for the current year and beyond, we will be doing so in a market where generating underwriting profits remains challenging but is nonetheless essential to our ability to continue to improve our operating performance. As a consequence, we will be maintaining our focus on high quality underwriting, efficiency and cost reduction.

The outlook is a little brighter in relation to investment returns. The language of central bankers across the major western economies has changed in recent months, signalling the early stages of the transition from extraordinary monetary stimulus to policy normalisation in the form of higher interest rates. We have seen the US Federal Reserve increase interest rates this year, while language coming from the European Central Bank and the Bank of England increasingly recognises that inflation will place upward pressure on interest rates.

Intertwined with these inflationary pressures is the increased anti-globalisation sentiment and concerns over immigration that contributed to the Brexit vote and that is credited with playing a part in the presidential election in the USA.

We continue to monitor all of these dynamics closely for their impact on our business, from both an underwriting and investment perspective.

While the impact of Brexit on the economy of the United Kingdom will take some time to become clear, with Article 50 now having been triggered the two year period for the UK to formalise its exit is now underway. We need to prepare our business for this reality, and we are doing so on the assumption the existing access arrangements enjoyed by UK-domiciled insurers to the other 27 European Union countries will not be preserved. This impacts QIEL and QBE Re in addition to our Lloyd's business, which will be subject to a separate Brexit-response plan being put in place by Lloyd's.

I am pleased to be able to report to you that we are well-advanced with our plans and negotiations for the establishment of a new location for our EU-business, and expect to have a solution in place for 2018 renewals.

While in years gone by it might have been appropriate to limit a discussion of the insurance marketplace to the pricing environment and investment returns, this is no longer the case.

As we highlighted in the Annual Review – and again in the video that played as you were entering the room this morning – the business environment is changing at an accelerating pace. Technological, social, behavioural and demographic changes are all playing a part.

This changing environment is creating both opportunity and challenge for insurers the world over. On the positive side there is a clear demand for new products – cyber coverage and new products relating to the Internet of Things are just two examples. We are also taking the opportunity to harness digital technology and big data to bring increased science to the underwriting process and a more sophisticated approach to providing holistic risk management services.

However, we are also mindful that some applications of technology in society may have a far-reaching impact on the insurance our customers require in years to come – an example is the possibility that autonomous vehicles will be less prone to collision. Meanwhile there are scores of Insurtech startups looking to build a business by attacking components of the traditional insurance value-chain.

As an incumbent insurer operating in this changing environment, we can do no better than be guided by our vision for QBE to be the insurer that builds the strongest partnerships with customers. If we have the mindset and capabilities our customers are looking for, they will continue to value their partnership with QBE.

Tapping into new technologies to get closer to our customers is essential to delivering on this objective, and we are working hard to do so right across the business. Our Group Digital Innovation Lab is experimenting with emerging technologies while embedding data & analytics into all our decision-making is one of the six themes that forms our strategy for QBE.

Our challenge is to harness the benefits of incumbency. While Insurtech startups have raised more than $4 billion in early stage funding over the last couple of years, generally with the goal of bringing smart technology to market, many of these companies lack a holistic product offering or a clear path to market. That's where QBE comes in. Earlier this year we started a formal and rigorous process to comb the Insurtech landscape for early stage businesses that would add greatest value to our business and to our customer relationships, with a view to partnering with – and investing in – the businesses with greatest potential. We are planning to invest up to approximately $50 million in these opportunities in 2017.

While we are planning for and investing in the future, this needs to be balanced with an unrelenting focus on delivering results in the present. I'm pleased to report that, thanks in no small part to the quality of QBE's underwriting DNA, our performance in 2016 demonstrates that we are striking the right balance. Pleasingly, each of our operating divisions once again produced an underwriting profit.

Analysis of underwriting risk and a preparedness to make tough decisions underpins the turnaround that commenced in our Australian & New Zealand Operations in the second half of the year. After years of pricing declines in our Australian business coupled with heightened claims inflation in several shorttail classes, exacerbated by deterioration in the NSW compulsory third party scheme, it was clear at the half year that prompt action to restore pricing to more sustainable levels was required. While it will take more than a year for the full impact of the comprehensive actions taken by Pat Regan and the Australian & New Zealand management team to be reflected in financial results, the Board was encouraged by the meaningful improvement in the division's combined operating ratio that was achieved between June and December 2016.

Our North American Operations welcomed Russ Johnston as CEO during the year in a seamless transition from Dave Duclos's mid year retirement, and the division continued its trajectory of performance improvement. Portfolio rationalisation and a tighter focus on core businesses, together with the ongoing growth of Specialty, have all played important roles here.

Our European Operations, under Richard Pryce's strong leadership, had another good year in a marketplace that is increasingly difficult and our Emerging Markets business, led by David Fried, continues to make progress, adding meaningfully to our future growth opportunities. One of our top priorities is assuring our Emerging Markets growth also delivers a satisfactory enhancement in the division's profitability.

Looking to the future, and your Board's primary focus is on providing governance, stewardship and accountability in relation to setting and delivering on QBE's strategy.

In the middle of last year, management announced six strategic themes that build on our company's differentiated position as one of only a handful of insurers that operate on a truly global basis.

In his address John Neal will provide an update on progress in relation to each of the six themes. We are focused on ensuring the Board has the right blend of skills and experience to oversee the execution of this strategy.

To this end, we recently accepted with regret Margaret Leung's decision to not stand for re-election as a Director. We want to thank Margaret for her service and contributions to QBE. Fortuitously, we have made two outstanding appointments to the Board in the last twelve months. Kathy Lisson was appointed a non-executive director in September, while Mike Wilkins joined the Board in November.

You will have the opportunity to hear from both of our new Directors later in this morning's proceedings before shareholders have the opportunity to vote on their election to the Board. You will hear that Kathy and Mike each bring a wealth of knowledge and experience relating to the QBE business and strategy.

Kathy Lisson, who is based in Canada, has a rare skillset spanning digital technology, cyber security, IT risks and data analytics that is essential across our six strategic themes, but with particular application to our focus areas of Data & Analytics and Operational Efficiency. Recognising the growing importance of these areas, Kathy is chairing a new Board committee focused exclusively on technology and operational transformation.

Mike Wilkins would be well-known to many of our Australian shareholders due to his prominent role in the insurance industry in Australia and Asia over the last two decades. As Managing Director and Chief Executive Officer of Insurance Australia Group, and before that Promina Group, Mike made an exceptional contribution to the insurance industry in Australia and internationally during his executive career. He has a well-earned reputation for strengthening the fundamentals of the businesses that he has led.

Your Board is confident that we have the right strategy in place to enable us to appropriately reward you, our shareholders, for the support that you provide to QBE. We have already substantially increased the dividend as QBE returned to more stable and predictable earnings over the last three years.

In 2016 our new dividend policy to pay out “up to 65%” of cash profits became effective, which supported an increase in the dividend from 50 cents in 2015 to 54 cents in 2016.

Our dividend policy is designed to ensure we reward shareholders relative to cash profit while also maintaining an appropriate level of capital for further investment and growth of the business. Pleasingly, QBE's performance in 2016 supported a further improvement in all of our capital metrics.

Recognising both the quality of the our balance sheet and our confidence in the business, the Board has established a three year A$1 billion, on market, share buy-back facility which was announced with the full year result in February.

This buy-back facility will be a useful additional tool as insurance stocks, by their very nature, periodically trade below their intrinsic value due to market conditions, interest rate fluctuations and other events. We intend to use this facility opportunistically to deliver maximum value to shareholders if and when these opportunities arise.

It is pleasing for QBE to be in a position to reward shareholders both through an increased dividend and the buy-back facility, while continuing to balance returns to shareholders with the needs of the business.

One further area where QBE continues to innovate is in the way we go about making a real, sustainable difference to our communities. Last month we announced a QBE Green Bond that will give other institutional investors the opportunity to finance QBE's investment in securities that are focused in areas such as renewable energy, energy efficiency, green buildings and sustainable forestry.

As far as we are aware, QBE is the first global insurance company to issue a Green Bond, and we are delighted to be at the forefront of initiatives to direct more institutional capital to projects that make a positive, sustainable difference. This is an area of ongoing focus for the Board, and I look forward to reporting on our progress at future Annual General Meetings.

In closing today, I would like to acknowledge that – since the start of 2016 - there have been a number of catastrophic events that have caused enormous suffering and hardship for our policyholders and all those affected. The insurance industry has responded quickly to Cyclone Debbie in Queensland, the earthquake in Ecuador and Cyclone Winston in the South Pacific. Enabling communities to rebuild following catastrophes is core to our purpose as an insurer, and our commitment to assist policyholders in their time of need is something that everyone at QBE takes extremely seriously.

Finally, I would like to thank John Neal, his leadership team and all of the 14,000 people who work for QBE around the world for the results delivered in 2016 and their commitment to delivering on our plans for the future. I thank my fellow Directors for their dedication and significant time commitment to QBE and I thank you, our shareholders, for your ongoing support.

I will now ask John to talk about the results in more detail and to describe the strategic themes that together form the blueprint for QBE’s ongoing success.