

European Operations business review

“European Operations delivered another strong underwriting performance during a year of further deterioration in trading conditions, an industry-wide increase in large risk and catastrophe claims activity and unprecedented currency fluctuation.”

Richard Pryce

Chief Executive Officer • European Operations

Gross written premium US\$ million 4,076 ↓ 7% from ² 2015	Net earned premium US\$ million 3,115¹ ↓ 10% from ³ 2015	Underwriting result US\$ million 199¹ ↓ \$178M from 2015 Combined operating ratio 93.6%¹ (2015 89.1%)	Insurance profit US\$ million 314¹ ↓ \$150M from 2015 Insurance profit margin 10.1%¹ (2015 13.4%)
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2016 overview

Trading conditions deteriorated in line with our planning assumptions in most areas. The weighted average premium rate reduction on renewed business in the year was 2.4%, reflecting a slight improvement in the second half and better than the 3.2% average reduction experienced in 2015.

Gross written premium fell short of expectations this year due to our commitment to underwriting discipline and the lack of acceptable new business opportunities. Given our decisions not to renew a few significant underperforming accounts and facilities, the overall retention level is very pleasing. Much of the success around retention is attributable to our strong customer engagement and our commitment to building meaningful and sustainable relationships.

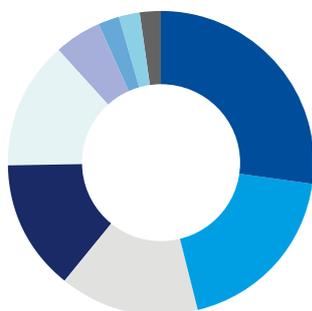
Following the European Union referendum in June and the increasingly likely outcome that we can no longer effectively access the European single market from the UK, we are well advanced in our business restructure planning.

¹ Adjusted for transactions to reinsure UK long-tail liabilities.

² Down 3% on a constant currency basis.

³ Down 6% on a constant currency basis.

Gross earned premium by class of business 2016



	2016 %	2015 %
Commercial & domestic property	27.3	27.3
Public/product liability	18.7	20.3
Marine energy & aviation	14.8	14.8
Professional indemnity	13.8	14.1
Motor & motor casualty	13.6	11.9
Workers' compensation	5.1	5.7
Accident & health	2.4	1.5
Other	2.3	2.8
Financial & credit	2.0	1.6

Our continental European insurance business continues to record higher levels of premium growth and we expect this to be maintained.

Claims expense

The net claims ratio benefited from positive prior accident year claims development of \$273 million or 8.8% of net earned premium, which emerged across multiple portfolios. This is an improvement on the \$253 million or 7.3% of positive development in 2015.

The attritional claims ratio increased relative to the prior period largely due to a temporary impact from the dramatic devaluation of sterling, whereby premium written in currencies other than sterling was earned at higher historical rates relative to related claims expense that was recognised at rates of exchange prevailing when the claims were incurred. On a constant currency basis, the underlying attritional claims ratio was stable year-on-year. Assuming future stability of sterling, this currency effect is not expected to have a lasting impact.

In line with the rest of the industry, European Operations experienced an increase in large risk and catastrophe claims incidence during 2016. Although less than our annual allowances, catastrophe claims costs were materially higher, particularly with respect to QBE Re where 2015 was especially benign.

Our underwriting teams remain vigilant as to underlying claims trends and, in particular, any signs of emerging claims inflation.

Commission and expenses

The net commission ratio was unchanged at 18.4%, an encouraging outcome in an environment where commission levels are increasing.

European Operations' expense ratio improved to 16.6% from 17.3% in the prior corresponding period. This reduction was anticipated and reflects ongoing expense management and efficiency initiatives. The reduction in our expense ratio would have been greater but for the impact of the devaluation of sterling on our non-sterling expenses.

Summary

During a year in which the ongoing competitive landscape has been compounded by increased global large risk and catastrophe claims activity and sterling's devaluation, European Operations delivered another strong result along with operational improvements that have reduced the expense base and enhanced efficiency.

Our commitment to underwriting excellence and preserving margins remains central to our success. Regardless of market conditions we will not waiver from this principle as it is now more important than ever.

QBE's vision to build the strongest partnerships with customers is embedded in our culture and we are fortunate to have many excellent customer and broker relationships across our insurance and reinsurance businesses.

There were two changes to our Executive team in 2016 and, pleasingly, they were both internal promotions. Mike East assumed the Claims Director role and Nigel Terry was appointed Chief Risk Officer at the end of the year.

The European Operations' team remained focused and committed during a difficult year and I appreciate their support and dedication.