BELL POTTER

Analyst TS Lim 612 8224 2810

Authorisation Chris Savage 612 8224 2835

Recommendation BUV (Hold) **Price** \$10.74 Target (12 months) \$11.90 (previously \$10.60)

GICS Sector

Insurance

Expected Return	
Capital growth	10.8%
Dividend yield	4.2%
Total expected return	15.0%
Company Data & Ratio	s
Enterprise value	n/m
Market cap	\$15,779m
Issued capital	1,469m
Free float	100%
Avg. daily val. (52wk)	\$70.0m
12 month price range	\$7.13- \$15.19

Price Perfo	ormance		
	(1m)	(3m)	(12m)
Price (A\$)	9.26	7.56	11.80
Absolute (%)	15.98	42.06	-8.98
Rel market (%)	13.15	29.13	-1.55

Absolute Price



SOURCE: IRESS

BELL POTTER SECURITIES LIMITED N 25 006 390 772 AFSL 243480

QBE Insurance Group (QBE)

A taste of honey

1H20: US\$712m statutory loss, A4¢ interim dividend

QBE's statutory loss of US\$712m was broadly in line with guidance of a ~US\$750m loss. While noise in the result was mainly due to COVID-19 impacts (as flagged in its 22 July trading update), underlying performance remains strong given strong premium rate increases (including material pricing momentum especially in North America and International) and retention rates, improvements in attritional and large individual risk claims ratios across North America, International and Australia Pacific, and ongoing operational efficiencies (ahead of schedule, targeting US\$825m run rate net underwriting expenses). Despite the pandemic, QBE continues to manage capital well (PCA 1.8x, at the top end of its 1.6-1.8x target range). Strong organic capital generation and offshore contributions have allowed QBE to pay an interim dividend of A4¢ (10% franked with a 1.5% DRP discount), a pleasant surprise. Looking past the current noise and based on its strong underlying fundamentals, QBE appears wellplaced to withstand the residual impacts of COVID-19. Operating at the top end of its target PCA range should also enable the insurer to capitalise on emerging organic growth opportunities and participate in inevitable global economic recovery.

Price target increased to \$11.90, Buy rating reinstated

Given a better 1H20 outcome, we have revised our US\$65m cash loss in 2H20 to a US\$146m cash profit. This is based on lower net claims expense and better investment outcomes on policyholders' and shareholders' funds. While we still forecast a cash loss in FY20 (US\$520m), we have increased the figure in FY21 by 9% to US\$737m mainly due to stronger GWP growth momentum. While FY22 cash profit is almost unchanged, we have increased subsequent years' cash profit by 3% (and simultaneously forecast dividends after applying the target cash payout ratio of 65%). However, our valuation/price target is increased by 12% to \$11.90 - this is after taking into account 3% higher cash profit forecasts, 3-4% higher dividend payments and adjusting SOP component PE multiples for recent market movements. QBE's rating is thus upgraded from Hold to Buy.

Year end 31 December	2019	2020e	2021e	2022e
NPAT (statutory) (US\$m)	601	-553	763	998
NPAT (cash) (US\$m)	733	-520	737	953
EPS (cash) (US¢)	56	-37	50	65
EPS (cash) growth - US\$ terms (%)	8%	-166%	-237%	29%
EPS (cash) (A¢)	78	-53	71	89
PER (x)	13.8	-20.2	15.2	12.1
P/Book (x)	1.4	1.2	1.2	1.2
P/NTA (x)	2.1	1.7	1.7	1.6
Dividend (A¢)	52	15	45	58
Yield (%)	4.8%	1.4%	4.2%	5.4%
ROE (cash) (%)	8.8%	-6.5%	8.3%	10.2%
Insurance margin (%)	6.1%	-2.8%	8.0%	9.6%
Franking (%)	44%	10%	10%	10%

A taste of honey

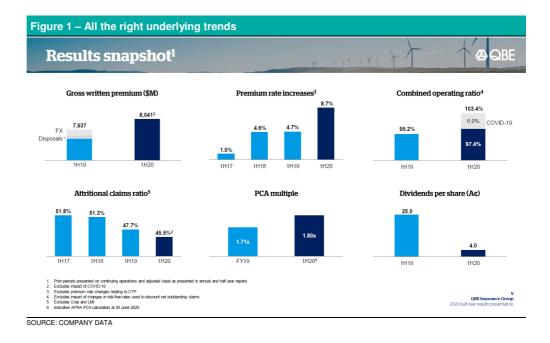


1H20: US\$712m statutory loss, A4¢ interim dividend

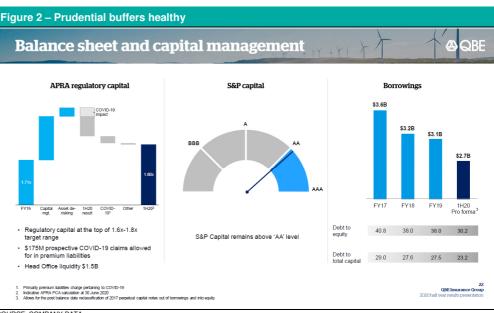
QBE's 1H20 result components are:

- 1. Gross written premium (GWP) US\$8.01bn (BP US\$8.04bn), +5% pcp;
- 2. Net earned premium (NEP) US\$5.51bn (BP US\$5.86bn), -3% pcp;
- 3. Group COR 109.5%, excluding COVID-19 103.4% (BP 107.3% net of COVID-19);
- 4. Net investment yield -0.6% (BP -3.1%);
- Reported insurance margin -10.6%, excluding COVID-19 -4.5% (BP -9.5% net of COVID-19);
- 6. Statutory loss US\$712m (BP US\$748m, guidance of ~US\$750m);
- 7. Cash loss US\$682m or US\$666m excluding one-offs (BP US\$736m);
- 8. Cash EPS US49¢ (BP US56¢);
- 9. Interim ordinary dividend A4¢ (BP nil);
- 10. Cash ROE -16.6% (BP -18.2%);
- 11. Reserve strengthening 1.8% NEP (BP 2.0%); and
- 12. PCA multiple 1.80x (BP 1.78x, target 1.6-1.8x).

QBE's statutory loss of US\$712m was broadly in line with guidance of a ~US\$750m loss. While noise in the result was mainly due to COVID-19 impacts (as flagged in its 22 July trading update), underlying performance remains strong given strong premium rate increases (including material pricing momentum especially in North America and International) and retention rates, improvements in attritional and large individual risk claims ratios across North America, International and Australia Pacific, and ongoing operational efficiencies (ahead of schedule, targeting US\$825m run rate net underwriting expenses or 14.4% NEP).



Despite COVID-19 charges, QBE continues to manage both its capital (PCA 1.80x, at the top end of its 1.60-1.80x target range) and gearing (wholesale borrowings further reduced from US\$3.6bn at the end of FY17 to a pro-forma US\$2.7bn after reclassification of 2017 perpetual capital notes into equity; debt to equity down from 41% at the end of FY17 to pro-forma 30%) well. Strong organic capital generation and offshore contributions – following MQG's playbook in our view – have allowed QBE to pay an interim dividend of A4¢ (10% franked, payable 25 September and with the DRP offering a 1.5% discount), a pleasant surprise.



SOURCE: COMPANY DATA

The swing to a statutory loss from 1H19 mainly reflected COVID-19 impacts: (1) investment losses from market volatility; and (2) US\$335m charge (US\$50m NEP impact from additional reinsurance reinstatement premiums in North America, US\$151m net claims – property, business interruption (BI), reinsurance, workers' compensation, casualty including D&O, accident & health, trade credit, LMI and landlords' insurance – largely in North America and International, US\$115m risk margin charge within Corporate for the pandemic and US\$35m refunds – the benefit of lower personal motor claims frequency was returned to customers as premium refunds – and bad debts largely in North America and Australia Pacific).

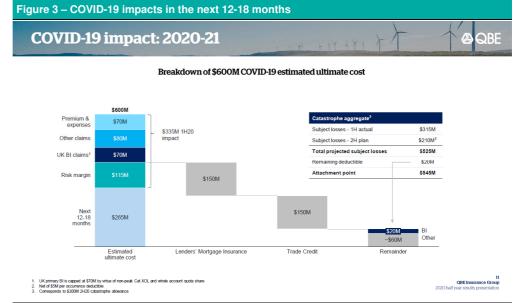
Table 1 – No surprises with COVID-19 underwriting impacts COVID-19 UNDERWRITING RESULT IMPACTS FOR THE HALF YEAR ENDED 30 JUNE COVID-19 IMPACTS 2020 ADJUSTED EX-COVID US\$M 2020 STATUTORY NORTH AMERICA US\$M AUSTRALIA PACIFIC US\$M CORPORATE US\$M TOTAL US\$M RESULT US\$M INT'L US\$M (30) Gross written premium 8.011 (30) 8.041 _ _ Gross earned premium 6.509 (30) _ _ (30)6.539 5,506 5,556 Net earned premium (30)(20)(50)(116) (3) (115) (4,041) Net claims expense (4, 307)(32) (266)Net commission (903) 6 2 (911) Underwriting and other expenses (820) (9) (18) (1) (27) (793) Underwriting result (524) (65) (133) (21) (116) (335) (189) Net investment (loss) income on policyholders' funds (60) (60) (65) (133) (21)(116)(335)Insurance (loss) profit before income tax (584) (249)

SOURCE: COMPANY DATA

Adding to this loss was adverse CAT experience and adverse prior accident year claims development (US\$101m strengthening vs. US\$89m reserve release in 1H19) that more than offset improvements in attritional and individual risk claims. Group cash loss was US\$682m after adding back US\$30m amortisation and intangible impairment charges

while the adjusted cash loss of \$666m further included restructuring, minor business disposals and other one-off items. Group COR of 109.5% would have been 103.4% excluding COVID-19 impacts and 97.4% excluding risk-free rate changes.

QBE estimates total COVID costs to be ~US\$600m pre-tax (that includes ~US\$265m potential net claims in the next 12-18 months primarily in the above-mentioned business classes) – this appears to be very conservative provisioning. We note that QBE's downside risk to potential BI claims is now only US\$20m. In terms of the UK test case for BI policy wordings, QBE's primary BU claims is capped at US\$70m that is already booked into the 1H20 result. As for North America and Australia Pacific, exposure is expected to be minimal due to comprehensive reinsurance arrangements.



SOURCE: COMPANY DATA

Figure 4 – COVID-19 business interruption downside risk capped **COVID-19 impact: Business Interruption** SBF Business Interruption (BI) COVID-19 impact (1H20) -\$140M QBE's reinsurance responds to COVID-19 QBE's non-damage business interruption exposure arising from COVID-19 is Region protected by comprehensive property catastrophe XOL, catastrophe aggregate nd "clash" reinsurance Minimal exposure Requires physical damage and all policies have virus exclusion North America Protected by quota share, non-peak of XOL and cat aggregate reinsurance · QBE's property catastrophe and catastrophe aggregate treaties are "all perils" covers i.e. qualifying perils are <u>not</u> named or listed Moderate exposure This contrasts with less expensive "named perils" covers, which only cover perils specifically named (and would therefore exclude COVID-19 unless pandemic was UK primary BI claims capped at \$70M Protected by quota share, non-peak ca XOL and cat aggregate reinsurance Internationa named as a qualifying peril) Minimal exposure Classes of businesses covered by QBE's catastrophe treaties include "property material damage and business interruption" i.e. business interruption is covered in Australia Pacific Protected by quota share, non-peak cat XOL and cat aggregate reinsurance its own right and does not require a material damage trigger, unlike many primary policy wordings QBE Insurance Gro 2020 half year remains

SOURCE: COMPANY DATA

Result component trends were also broadly consistent with those outlined in the 22 July trading update that included hardening premium prices [ex-CTP, Group average renewal premium rate increases were 8.7% in 1H20 (comprising 7.3% in 1Q20 and 10.2% in 2Q20)

with North America (9.8% in 1H20 comprising 9.3% in 1Q20 and 10.4% in 2Q20) and International (10.0% in 1H20 comprising 6.1% in 1Q20 and 14.2% in 2Q20) being the best performers vs. Australia Pacific (5.5% in 1H20 comprising 6.8% in 1Q20 and 4.6% in 2Q20)] and strong Group GWP growth of 5% to US\$8.01bn [10% underlying on a constant currency basis and ex-business disposals mainly in North America (+14% underlying) and International (+12% underlying) but with Australia Pacific constrained by CTP market reform including market share normalisation (+1% underlying)].

Ex-COVID, Group GWP increased by 5% to US\$8.04bn while NEP fell by 3% to US\$5.51bn mainly due to FX translation, business disposals and higher reinsurance spend. On a constant currency basis and excluding US\$171m business disposal impact in 1H19, underlying NEP growth was a much healthier 4%.

Group net claims excluding COVID-19 increased from 68.4% to 72.7% largely due to lower risk free rates used in discounting net outstanding claims liabilities, while the improvement in attritional claims and a reduction in large individual risk claims were more than offset by higher CAT claims and reserve strengthening.

Table 2 – KPIs				
FOR THE HALF YEAR ENDED 30 JUNE	2020		2019	
	STATUTORY %	EX-COVID %	STATUTORY %	ADJUSTED ² %
Net claims ratio	78.2	72.7	69.5	68.4
Net commission ratio	16.4	16.4	16.1	16.1
Expense ratio	14.9	14.3	14.8	14.8
Combined operating ratio	109.5	103.4	100.4	99.3
Adjusted combined operating ratio 1	103.4	97.4	96.3	95.2
Insurance profit margin	(10.6)	(4.5)	7.6	8.7

1 Excludes impact of changes in risk-free rates used to discount net outstanding claims

Excludes one-off impact of the Ogden decision in the UK

SOURCE: COMPANY DATA

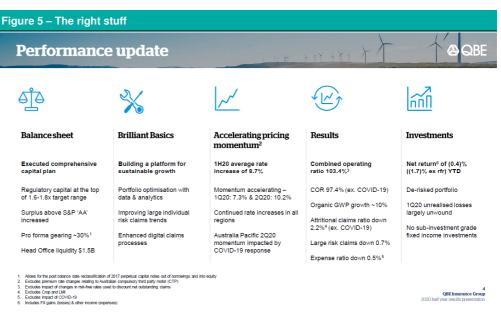
	GROSS WRITTEN PREMIUM E 2020 2019 US\$M US\$M		NET EARI PREMIL		COMBINED OF RATIO		INSURANCE (LOS BEFORE INCO	
FOR THE HALF YEAR ENDED 30 JUNE			2020 US\$M	2019 US\$M	2020 %	2019 %	2020 US\$M	2019 US\$M
North America	3,081	2,804	1,672	1,849	104.8 ¹	99.9 ¹	(227)	19
International	3,150	2,880	2,191	2,019	91.4 ¹	94.3 1,2	(5)	231
Australia Pacific	1,829	1,960	1,696	1,797	95.3 ¹	90.5 ¹	25	244
Corporate adjustments	(19)	(7)	(3)	6	_	-	(42)	1
Group ex-COVID/adjusted	8,041	7,637	5,556	5,671	97.4 ¹	95.2 ¹	(249)	495
Risk-free rate impact	-	-	_	-	6.1	4.1	-	-
COVID-19 impact	(30)	-	(50)	-	6.0	_	(335)	-
Ogden adjustment	_	-	_	-	-	1.1	-	(62)
Group statutory	8,011	7,637	5,506	5,671	109.5	100.4	(584)	433
Direct and facultative	7,017	6,711	4,942	5,209	109.3	100.6	(516)	390
Inward reinsurance	994	926	564	462	110.9	98.7	(68)	43
Group statutory	8.011	7.637	5,506	5.671	109.5	100.4	(584)	433

1 Excludes impact of changes in risk-free rates used to discount net outstanding claims.

2 Excludes one-off impact of the Ogden decision in the UK

SOURCE: COMPANY DATA

Looking past all the COVID-19 noise and based on its strong underlying fundamentals, QBE appears well-placed to withstand the residual effects of the pandemic. Operating at the top end of its target PCA range should also enable the insurer to capitalise on emerging organic growth opportunities and participate in inevitable global economic recovery.



SOURCE: COMPANY DATA

Variance analysis is listed below.

Table 4 – Variance analysis

able 4 – Vallance analysis					
QBE				FY20	
Y/e December 31 (US\$m) (adjusted)	1H20	BP	Variance	guidance	Comments
General Insurance					
Gross written premium (GWP)	8,011	8,042	0%		Broadly in line with expectations
Less: Gross unearned premium	-1,502	-1,281	-15%		
Less: Reinsurance expense	-1,003	-904	-10%		
Net earned premium (NEP)	5,506	5,857	-6%		Variance due to additional US Crop hail & CAT reinsurance expense
Gross claims expense	-4,206	-4,380	4%		Variance as a function of NEP (assuming gross loss ratio of ~77.5%)
Reserve release	-101	-120	-16%		Variance due to US\$17m reserve release in Australia Pacific
Net claims expense	-4,307	-4,500	4%		Variance as a function of NEP (assuming gross loss ratio of ~77.5%) net of AP reserve release
Commission expense	-903	-968	7%		Variance as a function of NEP (assuming commission ratio of ~16.5%)
Underwriting expense	-820	-818	0%		Broadly in line with expectations
Underwriting profit	-524	-429	22%		Largely impacted by lower NEP
Investment income - p'holders' funds	-60	-129	-53%		We had forecast losses on fixed interest, short term money & cash
Insurance profit	-584	-558	5%		Largely impacted by lower NEP
Other	0	0	n/m		
Associates	-2	-2	n/m		
Total divisional result	-586	-560	5%		Largely impacted by lower NEP
Amortisation and impairment	-13	-15	n/m		
Interest	-125	-94	-25%		
Investment income - s'holders' funds	-30	-247	-88%		We had forecast losses on fixed interest, short term money & cash
Other	-24	0	n/m		
Profit before income tax	-778	-915	-15%		Largely impacted by lower NEP
Income tax expense	68	165	n/m		8% effective tax rate reflects mix of corporate tax rates in countries where QBE operates and
Minority interest & discontinued	-2	2	n/m		non-recognition of US current tax losses due to uncertainty over recoverability
Reported NPAT	-712	-748	-5%		Largely impacted by lower NEP
Cash NPAT	-666	-736	-9%		Largely impacted by lower NEP
DPS (A¢)	4	0	n/m		
EPS (cash) (US¢)	-49	-56	-14%		Reflects higher cash NPAT
ROE (cash)	-16.6%	-18.2%	1.7%		Reflects higher cash NPAT
Expense ratio	31.3%	30.5%	-0.8%		Largely impacted by lower NEP
Loss ratio	78%	77%	-1%		Broadly in line with expectations
COR (statutory)	110%	107%	-2%		Largely impacted by lower NEP
Effective tax rate	9%	18%	9%		See above
Insurance margin	-10.6%	-9.5%	-1.1%		Largely impacted by lower NEP
Net investment yield	-0.7%	-3.1%	2.4%		See above

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Price target increased to \$11.90, Buy rating reinstated

Given a better 1H20 outcome, we have revised our US\$65m cash loss in 2H20 to a US\$146m cash profit. This is based on lower net claims expense and better investment outcomes on policyholders' and shareholders' funds. While we still forecast a cash loss in FY20 (US\$520m), we have increased the figure in FY21 by 9% to US\$737m mainly due to stronger GWP growth momentum. While FY22 cash profit is almost unchanged, we have increased subsequent years' cash profit by 3% (and simultaneously forecast dividends after applying the target cash payout ratio of 65%).

However, our valuation/price target is increased by 12% to \$11.90 – this is after taking into account 3% higher cash profit forecasts, 3-4% higher dividend payments and adjusting SOP component PE multiples for recent market movements. QBE's rating is thus upgraded from Hold to Buy.

Table 5 – Composite valua	tion			
Composite Valuation (A\$m)	Value	Per share	Weighting	Composite value per share
DCF	16,422	\$11.18	40%	\$4.47
Float plus equity valuation	23,276	\$15.84	20%	\$3.17
ROE (sustainable)	17,164	\$11.68	20%	\$2.34
Sum-of-Parts	14,258	\$9.70	20%	\$1.94
Surplus capital	0	\$0.00		\$0.00
Total				\$11.92

Table 6 – SOP valuation				
SOP Valuation (A\$m)	FY21e NPAT	Pros. PE (times)	Value (\$m)	Per share
North American Operations	175	12.5	2,187	\$1.49
Latin American Operations	-	-	-	-
International Operations	272	12.5	3,404	\$2.32
Australian Pacific Operations	249	12.5	3,119	\$2.12
Asia Pacific Operations	0	0.0	0	\$0.00
Equator and other	66	10.0	658	\$0.45
Total	763	12.3	9,368	\$6.38
- In A\$ terms	1,161		14,258	\$9.70

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

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Table 7 – Estimate changes QBE FY20e FY21e FY22e FY23e Y/e December 31 (US\$m) (adjusted) Chang Chang Chang Chang Current Previous Current Previous Current Previous Current Previous 15,062 Gross written premium (GWP) 14,157 13,820 2% 14,399 5% 15,946 15,040 6% 16,440 15,491 6% -53% -53% -53% -53% Less: Gross unearned premium -551 -260 -575 -268 -634 -298 -657 -307 Less: Reinsurance expense -1,994 -1,807 -9% -2,008 -1,881 -6% -2,120 -1,960 -8% -2,189 -2,018 -8% Net earned premium (NEP) 11,612 11,753 -1% 12,480 12,250 2% 13,192 12,783 3% 13.594 13,167 3% Gross claims expense -8,374 -8,736 4% -8,205 -8,211 0% -8,589 -8,342 -3% -8,852 -8,592 -3% Reserve release -63 -73 -14% 117 129 -9% 130 132 -1% 130 132 -1% -8,437 -8,809 4% -8,089 -8,082 0% -8,459 -8,210 -3% -8,722 -8,461 -3% Net claims expense Commission expense -1.872 -1 927 3% -1 947 -1 963 1% -2.030 -2 022 0% -2.074 -2 065 0% Underwriting expense -1.655 -1.629 -2% -1.692 -1.650 -2% -1.738 -1.693 -3% -1,736 -1.726 -1% Underwriting profit -352 -612 -42% 752 555 36% 965 857 13% 1,062 914 16% -1020% Investment income - p'holders' funds 321 -24% 296 360 -18% 306 372 -18% 23 -2 244 Insurance profit -329 -614 -46% 995 875 14% 1,260 1,218 3% 1,368 1,286 6% Other 0 0 n/m 0 0 n/n 0 0 n/m 0 0 n/m Associates -4 -4 n/m -4 -4 n/m -4 -4 n/m -4 -4 n/m Total divisional result -333 -618 -46% 991 871 14% 1,256 1.214 4% 1.364 1.282 6% -28 -30 -30 -30 Amortisation and impairment n/m n/m -6 -6 n/m 0 0 n/m Interest -208 -177 -15% -166 -167 1% -166 -167 1% -166 -167 1% Investment income - s'holders' funds 14 -155 -109% 151 202 -25% 153 206 -26% 155 210 -26% Other -24 0 ٥ ٥ 0 ٥ 0 ٥ Profit before income tax 876 1.324 2% -579 -981 -41% 946 8% 1.237 1.246 -1% 1.353 Income tax expense 30 177 486% -180 -175 -3% -235 -249 6% -257 -265 3% Minority interest & discontinued n/m -4 4 n/m -4 4 n/n -4 4 -4 4 n/m Reported NPAT -553 -800 763 705 8% 998 1,001 0% 1,092 1,063 3% n/m Cash NPAT -520 -801 n/m 737 678 9% 953 955 0% 1.042 1.013 3% DPS (A¢) 15 15 -2% 45 41 10% 58 56 3% 63 60 4% EPS (cash) (US¢) -37 -58 -37% 50 46 8% 65 65 0% 71 69 3% -6.5% -9.9% 3.4% 8.3% 8.0% 0.3% 10.2% 10.7% 10.7% 10.8% -0.1% ROE (cash) -0.4% Insurance margin -2.8% -5.2% 2.4% 8.0% 7.1% 0.8% 9.6% 9.5% 0.0% 10.1% 9.8% 0.3% Reserve release as % of NEP -0.5% -0.6% 0.1% 0.9% 1.1% -0.1% 1.0% 1.0% 0.0% 1.0% 0.0% 1.0% Loss ratio 72.7% 75.0% 2.3% 64.8% 66.0% 1.2% 64.1% 64.2% 0.1% 64.2% 64.3% 0.1% 29.1% 28.8% Expense ratio 30.4% 30.3% 29.2% 29.5% 28.6% 0.5% 28.0% 0.8% -0.1% 0.3% COR (statutory) 103.0% 105.2% 2.2% 94.0% 95.5% 1.5% 92.7% 93.3% 0.6% 92.2% 93.1% 0.9%

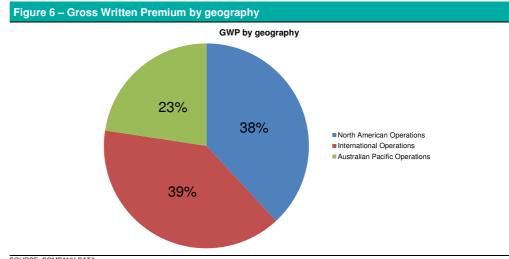
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

QBE Insurance Group

Company description

QBE's roots can be traced back to 1886 when James Burns and Robert Philp established The North Queensland Insurance Company (QI). In 1921, Burns founded Bankers' and Traders' Insurance Company (B&T) with QI being the largest shareholder followed by the owners' trading firm Burns Philp. In 1959, QI and B&T each acquired 40% of The Equitable Probate and General Insurance Company with Burns Philp taking the residual shareholding. QI and B&T then merged in 1973 to form the present day QBE.

QBE's head office is in Sydney and the company employs more than 17,000 people in 48 countries. The underlying business strategy is to maintain operations in all key insurance markets and act as a lead underwriter in selected lines of business. Core to QBE's risk management is its diversification strategy along product and geographic lines.



SOURCE: COMPANY DATA

Investment strategy

Our current rating reflects:

- 1. QBE's focus on continuous risk management to maximise ROE;
- 2. QBE as a turnaround stock and an interest rate/currency normalisation play;
- 3. Productivity upside over the next few years as a turnaround story; and
- 4. Value upside given the potential to divest non-core operations and also the significance of the insurer's float in a rising rate environment.

Board and management

Michael (Mike) Wilkins (Chairman) – Appointed non-executive director in November 2016, Mr Wilkins succeeded Mr Marty Becker as Chairman in March 2020. Mr Wilkins has more than 30 years' experience in financial services and was the Managing Director and CEO of Insurance Australia Group Limited until November 2015. He also previously served as Managing Director and CEO of Promina Group Limited and Managing Director of Tyndall Australia Limited. Mr Wilkins is currently a non-executive director of Medibank Private Limited and previously served as non-executive director of AMP Limited from September 2016 to February 2020.

Pat Regan (CEO, previously CEO Australian & New Zealand Operations and Executive Director) – Appointed to the current role in September 2017, Mr Regan was previously CEO of Australia & New Zealand Operations and CFO of the Group. He joined QBE from Aviva where he was the CFO from 2010 to 2014. Mr Regan has over 25 years' experience as a practicing chartered accountant and 20+ years' experience in global insurance and financial services. Prior to Aviva, Mr Regan has worked as CFO/COO at Willis and in other roles at RSA and AXA.

Valuation

The price target is broadly aligned with the composite valuation below.

Table 8 – Composite valua	ation				Table 9 – SOP valuation				
Composite Valuation (A\$m)	Value	Per share	Weighting	Composite value per	SOP Valuation (A\$m)	FY21e NPAT	Pros. PE (times)	Value (\$m)	Per share
				share	North American Operations	175	12.5	2,187	\$1.49
DCF	16,422	\$11.18	40%	\$4.47	Latin American Operations	-	-	-	-
Float plus equity valuation	23,276	\$15.84	20%	\$3.17	International Operations	272	12.5	3,404	\$2.32
ROE (sustainable)	17.164	\$11.68	20%	\$2.34	Australian Pacific Operations	249	12.5	3,119	\$2.12
	, -				Asia Pacific Operations	0	0.0	0	\$0.00
Sum-of-Parts	14,258	\$9.70	20%	\$1.94	Equator and other	66	10.0	658	\$0.45
Surplus capital	0	\$0.00		\$0.00	Total	763	12.3	9,368	\$6.38
Total				\$11.92	- In A\$ terms	1,161		14,258	\$9.70

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

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SWOT analysis

Strengths

- 1. Global insurer with top line diversification benefits;
- 2. Risk management; and
- 3. Economies of scale in underwriting and reinsurance.

Weaknesses

- 1. Exposure to hurricane-prone geographies;
- 2. Claims inflation outstripping rate rises; and
- 3. Remains a complex global business.

Opportunities

- 1. Market power/efficiency gains/cost-outs to underpin growth in Core Australasian markets; and
- 2. Further non-core divestments and release of surplus capital in due course.

Threats

- 1. Significant CAT/claims events usual operating risks;
- 2. Weaker commercial GWP outlook especially in North America, Australia and New Zealand;
- 3. Brexit risks;
- 4. Reduced investment income from widening credit spreads; and
- 5. Increased competition from new entrants and retailers.

QBE Insurance Group as at 13 August 2020

Recommendation Price

Target (12 months)

Buy \$10.74 \$11.90

Table 10 – Financial summary

A at 13-Aug-20 PROFT AND LOSS Vie December 3 (USSm from 2009) Ceneral Insurance Cross wither permium (GWP) 13,657 13,442 14,157 15,062 15,544 Loss: Gensurance permes -1,76 -1,684 -1,984 -2,022 -2,124 -2,124 -2,124 -2,124 -2,124 -2,124 -3,137 -8,374 -8,205 -8,585 Net carmed premium (MPP) 11,630 -1,681 -1,681 -1,681 -1,682 -1,683 -1,682 -1,683 -1,682 -1,732 -8,685 -1,682 -1,732 -1,477 -2,008 -1,682 -1,732 -1,477 -1,477 -1,477 -1,477 -1,477 -1,477 -1,477 -1,477 -1,478 -2,008 -1,682 -1,272 -1,477 -1,418 -1,575 -6,33 -9,99 -1,618 -1,978 -1,428 -2,21 -1,32 -1,414 -1,518 -1,59 -1,414 -1,518 -1,59 -1,528 -1,59 -1,518 -1,59 -1,528 -1,59 -1,528 -1,528	Table TO – Financial Sumi	nei y				
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Verb Constraint 2018 2019 2020e 2021e 2022e Conesa Intrance Conesa Intrance 13,657 13,442 14,157 15,062 15,442 Less: Gross unemad premium 56 1458 551 557 633 Less: Gross unemaim (NEP) 17,73 11,648 11,813 11,809 11,813 11,809 11,817 11,409 14,817 14,907 43,97 43,97 43,97 43,97 43,99 44 2008 21,82 733 1409 1455 59 352 752 646 1168 11,89 11,890 1,585 1,982 1,733 1,409 1,55 1,992 1,386 1,333 1,391 1,225 1,982 1,387 1,418 1,54 1,34 1,55 1,56 59 333 1,991 1,525 1,566 1,66 1,66 1,66 1,66 1,66 1,66 1,66 1,66 1,66 1,66 1,66 1,66 1,66 1,66 <td>DROFIT AND LOSS</td> <td></td> <td></td> <td></td> <td></td> <td></td>	DROFIT AND LOSS					
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Reinsurance and other recoveries 5,551 5,104 6,143 6,521 6,803 DAC and DRE 1,662 1,907 2,829 2,956 2,994 Intangible assets and goodwill 2,800 2,791 2,731 2,701 2,669 Other assets 1,356 1,080 1,154 1,154 1,154 1,154 Total assets 39,582 40,035 43,686 45,891 47,694 Outstanding claims 19,579 19,915 23,050 24,468 25,533 Unearned premium 6,212 6,460 5,983 6,356 6,633 Interest bearing liabilities 3,188 3,095 2,664 2,664 2,664 Other liabilities 2,203 2,412 3,030			,			3,917
DAC and DRE 1,662 1,907 2,829 2,956 2,994 Intangible assets and goodwill 2,800 2,791 2,731 2,701 2,689 Other assets 1,356 1,080 1,154 1,155 1,155 Total assets 39,582 40,035 43,686 45,891 47,694 Outstanding claims 19,579 19,915 23,050 24,468 25,533 Uneamed premium 6,212 6,460 5,983 6,356 6,633 Interest bearing liabilities 3,188 3,095 2,664 2,664 2,664 Otter liabilities 2,203 2,412 3,030 3,030 3,030 Total liabilities 31,182 31,882 34,727 36,519 37,667 Ordinary share capital 7,830 7,594 8,889 8,889 8,889 Teasury shares held in trust -7 -1 -1 -1 -1 Reserves & other -1,363 -1,315 1,012 -1,012 -1,012						1,677
Intangible assets and goodwill 2,800 2,791 2,731 2,701 2,693 Other assets 1,356 1,080 1,154 1,154 1,154 1,154 Total assets 39,582 40,035 43,686 45,891 47,694 Outstanding claims 19,579 19,915 23,050 24,468 25,538 Unearned premium 6,212 6,460 5,983 6,356 6,635 Interest bearing liabilities 31,182 31,882 34,727 36,519 37,867 Ordinary share capital 7,830 7,594 8,889 8,889 8,889 8,889 Treasury shares held in trust -7 -1 -1 -1 -1 -1 Retained profits 1,921 1,895 1,082 1,496 1,955 Minority interests 19 0 0 0 0 0 Total sh equity & liabs 39,582 40,035 43,686 45,891 47,694 WANOS - statutory (m) 1,348						
Other assets 1,356 1,080 1,154 1,154 1,154 1,154 Total assets 39,582 40,035 43,686 45,891 47,694 Outstanding claims 19,579 19,915 23,050 24,468 25,533 Uneamed premium 6,212 6,460 5,983 6,356 6,635 Interest bearing liabilities 3,188 3,095 2,664 2,664 2,664 Other liabilities 31,182 31,882 34,727 36,519 37,867 Ordinary share capital 7,830 7,594 8,889 8,889 8,889 8,889 Treasury shares held in trust -7 -1 -1 -1 -1 Retained profits 1,921 1,895 1,082 1,496 1,957 Minority interests 19 0 0 0 0 0 0 Total shareholders' equity 8,400 8,153 8,958 9,372 9,823 WANOS - statutory (m) 1,348 1,318						2,695
Outstanding claims 19,579 19,915 23,050 24,468 25,533 Unearned premium 6,212 6,460 5,983 6,356 6,633 Interest bearing liabilities 3,188 3,095 2,664 2,664 2,664 Other liabilities 2,203 2,412 3,030 3,030 3,030 Total liabilities 31,182 31,882 34,727 36,519 37,867 Ordinary share capital 7,830 7,594 8,889 8,889 8,889 Treasury shares held in trust -7 -1 -1 -1 Reserves & other -1,363 -1,335 -1,012 -1,012 Hetained profits 1,921 1,895 1,062 1,496 1,955 Minority interests 19 0 0 0 0 0 Total shareholders' equity 8,400 8,153 8,958 9,372 9,827 Total sh. equity & liabs. 39,582 40,035 43,686 45,891 47,694 WANOS - statutory (m) 1,348 1,318 1,420 1,468 1,4	-					1,154
Uneamed premium 6,212 6,460 5,983 6,356 6,633 Interest bearing liabilities 3,188 3,095 2,664 3,030	Total assets	39,582	40,035	43,686	45,891	47,694
Uneamed premium 6,212 6,460 5,983 6,356 6,633 Interest bearing liabilities 3,188 3,095 2,664 3,030	Outstanding slaims	10 570	10.015	22.050	24 469	25 520
Interest bearing liabilities 3,188 3,095 2,664 3,030 1,010 Marei and an an an an						6,633
Total liabilities 31,182 31,882 34,727 36,519 37,863 Ordinary share capital 7,830 7,594 8,889 8,889 8,889 8,889 8,889 8,889 8,889 8,889 8,889 8,889 8,889 8,889 8,889 7,594 8,869 8,889 8,889 8,889 8,889 7,794 8,797 -1 -1 -1 -1 -1 -1 -1 -1 -1 -1 -1 -1 1,912 1,935 -1,012 -1,012 -1,012 -1,012 1,013 1,016 1,014 1,016 1,014 1,016 1,014 1,016 1,014 1,018 1,124 1				2,664		2,664
Ordinary share capital 7,830 7,594 8,889 8,889 8,889 Treasury shares held in trust -7 -1 -1 -1 -1 Reserves & other -1,363 -1,335 -1,012 -1,012 -1,012 Retained profits 1,921 1,895 1,082 1,496 1,955 Minority interests 19 0 0 0 0 Total shareholders' equity 8,400 8,153 8,958 9,372 9,827 Total sh. equity & liabs. 39,582 40,035 43,686 45,891 47,694 WANOS - statutory (m) 1,348 1,318 1,420 1,468 1,468 WANOS - cash (m) 1,348 1,318 1,420 1,468 1,468 Reserve release as % of NEP 13.0% 12.4% 14.7% 13.9% 13.8% Debt to equity (target 25-35%) 38% 30% 28% 27% Gross uneared premium as % of GWF 0.4% 1.4% 3.9% 3.8% 4.07						3,030
Treasury shares held in trust -7 -1 -1 -1 Reserves & other -1,363 -1,335 -1,012 -1,012 -1,012 Retained profits 1,921 1,895 1,082 1,496 1,955 Minority interests 19 0 0 0 0 Total shareholders' equity 8,400 8,153 8,958 9,372 9,827 Total sh. equity & liabs. 39,582 40,035 43,686 45,891 47,694 WANOS - statutory (m) 1,348 1,318 1,420 1,468 1,468 WANOS - cash (m) 1,348 1,318 1,420 1,468 1,468 Peserve release as % of NEP 12.2% 0.8% -0.5% 0.9% 1.0% Reinsurance as % of GEP 13.0% 12.4% 14.7% 13.9% 13.8% Debt to equity (target 25-35%) 38% 38% 30% 28% 27% Gross rate (A\$1.00 = US\$) \$0.73 \$0.72 \$0.69 \$0.71 \$0.77 Yield - policyholders' funds 2.2% 4.3% 0.1% 1.4%	lotal liabilities	31,182	31,882	34,727	36,519	37,867
Treasury shares held in trust -7 -1 -1 -1 Reserves & other -1,363 -1,335 -1,012 -1,012 -1,012 Retained profits 1,921 1,895 1,082 1,496 1,955 Minority interests 19 0 0 0 0 Total shareholders' equity 8,400 8,153 8,958 9,372 9,827 Total sh. equity & liabs. 39,582 40,035 43,686 45,891 47,694 WANOS - statutory (m) 1,348 1,318 1,420 1,468 1,468 WANOS - cash (m) 1,348 1,318 1,420 1,468 1,468 Peserve release as % of NEP 12.2% 0.8% -0.5% 0.9% 1.0% Reinsurance as % of GEP 13.0% 12.4% 14.7% 13.9% 13.8% Debt to equity (target 25-35%) 38% 38% 30% 28% 27% Gross rate (A\$1.00 = US\$) \$0.73 \$0.72 \$0.69 \$0.71 \$0.77 Yield - policyholders' funds 2.2% 4.3% 0.1% 1.4%	Ordinary share capital	7,830	7,594	8,889	8,889	8,889
Retained profits 1,921 1,895 1,082 1,496 1,955 Minority interests 19 0	Treasury shares held in trust	-7				-1
Minority interests 19 0 0 0 0 Total shareholders' equity 8,400 8,153 8,958 9,372 9,827 Total shareholders' equity 8,400 8,153 8,958 9,372 9,827 Total sh. equity & liabs. 39,582 40,035 43,686 45,891 47,694 WANOS - statutory (m) 1,348 1,318 1,420 1,468 1,468 WANOS - cash (m) 1,348 1,318 1,420 1,468 1,466 Reserve release as % of NEP 12.0% 0.8% -0.5% 0.9% 1.0% Reinsurance as % of GEP 13.0% 12.4% 14.7% 13.9% 13.8% Debt to equity (target 25-35%) 38% 38% 30% 28% 27% Gross unearned premium as % of GWF 0.4% 1.4% 3.9% 3.8% 4.0% Cross rate (A\$1.00 = US\$) \$0.73 \$0.72 \$0.69 \$0.71 \$0.77 Yield - policyholders' funds 2.2% 4.3% 0.1%						-1,012
Total shareholders' equity 8,400 8,153 8,958 9,372 9,823 Total sh. equity & liabs. 39,582 40,035 43,686 45,891 47,694 WANOS - statutory (m) 1,348 1,318 1,420 1,468 1,468 WANOS - cash (m) 1,348 1,318 1,420 1,468 1,464 Reserve release as % of NEP 1.2% 0.8% -0.5% 0.9% 1.0% Reinsurance as % of GEP 13.0% 12.4% 14.7% 13.9% 13.8% Debt to equity (target 25-35%) 38% 38% 30% 28% 27% Gross unearned premium as % of GWF 0.4% 1.4% 3.9% 3.8% 4.0% Cross rate (A\$1.00 = US\$) \$0.73 \$0.72 \$0.69 \$0.71 \$0.71 Yield - policyholders' funds 2.2% 4.3% 0.1% 1.4% 1.6% Net investment contribution 2.9% 5.6% 0.2% 2.0% 2.2%			-			1,951
Total sh. equity & liabs. 39,582 40,035 43,686 45,891 47,694 WANOS - statutory (m) 1,348 1,318 1,420 1,468 1,468 WANOS - cash (m) 1,348 1,318 1,420 1,468 1,468 Reserve release as % of NEP 1.2% 0.8% -0.5% 0.9% 1.0% Reinsurance as % of GEP 13.0% 12.4% 14.7% 13.9% 13.8% Debt to equity (target 25-35%) 38% 38% 30% 28% 27% Gross unearned premium as % of GWF 0.4% 1.4% 3.9% 3.8% 4.007 Yield - policyholders' funds 2.2% 4.3% 0.1% 1.4% 1.6% Net investment contribution 2.9% 5.6% 0.2% 2.0% 2.2%	-					9,827
WANOS - statutory (m) WANOS - cash (m) 1,348 1,318 1,420 1,468 1,408 1,408						
WANOS - cash (m) 1,348 1,318 1,420 1,468 1,468 Reserve release as % of NEP 1.2% 0.8% -0.5% 0.9% 1.0% Reinsurance as % of GEP 13.0% 12.4% 14.7% 13.9% 13.8% Debt to equity (target 25-35%) 38% 38% 30% 28% 27% Gross unearned premium as % of GWF 0.4% 1.4% 3.9% 3.8% 4.0% Yield - policyholders' funds 2.2% 4.3% 0.1% 1.4% 1.6% Net investment contribution 2.9% 5.6% 0.2% 2.0% 2.2%	Total sh. equity & liabs.	39,582	40,035	43,686	45,891	47,694
Reserve release as % of NEP 1.2% 0.8% -0.5% 0.9% 1.0% Reinsurance as % of GEP 13.0% 12.4% 14.7% 13.9% 13.8% Debt to equity (target 25-35%) 38% 38% 30% 28% 27% Gross uneared premium as % of GWF 0.4% 1.4% 3.9% 3.8% 4.0% Yield - policyholders' funds 2.2% 4.3% 0.1% 1.4% 1.6% Net investment contribution 2.9% 5.6% 0.2% 2.0% 2.2%						1,468
Reinsurance as % of GEP 13.0% 12.4% 14.7% 13.9% 13.8% Debt to equity (target 25:35%) 38% 38% 30% 28% 27% Gross unearned premium as % of GWF 0.4% 1.4% 3.9% 3.8% 4.0% Cross rate (A\$1.00 = US\$) \$0.73 \$0.72 \$0.69 \$0.71 \$0.77 Yield - policyholders' funds 2.2% 4.3% 0.1% 1.4% 1.6% Net investment contribution 2.9% 5.6% 0.2% 2.0% 2.2%	WANOS - cash (m)	1,348	1,318	1,420	1,468	1,468
Reinsurance as % of GEP 13.0% 12.4% 14.7% 13.9% 13.8% Debt to equity (target 25:35%) 38% 38% 30% 28% 27% Gross unearned premium as % of GWF 0.4% 1.4% 3.9% 3.8% 4.0% Cross rate (A\$1.00 = US\$) \$0.73 \$0.72 \$0.69 \$0.71 \$0.77 Yield - policyholders' funds 2.2% 4.3% 0.1% 1.4% 1.6% Net investment contribution 2.9% 5.6% 0.2% 2.0% 2.2%	Reserve release as % of NEP	1.2%	0.8%	-0.5%	0.9%	1.0%
Gross unearned premium as % of GWF 0.4% 1.4% 3.9% 3.8% 4.0% Cross rate (A\$1.00 = US\$) \$0.73 \$0.72 \$0.69 \$0.71 \$0.77 Yield - policyholders' funds 2.2% 4.3% 0.1% 1.4% 1.6% Net investment contribution 2.9% 5.6% 0.2% 2.0% 2.2%	Reinsurance as % of GEP	13.0%	12.4%	14.7%	13.9%	13.8%
Cross rate (A\$1.00 = US\$) \$0.73 \$0.72 \$0.69 \$0.71 \$0.73 Yield - policyholders' funds 2.2% 4.3% 0.1% 1.4% 1.6% Net investment contribution 2.9% 5.6% 0.2% 2.0% 2.2%						27%
Yield - policyholders' funds 2.2% 4.3% 0.1% 1.4% 1.6% Net investment contribution 2.9% 5.6% 0.2% 2.0% 2.2%						
Net investment contribution 2.9% 5.6% 0.2% 2.0% 2.2%						1.6%
Combined investment yield 2.3% 4.4% 0.1% 1.5% 1.7% SOURCE: BELL POTTER SECURITIES ESTIMATES						

		(4.4)			10 74
	Share Price Market Cap				10.74 15,779
VALUATION DATA					
Y/e December 31 (US\$m from 2009)	2018	2019	2020e	2021e	2022e
NPAT (cash) EPS (statutory basis) (US cps)	692 31	733 46	-520 -39	737 52	953 68
- Growth	n/m	46%	-185%	-233%	31%
EPS (cash basis) (US cps) - Growth	51 n/m	56 8%	-37 -166%	50 -237%	65 29%
P / E ratio (times)	15.3	13.8	n/m	15.2	12.1
P / Book ratio (times) P / NTA ratio (times)	1.4 2.1	1.4 2.1	1.2 1.7	1.2 1.7	1.2 1.6
Net DPS (A cps)	51	52	15	45	58
Yield Franking	4.8% 47%	4.8% 44%	1.4% 10%	4.2% 10%	5.4% 10%
Payout (up to 65% of cash NPAT)	74%	83%	n/m	64%	65%
Effective tax rate	12%	16%	5%	19%	19%
CAPITAL ADEQUACY					
Y/e December 31 (US\$m from 2009) Tier 1 capital	2018 6,306	2019 5,944	2020e 6,399	2021e 6,813	2022e 7,268
Tier 2 capital	2,456	2,558	2,496	2,496	2,496
Total capital base Total PCA	8,762 4,931	8,502 4,966	8,895 4,907	9,309 5,134	9,764 5,355
PCA multiple (x) (target 1.6-1.8x)	1.78	1.71	1.81	1.81	1.82
CET1 / PCA (>60%) Notional surplus capital (> 1.7x PCA)	120% 379	112% 60	122% 553	125% 582	128% 662
- Per share (US cps)	26	4	38	40	45
PROFITABILITY RATIOS					
Y/e June 30 Return on assets (cash)	2018 1.6%	2019 1.8%	2020e -1.3%	2021e 1.6%	2022e 2.0%
Return on equity (cash)	8.0%	8.8%	-1.3% -6.5%	8.3%	2.0% 10.2%
Growth in GWP	2.5%	-1.6%	5.3%	6.4%	5.9%
Growth in NEP Loss ratio	0.5% 64.0%	-1.9% 69.3%	0.0% 72.7%	7.5% 64.8%	5.7% 64.1%
Expense ratio	31.6%	30.2%	30.4%	29.2%	28.6%
 Commission ratio Underwriting ratio 	16.5% 15.2%	15.7% 14.6%	16.1% 14.3%	15.6% 13.6%	15.4% 13.2%
COR (statutory)	95.6%	99.5%	103.0%	94.0%	92.7%
Insurance margin	7.3%	6.1%	-2.8%	8.0%	9.6%
RESERVES Y/e December 31 (US\$m from 2009)	2018	2019	2020e	2021e	2022e
Net Central Estimate	12,870	13,675	15,515	16,470	17,191
Risk Margin	1,158	1,136	1,392	1,477	1,542
Net outstanding claims liability Unearned premium	14,028 6,212	14,811 6,460	16,907 5,983	17,947 6,356	18,733 6,633
Less: DAC	-1,662	-1,907	-2,829	-2,956	-2,994
Less: Insurance receivables & other Technical reserves	-4,394 14,184	-3,419 15,945	-3,533 16,529	-3,753 17,594	-3,917 18,456
DIVISIONAL					
Y/e December 31 (US\$m from 2009)	2018	2019	2020e	2021e	2022e
Gross written premium (GWP) North American Operations	4,711	4,637	5,003	5,253	5,490
Latin American Operations International Operations	4,876	4,924	5,310	5,688	6,136
Australian Pacific Operations	4,104	3,920	3,862	4,121	4,320
Asia Pacific Operations	633				
Loss ratio	600/	000/	700/	600/	670/
North American Operations Latin American Operations	68%	80%	78%	69%	67%
International Operations	61%	67%	70%	62%	62%
Australian Pacific Operations Asia Pacific Operations	61% 42%	62%	66%	63%	63%
Equator Re & Other	78%				
COR (statutory)					
North American Operations Latin American Operations	98%	108%	107%	96%	93%
International Operations	97%	99%	102%	94%	93%
Australian Pacific Operations Asia Pacific Operations	91% 116%	92%	96%	92%	92%
Equator Re & Other	91%				
Insurance margin					
North American Operations	4%	-5%	-7%	6%	9%
Latin American Operations International Operations	6%	8%	-2%	8%	9%
Australian Pacific Operations	13%	14%	4%	9%	10%
Asia Pacific Operations Equator Re & Other	-14% 13%				
ROTE EPS (cash basis) (A cps)	12.1% 70	13.2% 78	-9.6% -53	11.4% 71	13.8% 89

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Bell Potter Securities Limited
ACN 25 006 390 7721
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Research Team

Staff Member	Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research/Banks	612 8224 2810	tslim
Analyst			
Lafitani Sotiriou	Diversified Financials/Fintech	613 9235 1668	Isotiriou
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare	612 8224 2849	tnjain
Elyse Shapiro	Healthcare	613 9235 1877	eshapiro
Steven Anastasiou	Industrials	613 9235 1952	sanastasiou
James Filius	Industrials	613 9235 1612	jfilius
Sam Haddad	Industrials	612 8224 2819	shaddad
Alex McLean	Industrials	612 8224 2886	amclean
Hamish Murray	Industrials	613 9235 1813	hmurray
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
Damien Williamson	Industrials	613 9235 1958	dwilliamson
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Associate			
Joseph House	Associate Analyst	613 9235 1624	jhouse

Bell Potter Securities (HK) Limited Room 1701, 17/F Posperity Tower, 39 Queens Road Central, Hong Kong, 0000 Telephone +852 3750 8400

Bell Potter Securities (US) LLC Floor 39 444 Madison Avenue, New York NY 10022, U.S.A Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited 16 Berkeley Street London, England W1J 8DZ, United Kingdom Telephone +44 7734 2929

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T S Lim, authoring analyst, holds a long position in QBE.

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