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16 June 2016

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

Dear Sir/Madam

**PRICING ANNOUNCEMENT IN RELATION TO U.S.\$524,124,000 FIXED RATE
SUBORDINATED NOTES DUE 2046 TO BE ISSUED BY QBE PURSUANT TO ITS
U.S.\$4,000,000,000 MEDIUM TERM NOTE PROGRAMME ("NEW NOTES")**

Please find attached an announcement for release to the market.

Yours faithfully,

A handwritten signature in blue ink that reads "Peter Smiles".

Peter Smiles
Deputy Company Secretary

Attach.



QBE

MARKET RELEASE

16 June 2016

PRICING ANNOUNCEMENT IN RELATION TO U.S.\$524,124,000 FIXED RATE SUBORDINATED NOTES DUE 2046 TO BE ISSUED BY QBE PURSUANT TO ITS U.S.\$4,000,000,000 MEDIUM TERM NOTE PROGRAMME (“NEW NOTES”)

QBE refers to its announcements of 26 May 2016 and 9 June 2016 relating to the invitation by The Hongkong and Shanghai Banking Corporation Limited (“**HSBC**”) to holders of outstanding U.S.\$1,000,000,000 Fixed Rate Reset Guaranteed Exchangeable Subordinated Callable Notes due 2041 issued by QBE Capital Funding III Limited (“**Notes**”) to tender their Notes for purchase by HSBC in exchange for cash, and the successful tender and acceptance for purchase of such Notes by HSBC (“**Acquired Notes**”).

QBE is pleased to announce today that QBE has successfully priced U.S.\$ 524,124,000 of the New Notes and will issue them to HSBC in exchange for the Acquired Notes for distribution to investors outside of the United States. It is our understanding that HSBC will sell these New Notes to Investors.

The New Notes will qualify as Tier 2 Capital of QBE under the Australian Prudential Regulation Authority’s (“**APRA**”) capital adequacy framework and will include the following terms:

- a term of 30 years (maturing 17 June 2046);
- New Notes will bear 5.875% per annum interest, payable semi-annually in arrears;
- interest will be reset on 17 June 2026 and 17 June 2036 to a rate calculated by reference to the then mid-market swap rate plus a margin of 4.395% per annum, payable semi-annually in arrears;
- QBE has an option to defer payment of interest in certain circumstances (which will not constitute an event of default);
- QBE has an option to redeem the securities 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 securities (or in certain circumstances some of them) will convert into QBE ordinary shares;
- the number of QBE ordinary shares issued on conversion will be based on a volume-weighted average price (“**VWAP**”) over a certain period around the time APRA determines QBE to be non-viable, less a discount of 1%. The number of QBE ordinary shares issued on conversion will be capped at a maximum of 20% of the VWAP of the QBE ordinary shares at the issue date; and
- 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.

No shareholder approval would be needed for the issue and the securities would not be offered to a particular class of security holders.

Mr Pat Regan, QBE Group Chief Financial Officer said: “Following on from our very successful GBP exchange tender transaction that closed in May, we are extremely satisfied with the outcome of this

transaction and the level of investor appetite, which at c. USD 4.3bn, covered the book in excess of eight times, this is particularly pleasing given the backdrop of the current market turbulence. The new notes will further enhance the quality of the Group's regulatory capital position. We were also extremely pleased with the pricing levels achieved on the new bonds". Settlement and the issue of U.S.\$ 524,124,000 of the New Notes is scheduled for 17 June 2016.

For further information, please contact:

Debt Relations

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QBE Insurance Group Limited is listed on the Australian Securities Exchange and is recognised as one of the top 20 global insurance and reinsurance companies as measured by net earned premium and has operations in 37 countries.

DISCLAIMER

This market release 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 absent registration except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and any other applicable U.S. state securities laws.