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17 February 2020

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

Dear Sir/Madam,

Report on results and financial statements for the year ended 31 December 2019

QBE Insurance Group Limited announces to the market the financial results for the year ended 31 December 2019.

The following documents are attached:

1. Appendix 4E – Preliminary Final Report;

2. QBE's 2019 Annual Report including financial statements for the year ended 31 December 2019;

3. Appendix 4G for the year ended 31 December 2019; and

4. QBE's 2019 Sustainability Report.

This release has been authorised by the QBE Board of Directors.

Yours faithfully,

Carolyn Scobie
Company Secretary

Encl.

QBE Insurance Group Limited
Appendix 4E - Preliminary final report for the year ended 31 December 2019

Results for announcement to the market

	UP / DOWN	% CHANGE	2019 US$M	2018 US$M
Revenue from ordinary activities from continuing operations	down	1%	**15,190**	**15,392**
Profit from ordinary activities after income tax attributable to equity holders of the Company	up	41%	**550**	**390**
Net profit for the period attributable to ordinary equity holders of the Company	up	41%	**550**	**390**

Net profit after tax for the year ended 31 December 2019 was $550 million compared with a net profit of $390 million in 2018.

The Group's former operations in Latin America continue to be separately reported as a discontinued operation, details of which are provided in note 7.1.3 to the financial statements. Commentary below reflects the performance of our continuing operations.

The Group reported an underwriting loss of $2 million compared with an underwriting profit of $480 million last year, equating to a combined operating ratio of 100.0% compared with 95.9%. The 2019 result was impacted by a material reduction in risk-free rates used to discount outstanding claims ($231 million) and the impact of the Ogden decision in the UK ($61 million), which added 2.0% and 0.5%, respectively, to the combined operating ratio. Excluding the impacts of changes in risk-free rates in both periods, the Ogden decision in the current period and the Hong Kong reinsurance transaction in the prior period, the combined operating ratio was 97.5% compared with 95.7% in the prior period. The increase was driven by weather-related claims in the North American Crop business and the higher net cost of large individual risk and catastrophe claims following the restructure of the Group's reinsurance program.

The combined commission and expense ratio was 30.2% compared with 32.3% in the prior period, driven mainly by expense efficiency initiatives. Excluding the prior period reinsurance transaction, the combined commission and expense ratio of 30.2% was down compared with 31.6% In the prior period, driven mainly by expense efficiency initiatives.

Net investment and other income was $1,036 million compared with $547 million in 2018. Fixed income returns benefited from significant mark-to-market gains as a result of lower risk-free rates and credit spread tightening, while growth assets also significantly outperformed during 2019.

The Group's effective tax rate was 15% compared with 11% in the prior period, with the increase reflecting the mix of corporate rates in the jurisdictions in which QBE operates and the utilisation of previously unrecognised tax losses in the US tax group.

DIVIDENDS	AMOUNT PER SECURITY (AUSTRALIAN CENTS)	FRANKED AMOUNT PER SECURITY (AUSTRALIAN CENTS)
Interim dividend	**25**	**15**
Final dividend	**27**	**8.1**

The final dividend will be 30% franked. The Dividend Reinvestment Plan and Bonus Share Plan will be satisfied by the issue of shares with no discount applicable.

The share issue price for the Dividend Reinvestment Plan and Bonus Share Plan will be based on a volume weighted average price of the shares in the 10 trading day period from 13 March to 26 March 2020 (both dates inclusive).

The record date for determining shareholder entitlements to the dividend is 6 March 2020.

The last date for receipt of election notices applicable to the Dividend Reinvestment Plan and Bonus Share Plan will be 9 March 2020.

The unfranked part of the dividend is declared to be conduit foreign income.

The final dividend will be paid on 9 April 2020.

Additional disclosures

During 2019, the Group disposed of its insurance operations in Indonesia and the Philippines, the travel business and wool and livestock-in-transit businesses in Australia, and the Unigard Indemnity entity and the remaining personal lines business in North America.

Additional Appendix 4E disclosure requirements can be found in the QBE Insurance Group Limited Annual Report for the year ended 31 December 2019 (Attachment A).

The Annual Report should be read in conjunction with any market or public announcements made by QBE Insurance Group Limited during the reporting year in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the ASX Listing Rules. The independent auditor's report is included at pages 161 to 168 of the Annual Report.

Other information

During the year, QBE Insurance Group Limited held an interest in Pacific Re Limited (30.97%), Raheja QBE General Insurance Company (49%) and RiskGenius (11.6%). The Group's aggregate share of profits of these entities is not material.

QBE Insurance Group Limited
Attachment A: Annual Report for the year ended 31 December 2019

QBE

2019 Annual Report

QBE INSURANCE GROUP LIMITED

This is an interactive PDF designed to enhance your experience. The best way to view this report is with Adobe Acrobat Reader. Click on the links on the contents pages or use the home button in the footer to navigate the report.

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QBE Insurance Group Limited | ABN 28 008 485 014
All amounts in this report are US dollars unless otherwise stated.

Strong foundations for a sustainable future

At QBE, our purpose is to give people the confidence to achieve their ambitions. Around the world, our team of more than 11,700 people strive every day to meet this commitment. We aim to keep the customer at the centre of our decision-making as we work to deliver insurance and risk management solutions that respond to our customers' current and emerging needs.

When disaster strikes, our immediate priority is the safety, wellbeing and ultimately recovery of our customers and the communities in which they live. Throughout 2019, our customers around the world faced a number of challenges, from monsoonal flooding in the Queensland city of Townsville to devastating wildfires in the US, and unseasonal weather conditions which impacted the performance of our North American Crop business. Through it all, QBE was there to help.

As 2019 ended and 2020 began, we were there too when unprecedented bushfires swept across the Australian landscape razing homes, businesses and livelihoods.

The devastation caused by the fires is widespread and many QBE customers and their communities were impacted. I am enormously proud of how QBE responded to these events, which Pat details in his CEO report on page 6 of this Annual Report. Just as we were there in the immediate aftermath, we will continue to support our customers and bushfire communities on the long road to recovery.

Risk culture

We work in an era of increasing regulatory scrutiny for our industry. Across our operating divisions – North America, International and Australia Pacific – we strive to apply the highest possible governance standards as we respond to changing customer, community and stakeholder expectations around the world.

In our home market of Australia, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry is leading to a number of regulatory and legislative reforms that have ramifications for the insurance industry and the financial services sector more broadly.

QBE is pleased to have played a constructive role in supporting these reforms, while also making a number of important changes within our operations in response to our own assessment of the strengths and areas for improvement in our governance, accountability and culture frameworks.

Shareholder returns

Unusually poor weather conditions in parts of the US adversely affected the financial performance of our North American Crop business in 2019. Regrettably, this weighed on the Group's underwriting result, despite very good pricing momentum and a strong investment performance in an otherwise challenging global interest rate environment.

The Group statutory net profit after tax of $550 million represents a 41% increase on 2018, while the cash return on equity was 8.9% [1], up from 8.0% [1] in the prior year. The Board has taken this into account when determining this year's final dividend. Our dividend policy is intended to reward shareholders relative to cash profit, while maintaining sufficient capital for future investment and growth in the business.

Accordingly, the Board has declared a final dividend of 27 Australian cents per share. When combined with the 25 Australian cents per share dividend declared at the half year, this represents a 2019 full year dividend of 52 Australian cents per share. This compares favourably with 50 Australian cents per share paid out in 2018 and equates to a payout ratio of 65% of adjusted cash profit.

During 2019, we also purchased an additional A$295 million in QBE shares as part of our three-year on-market share buyback program.

Sustainability

As a company that helps people and businesses protect themselves from risk, QBE is keenly focused on sustainability. The identification and management of current and emerging environmental, social and governance trends is integral both to our ability to understand the needs of our customers and to ensuring the sustainability of our own business.

In 2019, we further improved our overall ranking in the Dow Jones Sustainability Index (DJSI)/Corporate Sustainability Assessment and maintained our inclusion in the DJSI Australia Index. This is positive recognition of the work we are doing, and in 2020 we will maintain our efforts in this area.

Climate change is a global risk that has had, and will continue to have, ramifications around the world. It is a material risk for QBE and across our operations, and we have developed a detailed approach for how we manage climate-related risks.

In 2019, we continued to deliver on our Climate Change Action Plan commitments and further enhanced our disclosures, in line with the recommendations of the Task-force on Climate Related Financial Disclosures (TCFD).

Pleasingly, our focus on climate change was recognised by non-profit climate research provider, CDP, with QBE's score for corporate transparency and action jumping two places to a 'B' in 2019. An update on our Climate Change Action Plan is included on pages 32 to 39 of this Annual Report.

Among the measures introduced in 2019 was the publication of our energy policy, which provides shareholders, customers and the wider community with a clear explanation of the Group's approach to investing in and underwriting energy projects. Due to the high emissions intensity of thermal coal, QBE has maintained zero direct financial investment in thermal coal from 1 July 2019, and we have committed to phase out all direct insurance services for thermal coal customers within the next decade.

I am also pleased to report that in 2019, QBE again achieved carbon neutrality and we set an ambitious target to use 100% renewable electricity across our operations by 2025. We are also working closely with our customers in a range of sectors around the world to support their transition to a lower carbon economy.

Earlier this year, QBE launched its first disaster relief and climate resilience partnerships with two of the world's leading humanitarian agencies, Red Cross and Save The Children. These three-year partnerships support the rapid mobilisation of support for disaster relief activities in response to catastrophic events.

By directing a portion of these funds to climate resilience projects, we are also supporting the efforts of communities to protect themselves from physical risks and potentially mitigate future disaster.

Looking ahead

As a global insurer, with operations in 27 countries around the world, we are acutely aware of the challenges and uncertainties that tomorrow may bring. Global population growth, climate change, mass migration of people to cities, economic uncertainty, trade disputes and protectionism all present challenges for our customers and for our business.

At the same time, technological innovation, the Internet of Things (IoT), the explosion in data and the increasingly sophisticated use of analytics all present opportunities for QBE.

I am confident that, with a highly performing team under Pat Regan's leadership, QBE is well placed to take advantage of these opportunities and build on the momentum we have created in 2019.

Accordingly, I have advised the Board that I believe the time is right for me to step down as Chairman and from the QBE Group Board. Board renewal is important to bring fresh ideas and perspectives and I am delighted the Board has chosen Mike Wilkins to succeed me in the role of Group Chairman. Mike is a highly regarded and well credentialed director and will bring fresh thinking to the direction of your company.

Thank you, our shareholders, for your support during my time as Chairman of this great company. I feel very privileged to have served in this role and I am confident that I leave QBE in very capable hands. I wish Mike, the Board, Pat and the executive team and everyone at QBE all the very best for the future.

W. Marston Becker
Chairman

1 2019 adjusted cash profit ROE excludes non-cash and material non-recurring items such as restructuring costs, gains (losses) on disposals, the impact of the Ogden decision in the UK and discontinued operations. 2018 adjusted cash profit ROE excludes the transaction to reinsure Hong Kong construction workers' compensation liabilities.

2019 snapshot [1]

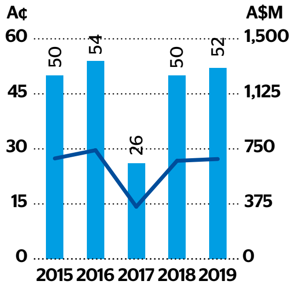
Shareholder highlights

Dividend per share (A¢)

52¢

Dividend payout (A$M)

681



- Dividend per share (A¢)
- Dividend payout (A$M)

4% from 2018

Earnings per share (US¢)

41.8¢

2018 29.0¢

Adjusted cash profit return on average shareholders' funds [2]

8.9%

2018 8.0%

Financial highlights [3]

Combined operating ratio [4] **(COR)**

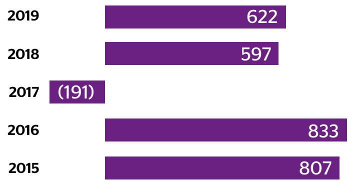
97.5% [5]

2018 95.7% [6]

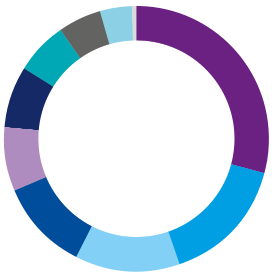
Adjusted net profit after tax (US$M)

622 [5]

4% from 2018 [6]



Gross written premium by class of business



	2019 %	2018 %
Commercial & domestic property	29.2	29.2
Motor & motor casualty	14.4	15.7
Agriculture	13.7	12.7
Public/product liability	11.9	11.1
Professional indemnity	8.4	7.9
Workers' compensation	7.1	7.3
Marine, energy & aviation	6.6	6.6
Accident & health	5.3	5.2
Financial & credit	3.3	3.8
Other	0.1	0.5

Insurance profit (US$M)

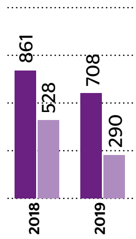
708 [5]

$153 from 2018 [6]

Underwriting result [4] (US$M)

290 [5]

$238 from 2018 [6]



- Insurance profit
- Underwriting result

Net earned premium (US$M)

11,609

1% from 2018 [7]

Net earned premium by type

92% direct and facultative insurance

8% inward reinsurance

1 The information in the tables above is extracted or derived from the Group's audited financial statements included on pages 84 to 159 of this Annual Report. The Group Chief Financial Officer's report sets out further analysis of the results to assist in comparison of the Group's performance against 2019 targets provided to the market.

2 2019 adjusted cash profit ROE excludes non-cash and material non-recurring items such as restructuring costs, gains (losses) on disposals, the impact of the Ogden decision in the UK and discontinued operations. 2018 adjusted cash profit ROE excludes the transaction to reinsure Hong Kong construction workers' compensation liabilities.

3 2018 and 2019 figures reflect results for continuing operations only.

Operational highlights

Average renewal rate increase

Group-wide[8]

6.3%

2018 **5.0%**

Segment

Retention

78%

2018 **81%**

Gross written premium growth[7]

2%

2018 **3%**

Net investment return[4]

3.6%

2018 **2.3%**

Fixed income duration

2.6 years

2018 **2.1 years**

Cash and investments at 31 December 2019 (US$M)

24,374

	2019 %	2018 %
Corporate bonds	54.4	53.1
Government bonds	23.8	21.7
Short-term money	4.4	5.6
Infrastructure assets	3.7	3.7
Property trusts	3.1	4.1
Emerging market debt	2.3	1.0
Cash and cash equivalents	2.2	3.8
Infrastructure debt	1.6	2.2
High yield debt	1.6	0.4
Developed Market Equities	1.2	2.5
Other – growth assets	0.9	1.2
Private equity	0.8	0.7

Sustainability highlights

Renewable electricity use (%)

Target by 2025

100%

Currently **63%**

Climate change disclosure

CDP DISCLOSURE INSIGHT ACTION

Score: **B**

Employment engagement (%)

70%

4% from 2018

Fostering a culture of innovation

Ran a global challenge for employees to identify sustainable solutions

155

projects identified

Financial inclusion

FIAP Financial Inclusion Action Plan

QBE joined the program in Australia

Impact investments

Ethical Corporation Awards

Premiums4Good: Ethical Corporation's global Responsible Business Awards – Finalist, 2019

Global disaster relief partnerships

Partnering to build resilient communities and futures

Australian Red Cross – the power of humanity

Save the Children

4 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
5 Excludes one-off impact of the Ogden decision in the UK.
6 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.
7 Constant currency basis.
8 Excludes premium rate changes relating to Australian compulsory third party motor (CTP).

Building momentum

QBE was founded in 1886 in Townsville, Queensland. I'm not sure that anyone then could have imagined the kind of world we live in today, particularly the level of unpredictability facing business and society at large.

In 2019, we saw low economic growth across most major economies but we also saw generally low unemployment and stock markets at record highs. Politically we saw trade tensions and protectionist policies, however we ended the year with a series of trade agreements signed, or in discussion. We also saw central banks maintain interest rates at record lows to try to stimulate growth – albeit at this stage with mixed success.

This had implications for QBE and for our customers who represent almost every facet of the global economy – from big business to local stores and from skyscrapers to first homes – and who face new risks and opportunities every day.

Among these is the disruptive influence of technology, which is changing almost every aspect of our lives and revolutionising traditional business models. Machine learning, artificial intelligence and the extraordinary growth in internet enabled devices are leading to the creation of whole new industries.

Just as our customers are exploring ways to integrate these tools and technologies into their businesses and lives, we too are exploring the enormous opportunities for our industry. I have described some of our work in this area in 2019, and our ambition for QBE for the future, below.

What we perhaps feel most profoundly though, is the challenge that climate change presents to our customers and indeed the whole economy. Globally, the economic costs from natural disasters have now exceeded the 30-year average for seven of the last 10 years, while the number of extreme weather events globally has tripled since the 1980s. In 2019 alone, we saw examples of this.

As I write this, Australia is yet again experiencing severe weather, floods and storms. This includes the recent Australian summer which was marked by severe weather and unprecedented bushfires that had a devastating effect on many of our customers and the communities in which they live. I want to take this opportunity to personally acknowledge the hard work and bravery of the firefighters who were at the front line of these fires, risking their lives to protect others. I am proud to say this incredible group of people included some QBE employees.

The obvious link between these events and the changing climate brings into sharp focus how climate-related risks are now the new normal for our industry. We must take action to address these risks in our own operations, at the same time as supporting our customers to mitigate their exposure to climate risks and support the transition to a lower carbon economy.

You will find a summary of QBE's work in this area on page 32 of this Annual Report.

Our year in review

Despite the economic challenges described above, QBE made strong underlying progress in 2019.

Through cell reviews and the Brilliant Basics program we have built on the significant work undertaken over the last two years to simplify the portfolio, modernise our business and systematically overhaul our underwriting capability and culture.

This has enabled us to deliver meaningful improvement in our operating metrics and a solid set of results in 2019. This includes a further improvement in the Group's attritional claims ratio, positive premium rate momentum and very strong divisional performances in our Australia Pacific and International businesses. This gives us good momentum heading into 2020.

Severe weather in parts of the US, including an unusually wet spring, created difficult planting conditions for many of our Crop customers and this was compounded by frost and hail during the growing season. This resulted in a Crop combined operating ratio of 107.5%, materially higher than the 10-year historical average of around 90%, and contributed to a net combined operating ratio for the Group of 97.5%[1,2,3] – outside our targeted range. However, with many of our North American casualty portfolios already subject to portfolio de-risking initiatives since 2017, the underlying fundamentals of our North American business, and the entire Group, are strong and we are well placed for further improvement.

Operational highlights

Cell reviews remain core to the Group's strategy and in 2019 they helped contribute to a further improvement in the quality and consistency of our earnings. We continue to evolve cell reviews as we take advantage of improved data and insights now available to us through data science, third party data and artificial intelligence (AI) tools being deployed across the Group.

At the same time, the Brilliant Basics program continues to grow in influence and sophistication as it maintains its strong momentum throughout the Group. In 2019, we established the Office of the Group Chief Underwriter, further strengthened our underwriting governance, embedded global pricing standards and made significant improvements to our claims handling processes.

Cell reviews and Brilliant Basics underpinned a further 2.7%[4] improvement in the Group's attritional claims ratio in 2019. This means that the Group's attritional claims ratio has improved by almost 7%[4], since the second half of 2017 and we believe there is further improvement to come.

In Australia Pacific, a further 4.2%[5] improvement in the attritional claims ratio helped underpin a very strong result for the division, which recorded a combined operating ratio of 90.0%[1]. This compares with 90.3%[1] in 2018 and is despite the 2.6% higher costs of catastrophes. Similarly, in International, a further 3.0% improvement in the attritional claims ratio contributed to an improved divisional combined operating ratio of 95.4%[1].

We also achieved positive rate momentum, with an average renewal rate increase of 8.3%[6] in the second half of 2019 contributing to a full year Group outcome of 6.3%[6]. This positions us well moving forward.

Importantly, despite the sluggish global economic conditions I described earlier, our investment returns were above the top end of our target range in 2019 and we also delivered our cost commitment targets, with meaningful efficiency initiatives underway across the Group.

Performance against our 2019 priorities

The rollout of our global customer commitment program, coupled with our focus on replicating best practice customer programs across the Group, underpinned further improvements in our customer experience metrics in 2019. These metrics are also now routinely integrated into our cell review conversations, reflecting the importance of customer outcomes in our overall performance assessment.

At the same time, our investments in technology are also helping deliver better customer outcomes, such as our robotic claims processes in UK motor and digital travel claims in Hong Kong.

We are also deploying initiatives to support financial wellbeing and enhance the accessibility of our products and services, for example by simplifying our product disclosures. In June, our Australian business also joined the Financial Inclusion Action Plan (FIAP) program – an initiative that promotes economic wellbeing, resilience and inclusion.

We made further investments to strengthen our talent, leadership and capabilities in risk in 2019, with a heavy focus on conduct, risk management and governance. Our RISKsight program will underpin a stronger risk and compliance capability and culture. The rollout of this program has already led to the development of strengthened risk appetite statements and a refresh of our risk policies for all risk categories. Risk management is embedded in our day-to-day operations and our recent QBE Voice employee survey showed that 88% of our employees believe that managing risk is prioritised and valued across the business.

With technology so critical to the future of our business, we made further progress on our technology roadmap. We increased the stability of our existing technology environment, automated our global infrastructure, upgraded and decommissioned end-of-life applications and provided the critical foundations for enhanced digital enablement. We have also made substantial investments in our cyber security capabilities, including the establishment of a Global Cyber Security Operations Centre.

We are streamlining our engagement process with start-ups to create 'faster paths to partnership', to make QBE a partner of choice as we look to create new opportunities, while continuing to leverage our existing Ventures and other strategic partnerships.

As we seek to work in faster and more agile ways, we are also creating opportunities for our people to develop and build the capabilities we will need for the future.

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes on-off impact of the Ogden decision in the UK.
3 Continuing operations basis.
4 Excludes Crop and LMI.
5 Excludes LMI.
6 Excludes premium rate changes relating to CTP.

We continue to support a host of flexibility, diversity and inclusion initiatives across our global operations, including the launch of Share the Care in Australia and New Zealand, which gives both men and women equal opportunity to access parenting leave to balance their careers with taking care of a family. Across the Group, we have made a range of improvements in the available tools and benefits for our people to support them with a healthy mind whether they are at work or at home.

Our efforts to improve the diversity of our workforce were again recognised with QBE's inclusion in the 2020 Bloomberg Gender Equality Index. Pleasingly, we have made good progress towards our target of 35% women in senior management by 2020, with a further increase of 2% to 34% in 2019.

Finally, I am also pleased to report further significant progress in our efforts to manage climate related risk and reduce our environmental footprint in 2019. We have maintained carbon neutrality and we are committed to using 100% renewable electricity across our global operations by the end of 2025. We are already more than 60% of the way towards our goal.

Conclusion

In closing, I would like to thank all of our employees around the world for their hard work in 2019, as we continue to evolve and grow our business and lay the foundations for our long-term sustainable growth.

I would also like to acknowledge Marty Becker's decision to retire from the QBE Board and to express my sincere thanks for his wise counsel and friendship during our time working together. He has made an enormous contribution to QBE in his time as Chairman. I wish Marty every success for the future and I look forward to working with our new Chairman, Mike Wilkins, as we continue to build the QBE of the future.

Finally, thank you to our customers, brokers and shareholders for your ongoing support for our great company.

Pat Regan
Group Chief Executive Officer

Looking ahead

2020 targets

Combined operating ratio[1,2]

93.5% to **95.5%**

Investment return[1]

2.5% to **3.0%**

With good progress against our seven priorities in 2019, and with a stronger culture and risk management now firmly embedded in our day-to-day operations, we are more resilient and better equipped to respond to a changing regulatory environment.

For 2020, we have developed a new set of priorities that will further concentrate our efforts on our key differentiators, helping us build a reputation for value, service, claims payment and performance.

We are evolving our business at the same time as technological disruption continues to reshape the global economy and revolutionise entire industries. We are determined to stay ahead by building best in class AI, data and digital capabilities that will enable us to better support our customers in assessing and mitigating risk, while delivering every-day brilliance in underwriting, pricing and claims.

That work is well underway with a number of projects, including those identified above, leveraging these enhanced capabilities and already delivering results. For example, we piloted a water monitoring technology with various housing associations in the UK, to reduce the number of water leak incidents they experience across an extensive property portfolio. In North America, we have partnered with Roost, a technology company based in Sunnyvale California, to offer our customers industry-leading smart home products that offer innovative ways to monitor their home smoke detector and water systems.

Wherever possible, we will replicate best practice and apply lessons learned as we refine and test new customer-focused ideas for the future.

Above all else, in 2020, we will continue to deliver for our customers and maintain our rigorous focus on performance through cell reviews, Brilliant Basics and our operational efficiency drive, to harness the momentum we have built and continue creating value for our shareholders.

1 Assumes risk-free rates as at 31 December 2019.
2 Excludes $30 million one-off regulatory and other costs and the remaining $52 million of restructuring charges.

2020 priorities

Performance

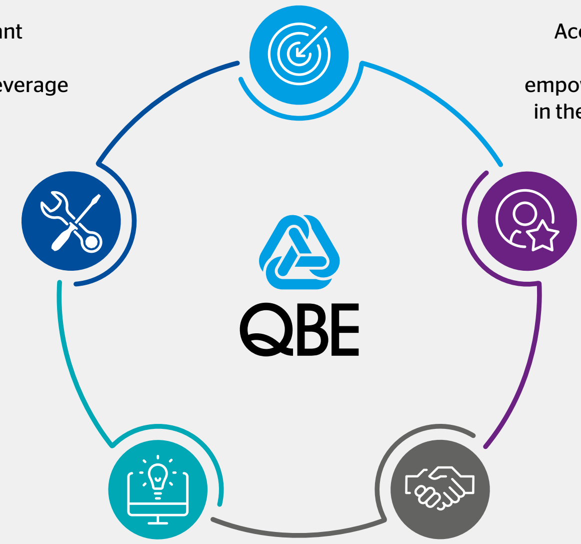
Continue to mature our cell review process to deliver our target COR. Deliver against key sustainability and climate commitments. Turn our focus to organic growth opportunities.

Brilliant Basics +

Execute the next phase of Brilliant Basics with a sharper focus on delivering for our customers. Leverage best in class AI, data, and digital capabilities to embed everyday brilliance in underwriting and pricing and in particular, throughout our customer claims experience.

Talent & Culture

Accelerate our talent and leadership strategy, building on our DNA to empower our people to thrive, now and in the future. Continue to enhance our performance management system, ME@QBE, supporting our people and leaders in managing career and talent development.



Innovation & Technology

Enhance our digital and data capability, update our IT platforms and accelerate the transition to the cloud. Through innovative partnerships and QBE Ventures, cultivate skills and capabilities for the future and create an environment that nurtures innovation and continuous improvement.

Customer Focus

Expand the breadth and depth of our customer focus by embedding our Customer@QBE framework, leveraging customer research to build deeper industry expertise and customer insights. Implement leading digital technologies to create seamless end-to-end experiences for our customers.

Operating and financial review

QBE reported a combined operating ratio of 97.5% [1,2,3], up from 95.7% [1,2,4] in 2018.

A further improvement in the attritional claims ratio was more than offset by a severely weather-impacted Crop result and an expected increase in the net cost of large individual risk and catastrophe claims.

Strong rate momentum, coupled with ongoing progress on Brilliant Basics and our operational efficiency drive, bodes well for sustainable margin expansion.

General overview

I am pleased with the continued improvement in the quality and resilience of our earnings as evidenced by a further material improvement in the attritional claims ratio, the promising early progress on our operational efficiency program and the strong pricing momentum underpinned by our forensic cell review process.

However, unusually poor weather in the US, including an extremely wet spring followed by early frost and hail, severely impacted the performance of our historically profitable Crop business. This weighed on the Group's result and contributed to a combined operating ratio of 97.5% [1,2,3] which was above our 2019 target range of 94.5%–96.5% [1,2].

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Continuing operations basis.
3 Excludes one-off impact of the Ogden decision in the UK.
4 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.

The result was also impacted by a strengthening of prior accident year claims reserves in specific US and European casualty portfolios exposed to heightened industry-wide claims inflation. Many of these portfolios have been the subject of de-risking initiatives since 2017 and it is encouraging that much of the reserve strengthening related to underwriting years pre-dating those initiatives. Importantly, reserve strengthening in these areas was almost entirely offset by a combination of reinsurance recoveries and continued favourable reserve development elsewhere across the Group.

In 2019, we reset the Group's reinsurance program which warranted a higher allowance for large individual risk and catastrophe claims. Pleasingly, we finished the year within our overall allowance, albeit with large individual risk claims higher than expected offset by lower than expected catastrophe claims.

Large individual risk claims were higher than expected at $955 million, in part reflecting an industry-wide increase in claim frequency and severity which is contributing to accelerating premium rate increases. Although above plan, risk claims are down from 2018 levels on a like-for-like (reinsurance) basis.

In addition to premium rate increases, the continued and material improvement in the attritional claims ratio and early signs of a reduction in large individual risk claims reflect our ongoing commitment to cell reviews and Brilliant Basics.

Cell reviews provide a direct link and alignment between our commercial activity and our financial returns, enabling us to hold each cell accountable for delivering an appropriate return on capital. Remediation work over the last two years has materially improved the results of cells delivering sub-optimal returns and we believe there is further opportunity to optimise our return on capital.

The Brilliant Basics program continues to improve our underwriting governance, risk selection, pricing tools and claims efficiency. This activity is translating into better underlying profitability and reduced earnings volatility. We now have tightly defined risk appetites in place, a clear line of sight on the business we are underwriting and better science supporting expected risk-adjusted returns.

Portfolio rationalisation and simplification

During 2019, we completed a number of asset sales and portfolio exits that have materially reduced complexity and contributed to the simplification of QBE.

These included the sale of our operations in Colombia, Indonesia, the Philippines and Puerto Rico as well as our travel insurance business in Australia and New Zealand and our personal lines business in North America.

Total annual gross written and net earned premium associated with these sales was around $410 million. In 2020, gross written and net earned premium will be impacted by around $150 million and $200 million respectively, reflecting the full year impact of the sales.

Operational efficiency program

In December 2018, we announced a three-year operational efficiency program targeting gross cost savings of more than $200 million by 2021, translating into net cost savings of $130 million over the same time horizon, after allowing for underlying inflation and further investment in technology, digitisation and the Brilliant Basics program.

From a 2018 cost base of $1.8 billion [1,2] and an expense ratio of 15.2% [1,2], we are targeting an expense ratio of less than 14% by 2021.

Although only one year into a three-year schedule of work, the efficiency program is progressing better than planned. Meaningful progress has been achieved in technology rationalisation and modernisation as we simplify our technology estate. A number of other areas contributed to expense savings including the sale of our retail personal lines business in North America as well as the simplification of divisional organisational structures, particularly in Australia, New Zealand and Global Infrastructure Services. We also achieved a meaningful reduction in third party consulting and travel costs.

As a result of these initiatives, we achieved underlying net cost savings of around $70 million.

To support the program and as previously advised, we incurred a $43 million restructuring charge that was not reported as part of the Group's underwriting result.

Further restructuring charges of up to $52 million are anticipated during 2020.

Gross written premium[1] (US$M)

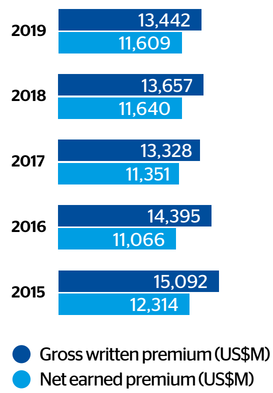
13,442

2% from 2018[3]

Net earned premium[1] (US$M)

11,609

1% from 2018[3]



1 Continuing operations basis.
2 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.
3 Constant currency basis.

2019 full year result

With respect to the 2019 full year result, I would like to discuss three broad areas:

1. Financial performance
2. Investment performance and strategy
3. Financial strength and capital management

1. Financial performance

QBE reported a statutory net profit after tax of $550 million, up 41% from $390 million in 2018.

Excluding non-cash and material non-recurring items as reconciled on page 15, the adjusted cash profit was $733 million, up 6% from $692 million in the prior year. Adjusted cash profit return on equity was 8.9%, up from 8.0% in 2018.

Including the final dividend of 27 Australian cents per share, the full year dividend of 52 Australian cents per share is up 4% on the prior year and equates to an adjusted cash profit payout ratio of 65%.

The Group's combined operating ratio of 97.5% [1,2,3] was up from 95.7% [1,2,4] in the prior year.

The Group's attritional claims ratio (excluding Crop and LMI) improved by 2.7% as a result of firming pricing conditions and portfolio enhancement driven by cell reviews and the Brilliant Basics program. The underwriting expense ratio improved by 0.6% [4] due to early benefits from the Group's operational efficiency initiatives, coupled with the aforementioned one-off savings.

These improvements were more than offset by a weather-impacted Crop result, an expected adverse impact from the restructure of the Group's reinsurance program and a reduced level of positive prior accident year claims development as we recognised areas of heightened claims inflation in North America and Europe.

Gross written and net earned premium increased by 2% [2,5] and 1% [2,5] respectively, with renewal rate increases partly offset by disposals, further contraction in our Australian lenders' mortgage insurance business (LMI) and targeted portfolio repositioning, particularly in North America.

Looking briefly at divisional performance, the key themes to emerge from the 2019 result are set out below.

North America result impacted by Crop underperformance, attritional weather and reserve strengthening

North America reported a combined operating ratio of 106.5% [1], up from 98.7% [1] in the prior year. The result was adversely affected by a weather-impacted Crop result, coupled with adverse prior accident year development including reserve strengthening in specific casualty portfolios exposed to heightened industry-wide claims inflation.

The attritional claims ratio improved slightly despite a heightened level of attritional weather events during the second half.

Impacted by record prevented planting claims following an abnormally wet spring and reduced yields due to an unusually cold and hail affected end to the growing season, Crop reported a combined operating ratio of 107.5% (as flagged in our ASX announcement of 18 December 2019), up materially from the 10 year average combined operating ratio of around 90%.

Premium rate momentum accelerated during 2019 with North America achieving an average renewal rate increase of 5.8% compared with 4.1% in the prior year. Second half renewal rate increases averaged 7.7%, up from 4.1% in the first half.

Solid International result reflecting a lower attritional claims ratio and improved efficiency, partly offset by an increase in the cost of large individual risk claims

International recorded another solid result with the combined operating ratio improving to 95.4% [1,3] from 95.9% [1,4] in the prior year. A further 3.0% improvement in the attritional claims ratio, coupled with a 1.3% reduction in the total acquisition cost ratio more than offset a largely expected increase in the net cost of large individual risk and catastrophe claims following the renegotiation of the Group's external reinsurance program effective 1 January 2019.

Premium rate momentum accelerated during 2019, especially in the second half of the year, with International achieving an average renewal rate increase of 6.0% compared with 4.1% in the prior year. Second half renewal rate increases averaged 9.2%, up from 3.8% in the first half.

Strong Australia Pacific result despite adverse catastrophe experience, further moderation in LMI earnings and reduced positive prior accident year claims development

Despite adverse catastrophe experience, further moderation in LMI earnings and reduced positive prior accident year claims development, Australia Pacific delivered a strong result reporting a combined operating ratio of 90.0% [1] compared with 90.3% [1] in the prior year. The result included a further 3.6% improvement in the attritional claims ratio (4.2% excluding LMI).

Premium rate momentum remains strong with renewal rate increases averaging 7.3% [6] compared with 7.1% [6] in 2018.

The combined operating ratio of our LMI business increased to 58.3% [1] from 54.8% [1] in the prior year, primarily due to the impact of significant premium contraction on both the net claims and expense ratios. Although lending practices continue to improve and arrears rates and new delinquencies fell during the year, total claims costs were broadly unchanged from the prior year as the business gradually works through claims relating to the unwind of the mining boom in regional Queensland and Western Australia.

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Continuing operations basis.
3 Excludes one-off impact of the Ogden decision in the UK.
4 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.
5 Constant currency basis.
6 Excludes premium rate changes relating to CTP.

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2. Investment performance and strategy

Our investment portfolio delivered a net investment return of 3.6% [1] in 2019, slightly above the upper end of our 3.0%–3.5% target range [1] with most asset classes delivering better than expected returns.

Fixed income assets generated a 3.7% return compared with 1.8% in the prior year, reflecting significant mark-to-market gains from lower sovereign bond yields and narrower global credit spreads. The decision to close our balance sheet duration mismatch during the year proved beneficial with the $231 million adverse impact of lower risk-free-rates used to discount net outstanding claims liabilities more than offset by $265 million of mark-to-market gains on our fixed income portfolio.

In response to falling risk-free rates, growth asset returns also outperformed, increasing to 11.8% from 6.2% in the prior year. Growth assets finished the year at 13.5% of the portfolio, in line with 13.7% at 31 December 2018.

As at 31 December 2019, the running yield of the fixed income portfolio was 1.5%, down from 2.2% at 31 December 2018.

Going forward and to align more closely with peer reporting, we have reallocated high yield and emerging market debt to fixed income from growth assets and have also commenced the deployment of a private credit allocation where the additional illiquidity premium offers incremental risk-adjusted returns.

Together, these changes are expected to increase our fixed income running yield to around 1.75% once fully implemented.

During 2020, we intend to manage fixed income duration in a range of 2.5–3.0 years and growth asset exposure at around 12.5% [2] of total cash and investments. Together with a modest allowance for tactical asset allocation outperformance, these portfolio settings support our 2020 net investment return target range of 2.5%–3.0% [3].

3. Financial strength and capital management

Our capital position remains strong when measured against both regulatory and rating agency capital requirements with the Group's indicative APRA PCA multiple 1.71x at 31 December 2019. Although down from 1.78x at 31 December 2018, the PCA multiple remains above the midpoint of the Group's 1.6–1.8x target PCA range, and the Group retains an excess above Standard & Poor's (S&P) 'AA' minimum capital levels.

The reduction in the Group's PCA multiple primarily reflects the share buyback and dividends paid during the year (which together exceeded net cash profit) coupled with an increase in the asset risk charge due to the material increase in investment funds and following the decision to extend asset duration and modestly increase credit risk. An increase in the insurance risk charge due to the increase in net outstanding claims liabilities was more than offset by a reduction in the insurance concentration risk charge (ICRC) following further enhancements to the Group's reinsurance protection effective 1 January 2020.

At 31 December 2019, QBE's debt to equity ratio was unchanged at 38.0% and slightly above the benchmark range of 25%–35%. Retained profit growth coupled with the senior debt repurchased during the year were offset by the share buyback and the adoption of AASB 9.

The probability of adequacy (PoA) of outstanding claims was broadly unchanged at 90.0%, the mid-point of our targeted PoA range of 87.5%–92.5%.

1 Assumes risk-free rates as at 31 December 2018.
2 From 1 January 2020, growth assets no longer include high yield debt or emerging market debt which is now considered part of our fixed income portfolio consistent with peer reporting.
3 Assumes risk-free rates as at 31 December 2019.

Operating and financial performance

Summary income statement

FOR THE YEAR ENDED 31 DECEMBER	STATUTORY RESULT 2019 US$M	STATUTORY RESULT 2018 US$M	ADJUSTMENTS 2019 US$M	ADJUSTMENTS 2018 US$M	ADJUSTED RESULT 2019[1] US$M	ADJUSTED RESULT 2018[2] US$M
Gross written premium	**13,442**	13,657	**–**	–	**13,442**	13,657
Gross earned premium	**13,257**	13,601	**–**	–	**13,257**	13,601
Net earned premium	**11,609**	11,640	**–**	190	**11,609**	11,830
Net claims expense	**(8,102)**	(7,405)	**61**	(166)	**(8,041)**	(7,571)
Net commission	**(1,819)**	(1,957)	**–**	6	**(1,819)**	(1,951)
Underwriting and other expenses	**(1,690)**	(1,798)	**–**	5	**(1,690)**	(1,793)
Underwriting result	**(2)**	480	**61**	35	**59**	515
Net investment income on policyholders' funds	**649**	346	**–**	–	**649**	346
Insurance profit	**647**	826	**61**	35	**708**	861
Net investment income on shareholders' funds	**387**	201	**–**	–	**387**	201
Financing and other costs	**(257)**	(305)	**–**	–	**(257)**	(305)
(Losses) gains on sale of entities and businesses	**(8)**	12	**–**	–	**(8)**	12
Unrealised losses on assets held for sale	**–**	(25)	**–**	–	**–**	(25)
Share of net losses of associates	**(3)**	(2)	**–**	–	**(3)**	(2)
Restructuring and related expenses	**(43)**	–	**–**	–	**(43)**	–
Amortisation and impairment of intangibles	**(51)**	(80)	**–**	–	**(51)**	(80)
Profit before income tax from continuing operations	**672**	627	**61**	35	**733**	662
Income tax expense	**(104)**	(72)	**(10)**	(5)	**(114)**	(77)
Profit after income tax from continuing operations	**568**	555	**51**	30	**619**	585
Loss after income tax from discontinued operations	**(21)**	(177)	**–**	–	**(21)**	(177)
Non-controlling interests	**3**	12	**–**	–	**3**	12
Net profit after income tax	**550**	390	**51**	30	**601**	420

1 Excludes one-off impact of the Ogden decision in the UK.
2 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.

Overview of the 2019 result

The Group reported a 2019 statutory net profit after tax of $550 million compared with $390 million in the prior year. Continuing operations reported a statutory net profit after tax of $568 million compared with $555 million in the prior year, with the improvement primarily due to significantly stronger investment returns which more than offset the reduced underwriting result due to a severely weather-impacted North American Crop result. Discontinued operations reported a statutory net loss after tax of $21 million compared with a $177 million loss in the prior year, including a $10 million non-cash foreign currency translation reserve reclassification.

The Group's effective tax rate was 15% compared with 11% in the prior year, with the increase reflecting the mix of corporate tax rates in the jurisdictions in which QBE operates and the utilisation of previously unrecognised tax losses in the US.

Excluding non-cash and material non-recurring items as reconciled on the opposite page, the adjusted cash profit was $733 million, up 6% from $692 million in the prior year. Adjusted cash profit return on equity was 8.9%, up from 8.0% in 2018.

The preceding table shows the statutory result excluding items which materially distort key performance indicators.

The 2019 adjusted result in the preceding table excludes a $61 million increase in the Group's net central estimate of outstanding claims reflecting the reduction in statutory discount rates applicable to UK personal injury liabilities (the Ogden decision) with an associated $10 million tax impact.

The 2018 adjusted result excludes the one-off transaction to reinsure Hong Kong construction workers' compensation liabilities which reduced net earned premium by $190 million and net claims expense by $166 million, whilst adversely impacting commission and underwriting expenses by $6 million and $5 million respectively. The transaction impacts year-on-year comparison of net earned premium and underwriting ratios, depressing the net claims ratio and inflating the combined commission and expense ratio.

The underwriting results in the preceding table are presented on a continuing operations basis with the results of our Latin America Operations presented separately as discontinued operations for both the current and prior year.

Further details of the Group's disposal activities and discontinued operations are set out in note 7.1 to the financial statements.

Unless otherwise stated, the commentary following refers to the Group's result on the adjusted basis described above.

The Group reported a 2019 profit after tax from continuing operations of $619 million, up 6% from $585 million in the prior year, primarily reflecting significantly stronger investment returns which more than offset reduced underwriting profits as a result of a severely weather-impacted North American Crop result.

On a constant currency basis, gross written premium increased by 2% reflecting premium rate driven growth largely offset by divestments, further LMI contraction and targeted portfolio repositioning in North America. On the same basis, net earned premium increased by 1% relative to the prior year assisted by reduced reinsurance costs.

The combined operating ratio increased to 97.5% [1] compared with 95.7% [1] in the prior year. A further material improvement in the attritional claims ratio (excluding Crop and LMI), coupled with efficiency gains, was more than offset by significantly reduced Crop profitability, a reduced level of positive prior accident year claims development and an expected increase in the net cost of large individual risk and catastrophe claims following the restructure of the Group's reinsurance program.

The current accident year combined operating ratio increased to 97.3% [1] from 96.5% [1] in 2018.

The net return on investments backing policyholders' funds increased to 4.5% from 2.3% in the prior year. Fixed income returns were especially strong reflecting mark-to-market gains on sovereign and corporate bonds driven by significantly lower global risk-free rates and a narrowing of credit spreads. Growth asset returns were also extremely strong, supported by lower global risk-free rates.

The Group reported an insurance profit of $708 million, down from $861 million in the prior year, largely reflecting the Crop-impacted underwriting result. The insurance profit margin decreased to 6.1% from 7.3% in the prior year.

Consistent with the increase in investment income on policyholders' funds, net investment income on shareholders' funds was also significantly higher at $387 million compared with $201 million in 2018.

Despite the first-time inclusion of lease liability interest charges associated with implementation of AASB 16, financing and other costs reduced materially to $257 million from $305 million in the prior year reflecting the non-recurrence of costs associated with foreign exchange contracts and other one-off costs.

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

Reconciliation of cash profit [1]

FOR THE YEAR ENDED 31 DECEMBER	2019 US$M	2018 US$M
Net profit after tax	**550**	390
Amortisation and impairment of intangibles after tax [2]	**71**	108
Reclassification of foreign currency translation reserve after tax (FCTR) [3]	**16**	217
Net cash profit after tax	**637**	715
Restructuring and related expenses after tax	**32**	–
Net loss (profit) on disposals after tax	**8**	(13)
Ogden decision after tax	**51**	–
Transaction to reinsure Hong Kong construction workers' compensation liabilities after tax	**–**	30
Loss from discontinued operations after tax (excluding reclassification of FCTR)	**5**	(40)
Adjusted net cash profit after tax	**733**	692
Return on average shareholders' funds – adjusted cash basis (%)	**8.9**	8.0
Basic earnings per share – cash basis (US cents)	**48.4**	53.1
Dividend payout ratio (percentage of adjusted cash profit) [4]	**65%**	72%

1 Cash profit is presented on a statutory basis.

2 $43 million of pre-tax amortisation expense is included in underwriting expenses (2018 $33 million).

3 The sale of operations in Colombia, Indonesia and Philippines gave rise to a foreign currency translation reserve (FCTR) reclassification charge (out of equity into profit or loss). This is a non-cash item and does not impact shareholders' funds or QBE's regulatory or rating agency capital base. Refer note 7.1.1 for further details.

4 Dividend payout ratio is calculated as the total A$ dividend divided by adjusted cash profit converted to A$ at the period average rate of exchange.

Premium income

Gross written premium fell 2% to $13,442 million from $13,657 million in the prior year.

On an average basis and compared with 2018, the Australian dollar, sterling and euro depreciated against the US dollar by 7%, 4% and 5% respectively. Currency movements adversely impacted gross written premium by $434 million relative to the prior year.

Gross written premium increased 2% on a constant currency basis reflecting premium rate driven growth in International (despite remediation led contraction in Asia) and Australia Pacific, largely offset by the impact of divestments and targeted portfolio repositioning, particularly in North America. Excluding divestments, underlying growth was 4% on a constant currency basis.

The Group achieved an average renewal rate increase of 6.3% [1] compared with 4.7% [1] in the first half of 2019 and 5.0% [1] in 2018. Premium rate momentum accelerated during 2019, especially in International (particularly Europe) and North America.

North America reported a 2% reduction in gross written premium. An average renewal rate increase of 5.8% compared with 4.1% in the prior year was more than offset by the divestment of the personal lines business and premium contraction due to targeted repositioning of the corporate and excess & surplus (E&S) lines portfolios. Adjusting for disposals, underlying growth was around 3% due primarily to strong service-driven growth in Crop.

International reported gross written premium growth of 1% (up 4% on a constant currency basis), underpinned by an average renewal rate increase of 6.0% compared with 4.1% in the prior year. European Operations' achieved an average renewal rate increase of 6.3% compared with 4.4% in 2018 while Asia achieved an average renewal rate increase of 3.5% compared with 0.7% in the prior year. Reflecting the improved pricing environment and emerging new business opportunities, European Operations achieved gross written premium growth of 5% on a constant currency basis which was partly offset by a further 4% contraction in Asia reflecting disposals coupled with further remediation initiatives that are now largely complete.

Australia Pacific reported a 4% reduction in gross written premium (up 3% on a constant currency basis). An average renewal rate increase of 7.3% [1] compared with 7.1% [1] in the prior year was more than offset by the sale of the travel insurance business, a further contraction in LMI premium due to the slowdown in home lending and some normalisation of market share in South Australian CTP following the opening of the scheme to competition from 1 July 2019. Adjusting for the disposal of the travel insurance business, underlying premium growth was around 3%.

Net earned premium fell 2% to $11,609 million from $11,830 million in the prior year but was up 1% on a constant currency basis assisted by reduced reinsurance costs following the restructure of the Group's reinsurance program, effective 1 January 2019.

1 Excludes premium rate changes relating to CTP.

Underwriting performance

Key ratios – Group

FOR THE YEAR ENDED 31 DECEMBER	2019		2018	
	STATUTORY %	ADJUSTED[1] %	STATUTORY %	ADJUSTED[2] %
Net claims ratio	**69.8**	**69.3**	63.6	64.0
Net commission ratio	**15.6**	**15.6**	16.9	16.4
Expense ratio	**14.6**	**14.6**	15.4	15.2
Combined operating ratio	**100.0**	**99.5**	95.9	95.6
Adjusted combined operating ratio [3]	**98.0**	**97.5**	96.0	95.7
Insurance profit margin	**5.6**	**6.1**	7.1	7.3

1 Excludes one-off impact of the Ogden decision in the UK.
2 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.
3 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.

Divisional performance

Contributions by region

FOR THE YEAR ENDED 31 DECEMBER	GROSS WRITTEN PREMIUM 2019 US$M	GROSS WRITTEN PREMIUM 2018 US$M	NET EARNED PREMIUM 2019 US$M	NET EARNED PREMIUM 2018 US$M	COMBINED OPERATING RATIO 2019 %	COMBINED OPERATING RATIO 2018 %	INSURANCE PROFIT BEFORE INCOME TAX 2019 US$M	INSURANCE PROFIT BEFORE INCOME TAX 2018 US$M
North America	**4,637**	4,711	**3,942**	3,796	**106.5** [1]	98.7 [1]	**(187)**	146
International [2,3]	**4,924**	4,876	**4,089**	4,224	**95.4** [1]	95.9 [1]	**391**	284
Australia Pacific	**3,920**	4,104	**3,568**	3,758	**90.0** [1]	90.3 [1]	**487**	498
Corporate adjustments	**(39)**	(34)	**10**	52	**–**	–	**17**	(67)
Group adjusted	**13,442**	13,657	**11,609**	11,830	**97.5** [1]	95.7 [1]	**708**	861
Risk-free rate impact	**–**	–	**–**	–	**2.0**	(0.1)	**–**	–
Ogden adjustment	**–**	–	**–**	–	**0.5**	–	**(61)**	–
Reinsurance transaction	**–**	–	**–**	(190)	**–**	0.3	**–**	(35)
Group statutory	**13,442**	13,657	**11,609**	11,640	**100.0**	95.9	**647**	826
Direct and facultative	**12,263**	12,599	**10,641**	10,708	**99.7**	96.4	**629**	703
Inward reinsurance	**1,179**	1,058	**968**	932	**103.7**	89.8	**18**	123
Group statutory	**13,442**	13,657	**11,609**	11,640	**100.0**	95.9	**647**	826

1 Excludes the 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.
3 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.

Incurred claims

The Group's net claims ratio increased to 69.3% from 64.0% in the prior year, in part reflecting a material reduction in risk-free rates used to discount net outstanding claims liabilities. Risk-free rate movements aside, a further improvement in the underlying attritional claims ratio was partly offset by reduced profitability in Crop insurance and a largely expected increase in the net cost of large individual risk and catastrophe claims following the restructure of the Group's reinsurance program coupled with a reduced level of positive prior accident year claims development.

The table below provides a summary of the major components of the net claims ratio.

FOR THE YEAR ENDED 31 DECEMBER	2019 STATUTORY %	2019 ADJUSTED [1] %	2018 STATUTORY %	2018 ADJUSTED [2] %
Attritional claims	**52.5**	**52.5**	53.2	52.3
Large individual risk and catastrophe claims	**11.9**	**11.9**	10.0	9.8
Impact of reinsurance transaction	**–**	**–**	(0.1)	–
Claims settlement costs	**3.3**	**3.3**	3.3	3.3
Claims discount	**(1.4)**	**(1.4)**	(2.0)	(2.0)
Net incurred central estimate claims ratio (current accident year)	**66.3**	**66.3**	64.4	63.4
Changes in undiscounted prior accident year central estimate	**(0.8)**	**(0.8)**	(1.0)	(1.0)
Impact of Ogden	**0.5**	**–**	–	–
Impact of reinsurance transaction	**–**	**–**	(1.3)	–
Impact of changes in risk-free rates	**2.0**	**2.0**	(0.1)	(0.1)
Movement in risk margins	**(0.2)**	**(0.2)**	0.1	0.1
Other (including unwind of prior year discount)	**2.0**	**2.0**	1.5	1.6
Net incurred claims ratio (current financial year)	**69.8**	**69.3**	63.6	64.0

1 Excludes one-off impact of the Ogden decision in the UK.
2 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.

As set out in the table overleaf, excluding Crop insurance and LMI, the attritional claims ratio reduced to 47.5% from 50.2% in the prior year, reflecting improvement in International and Australia Pacific.

Excluding Crop insurance, North America's attritional claims ratio improved 0.1% relative to the prior year. Benefits from underwriting and pricing initiatives as well as the sale of the personal lines (independent agency) business were largely offset by non-catastrophe weather experience which impacted the affiliated and program property portfolios during the second half of the year.

International's attritional claims ratio improved 3.0% relative to the prior period reflecting favourable pricing conditions coupled with significantly reduced reinsurance expense and business mix changes.

Excluding LMI, Australia Pacific's attritional claims ratio improved by 4.2% with improvement observed across all portfolios except for engineering and personal accident.

Analysis of attritional claims ratio

FOR THE YEAR ENDED 31 DECEMBER	2019		2018	
	NEP US$M	ATTRITIONAL %	NEP US$M	ATTRITIONAL %
Rest of portfolio	**10,251**	**47.5**	10,662	50.2
Crop insurance	**1,197**	**97.7**	980	78.8
LMI	**161**	**34.8**	188	30.9
QBE Group adjusted	**11,609**	**52.5**	11,830	52.3

Large individual risk and catastrophe claims net of reinsurance are summarised in the table below.

Large individual risk and catastrophe claims

FOR THE YEAR ENDED 31 DECEMBER	2019		2018	
	US$M	% OF NEP	US$M	% OF NEP
Total catastrophe claims	**426**	**3.7**	523	4.4
Total large individual risk claims	**955**	**8.2**	640	5.4
Total large individual risk and catastrophe claims	**1,381**	**11.9**	1,163	9.8

The increase in the total net cost of large individual risk and catastrophe claims was broadly in line with expectations following changes to the Group's reinsurance, effective 1 January 2019.

The net cost of catastrophe claims reduced to $426 million or 3.7% of net earned premium compared with $523 million or 4.4% in the prior year. This was below our annual allowance with adverse catastrophe experience in Australia Pacific more than offset by relatively benign experience in International and, to a lesser degree, North America.

The net cost of large individual risk claims increased to $955 million or 8.2% of net earned premium from $640 million or 5.4% in the prior year. While down from 2018 on a like-for-like (reinsurance) basis, the net cost was nevertheless above our annual allowance largely reflecting higher than expected activity in International.

Weighted average risk-free rates

As summarised in the table below, the currency weighted average risk-free rate used to discount net outstanding claims liabilities decreased to 1.05% at 31 December 2019 from 1.66% at 31 December 2018. Risk-free rates reduced appreciably across all currencies.

Weighted average risk-free rates [1]

CURRENCY		31 DECEMBER 2019	30 JUNE 2019	31 DECEMBER 2018	30 JUNE 2018
Australian dollar	%	**1.11**	**1.14**	2.06	2.29
US dollar	%	**1.95**	**2.09**	2.74	2.80
Sterling	%	**0.80**	**0.80**	1.08	1.10
Euro	%	**(0.08)**	**(0.22)**	0.23	0.30
Group weighted	%	**1.05**	**1.10**	1.66	1.77
Estimated impact of discount rate (charge) benefit	$M	**(231)**	**(231)**	13	40

1 Continuing operations basis.

The significant reduction in risk-free rates gave rise to a $231 million underwriting charge that increased the net claims ratio by 2.0% compared with a $13 million benefit in the prior year that reduced the net claims ratio by 0.1%. Given the longer weighted average term to settlement of our euro denominated net claims liabilities, the fall in euro risk-free rates during the period contributed disproportionately to the overall impact of lower weighted average risk-free rates on the Group's underwriting result.

The $231 million impact on the underwriting result was more than offset by a corresponding $265 million gain in the value of fixed interest securities.

Prior accident year claims development

The result included $96 million of positive prior accident year claims development that benefited the claims ratio by 0.8% compared with $113 million or 1.0% in the prior year.

The claims development includes $32 million of positive prior accident year claims development pertaining to North American Crop insurance that is matched by additional premium cessions under the MPCI scheme and an $86 million benefit in International due to the impact of adjusting the UK periodic payment order rate that is matched by a reduced discount benefit.

Excluding these items, prior accident year claims development is better stated at $22 million adverse or 0.2% of net earned premium compared with $92 million or 0.8% of positive development in the prior year:

- North America recorded $112 million of adverse development compared with $7 million in the prior year. This reflected a reduced level of positive development in Crop (that was not matched by additional premium cessions under the MPCI scheme), adverse development in assumed reinsurance (casualty and multi-line), corporate commercial, E&S lines and specialty programs;
- International recorded $14 million of adverse development compared with $25 million in the prior year, reflecting substantial reserve strengthening in financial lines and direct and facultative property, largely offset by reinsurance recoveries and positive development in liability, reinsurance, marine and Asia; and
- Australia Pacific reported $104 million of positive development compared with $129 million in the prior year, largely reflecting favourable claim development on NSW CTP coupled with lower than expected average claim size following privatisation of the SA CTP market, albeit partly offset by minor adverse development in householders, public liability, engineering and New Zealand.

Commission and expenses

The Group's combined commission and expense ratio reduced to 30.2% from 31.6% in the prior year.

The commission ratio improved to 15.6% from 16.4% in the prior year. International's commission ratio fell significantly due to reduced reinsurance spend and actions to reduce commissions in the London Market and UK business units. North America and Australia Pacific also reported a modest improvement in their commission ratios, which also benefited from reduced reinsurance costs.

The Group's expense ratio improved to 14.6% from 15.2% in the prior year, reflecting a material cost and operating leverage driven improvement in North America partly offset by a modest increase in both International and Australia Pacific. International's expense ratio increased as a result of higher incentive payments, irrecoverable VAT associated with Brexit and reduced net earned premium. The increase in Australia Pacific was primarily due to a further reduction in builders' warranty fee income and a transitional excess profits and losses (TEPL) accrual with respect to NSW CTP scheme outperformance.

The Group's 2019 expense ratio is broadly in line with our expectations and we remain on track to deliver in accordance with previously advised commitments in relation to the three-year efficiency program.

Income tax expense

The Group's income tax expense of $114 million equated to an effective tax rate of 16% compared with tax expense of $77 million or 12% in the prior year. The low effective tax rate in 2019 reflects the mix of corporate tax rates in the countries where we operate, with profits in North America and Bermuda continuing to benefit from the utilisation of previously unrecognised tax losses.

During 2019, QBE paid $52 million in corporate income tax to tax authorities globally, including $6 million in Australia. Income tax payments in Australia benefit our dividend franking account, the balance of which stood at A$87 million as at 31 December 2019.

The Group is therefore capable of fully franking dividends of A$204 million. The dividend franking percentage is expected to remain at 30% for the 2020 interim dividend.

Balance sheet

Capital management summary

Key financial strength ratios

AS AT 31 DECEMBER	BENCHMARK	2019	2018
Debt to equity	25% to 35%	**38.0%**	38.0%
Debt to tangible equity		**57.7%**	57.1%
PCA multiple [1,2]	1.6x to 1.8x	**1.71x**	1.78x
Premium solvency [3]		**46.2%**	47.3%
Probability of adequacy of outstanding claims	87.5% to 92.5%	**90.0%**	90.1%

1 Prior year APRA PCA calculation has been restated to be consistent with APRA returns finalised subsequent to year end.
2 Indicative APRA PCA calculation at 31 December 2019.
3 Premium solvency ratio is calculated as the ratio of net tangible assets to adjusted net earned premium.

The Group's indicative APRA PCA multiple of 1.71x remains above the midpoint of the Group's 1.6–1.8x target PCA range while the Group retains an excess above S&P 'AA' minimum capital levels.

PCA summary

AS AT 31 DECEMBER	2019[1] US$M	2018[2] US$M
QBE's regulatory capital base	**8,502**	8,762
APRA's Prescribed Capital Amount (PCA)	**4,965**	4,931
PCA multiple	**1.71x**	1.78x

1 Indicative APRA PCA calculation at 31 December 2019.
2 Prior year APRA PCA calculation has been restated to be consistent with APRA returns finalised subsequent to year end.

The PCA multiple is down from the December 2018 multiple of 1.78x, reflecting the following:

- the share buyback and dividends paid during the year (which together exceeded net cash profit);
- a higher asset risk charge due to the material increase in investment funds and following the decision to extend asset duration and modestly increase credit risk;
- a higher insurance risk charge due to the increase in net outstanding claims liabilities; partly offset by
- a reduction in the insurance concentration risk charge (ICRC) as a result of further enhancements to the Group's reinsurance protection, effective 1 January 2020.

During 2020, we intend maintaining our PCA within a target range of 1.6–1.8x.

Debt to equity (gearing) was 38.0% at 31 December 2019, unchanged from the prior year. An ongoing focus on reducing gearing toward the Board's target range of 25%–35% resulted in further liability management activity, the benefit of which was offset by the adoption of AASB 9.

During 2019, the major rating agencies revised their outlooks as follows:

- On 11 April 2019, Moody's revised the Group's outlook from "negative" to "stable" and affirmed the 'A3' issuer credit rating (ICR) on QBE Insurance Group Limited (the parent entity) as well as the 'A1' insurer financial strength (IFS) ratings of QBE's main operating entities.
- On 30 May 2019, S&P affirmed the 'A-' long-term ICR on the parent entity and the 'A+' IFS ratings on the Group's core and highly strategic operating entities. The outlook across all entities remained "stable".
- On 18 June 2019, Fitch downgraded LMI's IFS rating to 'A+' from 'AA-' following a sector-wide reassessment by the agency. The outlook remained "stable".
- On 5 July 2019, A.M. Best affirmed the long term ICR of the parent entity and its main operating subsidiaries at 'bbb+' and 'a+' respectively and the IFS of the main operating subsidiaries at 'A' while affirming the outlook of the Group at "stable".
- On 12 July 2019, Fitch affirmed the long-term issuer default rating (IDR) at 'A-' on the parent entity and the IFS ratings of its subsidiaries at 'A+'. The outlook across all entities remained "stable".
- On 25 July 2019 and following a rating methodology change, S&P downgraded LMI to 'A' from 'A+'. The outlook remained "stable". LMI Asia was placed on CreditWatch Negative, with its rating unchanged at 'A'.
- On 31 July 2019 and following a rating methodology change, S&P affirmed QBE's core subsidiaries at 'A+', outlook "stable".
- On 19 September 2019, LMI Asia's rating was affirmed at 'A', with CreditWatch removed and a "stable" outlook.

In August 2017, the Group commenced a three-year cumulative on-market share buyback program of up to A$1 billion, with a target of not more than A$333 million to be purchased in any one calendar year. During 2019, QBE purchased A$295 million of QBE shares resulting in the cancellation of 23.9 million shares or 1.8% of issued capital. Since commencement of the buyback, QBE has purchased A$767 million of QBE shares resulting in the cancellation of 68.1 million shares or 5.0% of issued capital.

Capital summary

AS AT 31 DECEMBER	2019 US$M	2018 US$M
Net assets	**8,153**	8,400
Less: intangible assets	**(2,791)**	(2,800)
Net tangible assets	**5,362**	5,600
Add: borrowings	**3,095**	3,188
Total tangible capitalisation	**8,457**	8,788

Borrowings

As at 31 December 2019, total borrowings were $3,095 million, down $93 million or 3% from $3,188 million at 31 December 2018. In March 2019, the Group undertook a tender offer for the buyback of senior unsecured debt securities due 21 October 2022, which resulted in the purchase and cancellation of $195 million of senior debt.

The debt buyback undertaken during the year was partly offset by the adoption of AASB 9, effective 1 January 2019 which gave rise to the immediate derecognition of $83 million of capitalised debt exchange premiums, with a corresponding increase in the carrying value of borrowings and decrease in opening retained earnings. The decrease in retained earnings will be offset by reduced financing costs going forward, including a $14 million saving in financing costs in the current year.

Gross interest expense on long term borrowings for the year was $195 million, down from $205 million in the prior year. The average annualised cash cost of borrowings at 31 December 2019 was 6.3%, down slightly from 6.4% at 31 December 2018, reflecting the buyback of the remaining senior debt (which had a lower coupon compared with the Group's remaining capital qualifying debt) more than offset by reduced capitalised debt exchange premium amortisation following the adoption of AASB 9.

As at 31 December 2019, virtually all the Group's debt counted towards regulatory capital. This is up from 94% as at 31 December 2018, reflecting the buyback and cancellation of almost all the remaining non-qualifying senior unsecured debt during the half.

Borrowings maturity [1]

AS AT 31 DECEMBER	2019 %	2018 %
Less than one year	**5**	–
One to five years	**56**	42
More than five years	**39**	58

1 Based on first call date.

Borrowings profile

AS AT 31 DECEMBER	2019 %	2018 %
Senior debt	**–**	6
Subordinated debt	**87**	81
Additional tier 1 securities	**13**	13

Further details of borrowings are set out in note 5.1 to the financial statements.

Net outstanding claims liabilities

AS AT 31 DECEMBER	2019 US$M	2018 US$M	2017 US$M	2016 US$M	2015 US$M
Net central estimate	**13,675**	12,870	14,029	12,693	14,119
Risk margin	**1,136**	1,158	1,239	1,088	1,260
Net outstanding claims	**14,811**	14,028	15,268	13,781	15,379
	%	%	%	%	%
Probability of adequacy of outstanding claims (PoA)	**90.0**	90.1	90.0	89.5	89.0
Weighted average discount rate	**1.1**	1.7	1.7	1.5	1.9
Weighted average term to settlement (years)	**3.6**	3.3	3.1	2.9	3.0

Net outstanding claims liabilities are discounted using sovereign bond rates as a proxy for risk-free interest rates and not the actual earning rate on our investments.

At 31 December 2019, risk margins in net outstanding claims were $1,136 million or 8.3% of the net central estimate of outstanding claims compared with $1,158 million or 9.0% of the net central estimate at 31 December 2018. Excluding foreign exchange movements, risk margins decreased $23 million during the year compared with a $12 million increase in the prior year.

The PoA is broadly unchanged at 90.0%. The reduction in risk margin as a percentage of the net central estimate of outstanding claims is supported by a decrease in the coefficient of variation, which reflects reduced reserve uncertainty as a result of the Ogden decision, the stability of our current Crop reserves on a net of reinsurance basis and the insights we have drawn from Brilliant Basics pricing and claims initiatives as part of our reserving process, particularly in North America.

Intangible assets

The carrying value of identifiable intangibles and goodwill at 31 December 2019 was $2,791 million, down from $2,800 million at 31 December 2018.

During the year, the carrying value of intangibles reduced by only $9 million primarily due to the net amortisation and impairment expense of $94 million which more than offset net additions in the period, being mainly the capitalisation of software in relation to various information technology projects.

At 31 December 2019, QBE reviewed all material intangibles for indicators of impairment, consistent with the Group's policy and the requirements of the relevant accounting standard. No material impairment was identified.

Investment performance and strategy

Our investment portfolio delivered a net investment return of 4.6% in 2019, up materially from 2.2% in the prior year. Excluding the impact of lower risk-free rates during the year, the net investment return was 3.6% slightly above the upper end of our 3.0%–3.5% target return range. Most asset classes delivered better than expected returns following especially volatile markets in the final quarter of 2018.

Despite progressively falling yields across the year, fixed income assets generated a 3.7% return compared with 1.8% in 2018, reflecting significant mark-to-market gains as a result of lower risk-free rates and credit spread tightening. The decision to close our balance sheet duration mismatch during the year proved beneficial with the $231 million adverse impact of lower risk-free-rates used to discount net outstanding claims liabilities more than offset by $265 million of mark-to-market gains on our fixed income portfolio.

Growth asset returns were also very strong, achieving an overall return of 11.8%, substantially above expectations and the prior year return of 6.2%. Equity markets were particularly buoyant delivering significantly higher than expected investment income; returns on our infrastructure assets were above expectations; and unlisted property exposures were in line with expectations.

As at 31 December 2019, the running yield of the fixed income portfolio was 1.5%, down from 2.2% at 31 December 2018. This reflects the significant bond market rally and credit spread narrowing experienced during the year, partly offset by a slightly increased exposure to credit. Fixed income portfolio duration at the balance date was 2.6 years and growth asset exposure was 13.5% of total cash and investments.

Going forward and to align more closely with peer reporting, we have reallocated high yield and emerging market debt to fixed income from growth assets and have also commenced the deployment of a private credit allocation where the additional illiquidity premium offers incremental risk-adjusted returns.

Together, these changes are expected to increase our fixed income running yield to around 1.75% once fully implemented.

Closing total cash and investments was $24,374 million, up 6% from $22,887 million at 31 December 2018, partly reflecting an increase in reinsurance recovery collections pertaining to the group aggregate reinsurance that was in place during 2015–2019.

During 2020, we intend to manage fixed income duration in a range of 2.5–3.0 years, target growth assets at around 12.5% [1] of total cash and investments and modestly raise our exposure to lower rated and less liquid credit. Together with a modest allowance for tactical asset allocation outperformance, these portfolio settings support a 2020 target net investment return of 2.5%–3.0% [2].

1 From 1 January 2020, growth assets no longer include high yield debt or emerging market debt which is now considered part of our fixed income portfolio consistent with peer reporting.

2 Assumes risk-free rates as at 31 December 2019.

Total net investment income

	POLICYHOLDERS' FUNDS		SHAREHOLDERS' FUNDS		TOTAL	
FOR THE YEAR ENDED 31 DECEMBER	2019 US$M	2018 US$M	2019 US$M	2018 US$M	2019 US$M	2018 US$M
Fixed interest, short-term money and cash income	**481**	245	**272**	142	**753**	387
Income on growth assets	**212**	111	**129**	60	**341**	171
Gross investment income [1]	**693**	356	**401**	202	**1,094**	558
Investment expenses	**(11)**	(11)	**(6)**	(6)	**(17)**	(17)
Net investment income	**682**	345	**395**	196	**1,077**	541
Foreign exchange (loss) gain	**(23)**	1	**–**	–	**(23)**	1
Other (expenses) income	**(10)**	–	**(8)**	5	**(18)**	5
Net investment and other income	**649**	346	**387**	201	**1,036**	547

1 Includes fair value gains on investments of $492 million (2018 $143 million losses) comprising gains on investments supporting policyholders' funds of $309 million (2018 $87 million losses) and shareholders' funds of $183 million (2018 $56 million losses).

Annualised gross and net investment yield

	YIELD ON INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		YIELD ON INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
FOR THE YEAR ENDED 31 DECEMBER	2019 %	2018 %	2019 %	2018 %	2019 %	2018 %
Gross investment yield [1]	**4.6**	2.3	**4.7**	2.3	**4.6**	2.3
Net investment yield [2]	**4.5**	2.3	**4.6**	2.2	**4.6**	2.2
Net investment and other income yield [3]	**4.3**	2.3	**4.5**	2.2	**4.4**	2.3

1 Gross investment yield is calculated with reference to gross investment income as a percentage of average investment assets backing policyholders' or shareholders' funds as appropriate.

2 Net investment yield is calculated with reference to gross investment income less investment expenses as a percentage of average investment assets backing policyholders' or shareholders' funds as appropriate.

3 Net investment and other income yield is calculated with reference to net investment and other net income as a percentage of average investment assets backing policyholders' or shareholders' funds as appropriate.

Total cash and investments

	INVESTMENT ASSETS BACKING POLICYHOLDERS' FUNDS		INVESTMENT ASSETS BACKING SHAREHOLDERS' FUNDS		TOTAL	
AS AT 31 DECEMBER	2019 US$M	2018 US$M	2019 US$M	2018 US$M	2019 US$M	2018 US$M
Cash and cash equivalents	**359**	536	**188**	327	**547**	863
Short-term money	**699**	796	**367**	487	**1,066**	1,283
Government bonds	**3,811**	3,089	**2,002**	1,886	**5,813**	4,975
Corporate bonds	**8,698**	7,540	**4,570**	4,604	**13,268**	12,144
Infrastructure debt	**253**	308	**133**	187	**386**	495
Developed market equity	**150**	324	**131**	241	**281**	565
Emerging market equity	**71**	180	**37**	109	**108**	289
Emerging market debt	**363**	145	**191**	89	**554**	234
High yield debt	**263**	50	**138**	31	**401**	81
Unlisted property trusts	**469**	567	**247**	346	**716**	913
Infrastructure assets	**592**	528	**311**	323	**903**	851
Private equity	**133**	99	**70**	60	**203**	159
Alternatives	**60**	–	**31**	–	**91**	–
Investment properties	**24**	22	**13**	13	**37**	35
Total investments and cash	**15,945**	14,184	**8,429**	8,703	**24,374**	22,887

Interest bearing financial assets – S&P security grading

AS AT 31 DECEMBER	2019 %	2018 %
S&P rating		
AAA	**13**	14
AA	**38**	40
A	**34**	34
<A	**15**	12

Currency mix of investments

	GROWTH ASSETS		TOTAL CASH AND INVESTMENTS	
AS AT 31 DECEMBER	2019 %	2018 %	2019 %	2018 %
US dollar	**51**	47	**34**	32
Australian dollar	**29**	27	**27**	29
Sterling	**9**	14	**17**	18
Euro	**11**	12	**12**	11
Other	**–**	–	**10**	10

Final dividend

Our dividend policy is designed to ensure that we reward shareholders relative to cash profit and maintain sufficient capital for future investment and growth of the business.

The final dividend for 2019 is 27 Australian cents per share, a reduction of one Australian cent per share from the 2018 final dividend. The dividend will be 30% franked and is payable on 9 April 2020. The dividend reinvestment programs remain at a nil discount with any demand for shares under the dividend reinvestment plan to be satisfied by the issuance of shares.

The combined 2019 interim and final dividend of 52 Australian cents per share is up 4% from 50 Australian cents per share in 2018 and equates to a total payout of A$681 million or 65% of adjusted cash profit calculated by converting adjusted cash profit to Australian dollars at the average exchange rate during the period. Inclusive of A$295 million of QBE shares repurchased and cancelled, the payout for the 2019 year is A$976 million, down slightly from the A$1,002 million payout in the prior year.

Closing remarks

Having set clear operational and financial priorities for the Group in 2020, we remain focused on the delivery of these priorities:

- maintaining focus on the cell review process while building on the benefits from the successful rollout of the Brilliant Basics program;
- executing on profit improvement plans in North America;
- building on the strong underwriting results achieved in International and Australia Pacific;
- ensuring the ramp up and delivery of year two cost savings in accordance with the three-year efficiency program;
- continuing to maximise divisional cash remittances to the Group head office;
- delivering a 2020 full year combined operating ratio within the target range of 93.5%–95.5% [1,2]; and
- delivering a 2020 full year net investment return within the target range of 2.5%–3.0% [1].

I look forward to reporting on our progress with the release of our 2020 half year result on 13 August.

Inder Singh
Group Chief Financial Officer

1 Assumes risk-free rates as at 31 December 2019.
2 Excludes $30 million one-off regulatory and other costs and the remaining $52 million of restructuring charges.

Operations overview

QBE is an international insurer and reinsurer offering a diverse portfolio of commercial, personal and specialty products, as well as risk management solutions. Our diverse product portfolio includes property, motor, crop, energy, marine and aviation. We employ a team of more than 11,700 people, in 27 countries around the world.

Our purpose is to give people the confidence to achieve their ambitions.

North America

North America is an Integrated Specialist Insurer offering product lines in specialty, commercial, program, personal, crop and assumed reinsurance.

Our broad product set spans four major market segments: Alternative Markets (third-party distribution including programs), Specialty & Commercial (retail agents and brokers), Crop and QBE Re. These solutions are underpinned by global strength and applied expertise, working with a limited network of preferred agents and brokers distributed through a regional operating model. Our customised and comprehensive solutions demonstrate our ability to meet the emerging needs of the market.

From quote to claim, we are focused on managing risk better.

International

International forms a significant part of the QBE Insurance Group, a market leader that can cover most business risks.

We utilise deep underwriting expertise to provide a wide range of commercial and specialty products and risk management solutions across the globe through offices in the UK, Europe, Asia and Canada as well as through our Lloyd's syndicates and QBE Re, a global, multi-line reinsurance business.

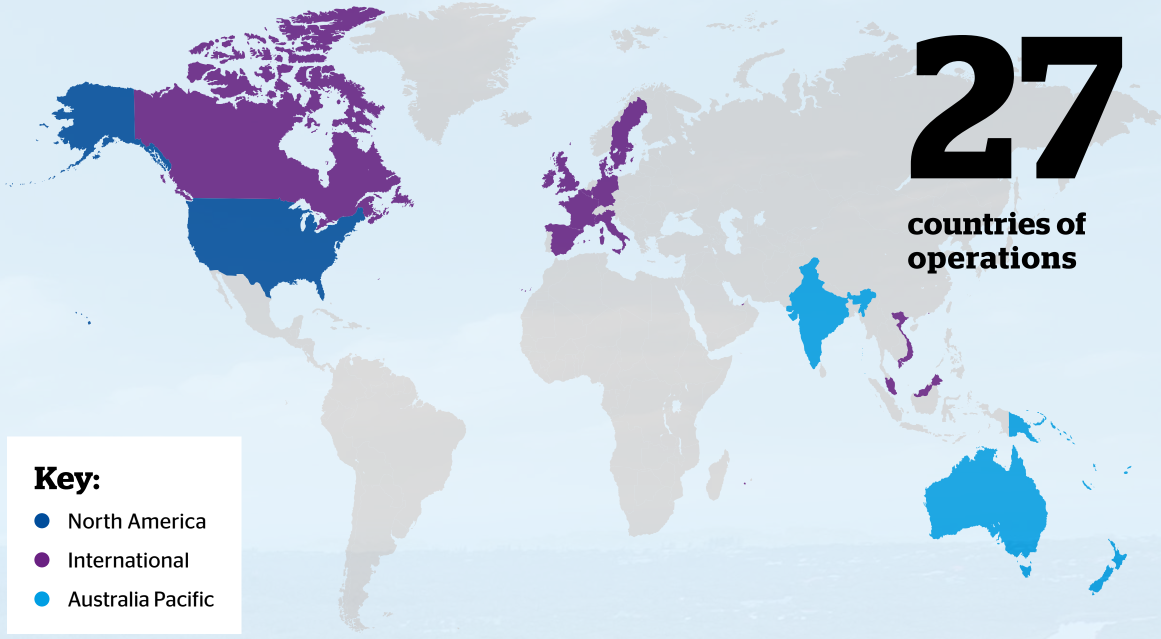
We apply our energy and determination to finding solutions to even the most complex challenges – and we're not afraid to try something new.

Australia Pacific

Australia Pacific is a market leader in commercial insurance with a targeted presence in the personal lines.

We provide a broad range of insurance products to personal, business, corporate and institutional customers. From car and home insurance, to tailored business packages and specialist cover.

Our ambition is to be the number one choice in commercial lines, build strength in personal lines and be innovative in SME. We are building a culture with a focus on improved outcomes for our customers and our people, with a vision to be the insurer that builds the strongest partnership with customers and provides our people the confidence to achieve their ambitions.

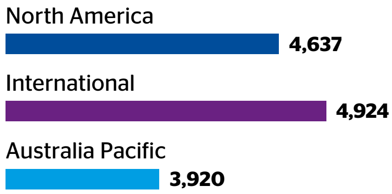


27
countries of operations

Gross written premium

by region (US$M)

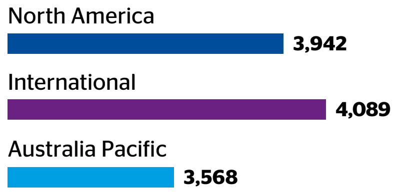
13,442



Net earned premium

by region (US$M)

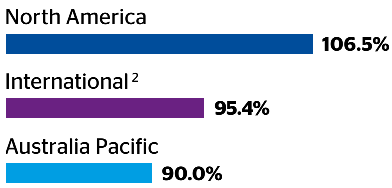
11,609



Combined operating ratio[1,2]

by region

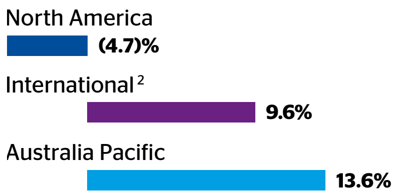
97.5%



Insurance margin[2]

by region

6.1%



1 Excludes the 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.

North America business review

Weather conditions had a meaningful impact on our Crop result while industry-wide challenges drove a reserve strengthening in casualty portfolios. Underlying momentum continues across the portfolio as we execute our integrated specialist strategy, supported by firming pricing conditions and enhanced underwriting discipline.

Todd Jones
Chief Executive Officer • North America

Gross written premium (US$M)

4,637

↓ **2%** from 2018

Net earned premium (US$M)

3,942

↑ **4%** from 2018

Underwriting result[1] (US$M)

(258)

↓ **$304M** from 2018

Combined operating ratio[1]

106.5%

2018 **98.7%**

Insurance profit (loss) margin

(4.7)%

2018 **3.8%**

2019 overview

North America has four business units: Alternative Markets (third-party distribution including programs), Specialty & Commercial (retail agent and broker), Crop and QBE Re (part of QBE's global reinsurance business).

Market conditions continued to improve over the course of 2019. We achieved an average renewal rate increase of 5.8% compared with 4.1% in the prior year. In response to industry-wide claims cost trends, premium rates accelerated during the second half where we achieved an average renewal rate increase of 7.7%. Most of the portfolio achieved premium rate increases, with double-digit increases in commercial, E&S lines, accident & health (A&H), general aviation and public directors' & officers' (D&O).

The Crop business was impacted by significant prevented planting claims due to unusually wet spring planting conditions coupled with frost and hail during the growing season which depressed yields. As a result, Crop reported a combined operating ratio of 107.5%, up significantly from 84.4% in 2018 and well above the 10 year average of around 90% for this business.

A heightened frequency of small weather events during the second half impacted the attritional claims ratio for several of our property portfolios. Despite this, Alternative Markets reported an improved current accident year claims ratio in both the affiliated and program portfolios, driven by benign catastrophe activity.

More challenging industry-wide inflationary trends drove a prior accident year reserve charge, primarily pertaining to E&S, corporate liability classes and casualty reinsurance lines. Heightened social inflation is an industry-wide issue and, where relevant to QBE's North American portfolio, we are responding appropriately to the emerging data.

During 2019, we implemented a number of initiatives to execute on our integrated specialist strategy and enhance our broker relationships. These included the sale of retail personal lines, the run-off of our commercial agriculture portfolio and the continued repositioning of our commercial insurance portfolios with the rollout of a clearly defined middle market risk-appetite and a more targeted E&S appetite. We also launched our first two industry verticals – healthcare and financial institutions – and a new organ transplant risk business in A&H to diversify our product offerings.

Our sustained focus on cell reviews and Brilliant Basics is supporting the disciplined execution of our underwriting strategy which is translating into improved premium rate adequacy across the portfolio.

Operating and financial performance

Underwriting performance

North America reported a combined operating ratio of 106.5%[1], up from 98.7%[1], in the prior year.

The result was heavily impacted by Crop and adverse prior accident year claims development which impacted the combined operating ratio by 5.3% and 2.6% respectively relative to 2018. Normalising for Crop, prior accident year development and the unusual frequency of small weather events, North America's underlying combined operating ratio was around 98.5%.

An improvement in the attritional claims ratio driven by underwriting actions including the repositioning of several businesses, was largely offset by the increased frequency of small weather events in both our personal and commercial property portfolios.

The result was also impacted by an expected increase in the net cost of large individual risk claims following the change in the Group's reinsurance program, coupled with strengthened current accident year claims ratios in many of the portfolios impacted by adverse prior accident year development.

The net cost of catastrophe claims decreased materially reflecting benign catastrophe experience.

The combined operating ratio included a $73 million or 1.9% adverse impact from the decrease in risk-free rates used to discount net outstanding claims compared with a $36 million or 0.9% benefit in the prior year.

The total acquisition cost ratio improved to 28.0% from 30.0% in 2018, reflecting the sale of the retail personal lines business and early benefits from our operational efficiency program coupled with positive operating leverage.

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

Premium income

Gross written premium fell 2% to $4,637 million from $4,711 million in 2018, due to the sale of our underperforming retail personal lines business, coupled with portfolio repositioning. Adjusting for disposals, underlying growth was around 3% reflecting premium rate increases coupled with strong growth in Crop, partly offset by business intentionally lapsed, consistent with increased underwriting discipline.

Specialty & Commercial gross written premium grew 2% due to new business and premium rate driven growth in A&H, industry verticals and professional lines. Growth in these areas more than offset shortfalls in commercial corporate and E&S as we reduced exposure to accounts that no longer met our underwriting appetite.

Crop gross written premium increased 7% due to growth in policy count which more than offset lower commodity prices and reduced volatility factors. Net earned premium grew 22% due to written growth and reduced government cessions reflecting changes in the MPCI gain on the 2018 and 2019 underwriting years.

Alternative Markets' gross written premium increased 1%. Premium growth in programs, particularly property and specialty, was partly offset by premium contraction in affiliated due to the planned repositioning of our (non-builder) home insurance portfolio.

Net earned premium grew 4% to $3,942 million, primarily due to growth in Crop coupled with lower reinsurance costs following the restructure of the Group's reinsurance program.

Claims expense

The attritional claims ratio (excluding Crop) improved marginally to 49.8% from 49.9% in the prior year.

Improvements in aviation, specialty programs, property reinsurance and a reduced contribution from commercial corporate and discontinued businesses were offset by an unusual frequency of small weather events in our property portfolios that contributed around 1.6% to the attritional claims ratio relative to the prior year.

The result included $80 million of adverse prior accident year claims development compared with $57 million of positive development in 2018. Excluding favourable Crop development that is matched by additional premium cessions under the MPCI scheme (resulting in a nil profit impact), adverse prior year development is better stated at $112 million or 2.8% of net earned premium compared with $7 million or 0.2% in 2018.

Positive development in Crop (that was not matched by additional premium cessions under the MPCI arrangement), workers' compensation and A&H was more than offset by adverse development in casualty lines, primarily in our corporate and assumed reinsurance businesses, as well as in E&S. Many of these portfolios have been the subject of de-risking initiatives since 2017 (for example we exited mono-line commercial auto and repositioned financial lines) and it is encouraging that much of the reserve strengthening related to underwriting years pre-dating those initiatives.

Despite the restructuring of the Group's reinsurance program, the net cost of large individual risk and catastrophe claims declined to $328 million or 8.3% of net earned premium compared with $361 million or 9.5% in the prior year.

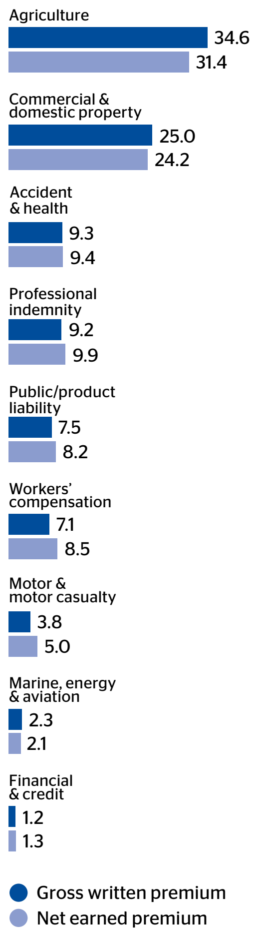
Catastrophe claims fell to $103 million or 2.6% of net earned premium compared with $247 million or 6.5% in 2018.

Commission and expenses

The net commission ratio improved to 15.2% from 15.6% in the prior year driven by mix of business as we exited our retail personal lines and repositioned the corporate portfolio.

The expense ratio improved materially to 12.8% from 14.4% in 2018. This reflects the sale of the retail personal lines business, rigorous cost management and positive operating leverage driven by net earned premium growth (assisted by materially reduced Crop MPCI cessions).

Gross written premium and net earned premium by class of business (%)



Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2019	2018	2017[2]
Gross written premium	US$M	**4,637**	4,711	4,556
Gross earned premium	US$M	**4,646**	4,612	4,622
Net earned premium	US$M	**3,942**	3,796	3,826
Net incurred claims	US$M	**3,168**	2,575	3,107
Net commission	US$M	**599**	592	623
Expenses	US$M	**506**	547	553
Underwriting result	US$M	**(331)**	82	(457)
Net claims ratio	%	**80.4**	67.8	81.2
Net commission ratio	%	**15.2**	15.6	16.2
Expense ratio	%	**12.8**	14.4	14.5
Combined operating ratio	%	**108.4**	97.8	111.9
Adjusted combined operating ratio[1]	%	**106.5**	98.7	112.2
Insurance profit margin	%	**(4.7)**	3.8	9.7

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes transactions to reinsure liabilities.

International business review

The effects of a prolonged period of soft trading conditions are now beginning to be felt across the industry. Trading conditions continue to improve in all geographies with momentum increasing during the second half of 2019.

Richard Pryce
Chief Executive Officer • International

Gross written premium (US$M)

4,924

↑ **4%** from 2018[1]

Net earned premium (US$M)

4,089

Unchanged from 2018[2,3]

Underwriting result[4] (US$M)

187[5]

↑ **$13M** from 2018[3]

Combined operating ratio[4]

95.4%[5]

2018 **95.9%**[3]

Insurance profit margin

9.6%[5]

2018 **6.7%**[3]

2019 overview

International produced a strong underwriting result in demanding and transitioning market conditions. Whilst trading conditions continue to improve, the result was impacted by higher than expected large individual risk claims.

Adverse industry-wide current and prior accident year claims trends have driven a change in appetite and the withdrawal of capacity amongst many of our competitors, both in London and internationally. Several competitors, including some global carriers, continue to de-risk their portfolios and exit smaller and/or less profitable lines.

During 2019 we achieved an average renewal rate increase of 6.3% in European Operations and 3.5% in Asia compared with an increase of 4.4% and 0.7% respectively in 2018. However, there is significant divergence of trading conditions across both product and geography.

The London Market and Speciality business has seen the greatest improvement. We recorded an average renewal rate increase of 9.8% compared with 6.0% in the prior year and early signs suggest this will continue during 2020. Catastrophe exposed property, international casualty, natural resources, some marine classes and financial lines have seen the strongest rate increases.

After a slow start, UK lines improved as the year progressed. Financial lines and motor continue to attract the most significant increases while property and casualty experienced improved pricing in the second half. Although now more positive, rate increases in Europe and Asia still lag all other geographies.

Trading conditions for QBE Re remain paradoxical with major divergences across product and geography. Most of the positive rating activity is in response to claims deterioration in areas such as US casualty and global financial lines.

In contrast, short tail classes have been less impacted except where capacity is required for critical catastrophe zones and those classes that continue to experience claims volatility such as onshore energy. Elsewhere, however, pricing remains relatively stable especially in Europe and Asia.

Our underwriting teams are well positioned to maximise all profitable opportunities and ensure we optimise the financial return for each portfolio.

We continue to enhance underwriting and claims capabilities. Brilliant Basics is starting to drive more sophisticated pricing tools and our data and analytics team is developing tools to improve risk selection and support swifter claims settlement. We are also starting to utilise robotic processes and are applying predictive analytics to triage increased new business volumes and renewal accounts to maximise portfolio quality. Finally, the digital SME program is progressing well in Asia.

The first phase of our underwriting and sales modernisation program, Optimum, has been successfully completed in the UK and now the focus will shift to Europe.

The adjusted result in the table overleaf excludes the impact of the Ogden decision. Similarly, the 2018 adjusted result excludes the one-off transaction to reinsure Hong Kong construction workers' compensation liabilities.

Unless otherwise stated, the profit and loss commentary following refers to the result on this basis.

Operating and financial performance

Underwriting performance

International's combined operating ratio improved to 95.4%[4,5] from 95.9%[3,4] in 2018, reflecting a strong performance in European Operations partly offset by a disappointing performance in Asia as a result of a heightened level of large individual risk claims.

QBE Re reported another strong result reflecting below average catastrophe activity and positive prior accident year claims development. The European insurance division also reported a good underwriting result and encouraging gross written premium growth.

Notwithstanding a poor reported result, Asia's underlying underwriting performance continues to improve as evidenced by a further reduction in the attritional claims ratio.

1 Constant currency basis. Up 1% on a reported basis.
2 Constant currency basis. Down 3% on a reported basis.
3 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.
4 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
5 Excludes one-off impact of the Ogden decision in the UK.

Premium income

Gross written premium was up 1% to $4,924 million from $4,876 million in 2018, and increased 4% on a constant currency basis.

On a constant currency basis, European Operations' gross written premium increased by 5%, whilst Asia decreased by 4% reflecting remediation and disposal activities.

As expected, the impact of underwriting remediation on Asian gross written premium started to moderate in the second half of 2019. The change in competitor risk appetite has resulted in more new business opportunities coming to market; however, this business is often mispriced and/or poorly structured.

Across International, our underwriting teams remain focused on ensuring the margin on all new business is sufficient to achieve our long-term financial objectives. At the same time, we are focused on retaining existing customers and, where possible, expanding these relationships utilising predictive analytics to identify opportunities within appetite.

New business growth has been particularly strong in our London Market and European insurance businesses.

Net earned premium decreased by 3% to $4,089 million from $4,224 million in the prior year but was broadly stable on a constant currency basis. Underlying gross earned premium grew in European Operations but was offset by a decrease in Asia due to remediation and higher reinsurance costs.

Claims expense

The net claims ratio increased to 63.0%[1] from 62.2%[1] in the prior year.

The attritional claims ratio improved to 43.1% from 46.1% in 2018, reflecting targeted underwriting actions in both European Operations and Asia, coupled with the beneficial rating environment.

After a benign first half, catastrophe activity picked up with typhoons Faxai and Hagibis in Japan and Hurricane Dorian in the US. The net cost of catastrophe claims was $130 million or 3.2% of net earned premium, down from $156 million or 3.7% in 2018.

Following the restructuring of the Group's reinsurance program, large individual risk claims increased to 14.6% of net earned premium from 9.3% in the prior year. Higher than expected large individual risk claim frequency remains an industry-wide issue and is contributing to accelerating premium rate increases.

On a reported basis, positive prior accident year claims development was $72 million[2]. Excluding an $86 million benefit due to the impact of adjusting the periodic payment order rate that is offset by a reduced discount benefit (resulting in a nil profit impact), prior year development is better stated at $14 million adverse or 0.3% of net earned premium compared with $25 million or 0.6% in 2018.

Significant adverse development in financial lines and, to a lesser degree international property and commercial motor, was largely offset by reinsurance recoveries and favourable development in UK liability, marine and Asia.

Lower risk-free rates used to discount net outstanding claims liabilities adversely impacted the underwriting result by $100 million or 2.5% of net earned premium compared with only $4 million in the prior year.

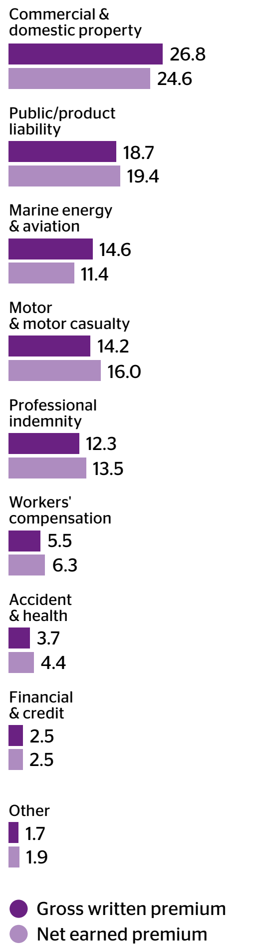
Commission and expenses

The net commission ratio improved to 16.9% from 18.6% in the prior year. The improvement reflects targeted commission reduction actions in our London Market and UK business units, an increase in commission income received during the year and changes in underlying business mix.

Asia still attracts a high commission ratio due to the nature of its distribution channels; however, during the second half of 2019 we launched targeted initiatives to reduce commissions, especially in Hong Kong.

Whilst expense reduction initiatives are emerging as planned, the reported expense ratio was adversely impacted by the reduction in net earned premium, increasing to 15.5% from 15.1% in the prior year.

Gross written premium and net earned premium by class of business (%)



Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2019	2019 ADJUSTED[2]	2018 ADJUSTED[3]	2017 ADJUSTED[2]
Gross written premium	US$M	**4,924**	**4,924**	4,876	4,671
Gross earned premium	US$M	**4,739**	**4,739**	4,889	4,658
Net earned premium	US$M	**4,089**	**4,089**	4,224	3,968
Net incurred claims	US$M	**2,740**	**2,679**	2,633	2,557
Net commission	US$M	**689**	**689**	783	737
Expenses	US$M	**634**	**634**	638	650
Underwriting result	US$M	**26**	**87**	170	24
Net claims ratio	%	**67.0**	**65.5**	62.3	64.4
Net commission ratio	%	**16.9**	**16.9**	18.6	18.6
Expense ratio	%	**15.5**	**15.5**	15.1	16.4
Combined operating ratio	%	**99.4**	**97.9**	96.0	99.4
Adjusted combined operating ratio[1]	%	**96.9**	**95.4**	95.9	100.8
Insurance profit margin	%	**8.1**	**9.6**	6.7	4.0

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes one-off impact on the underwriting result due to the Ogden decision in the UK.
3 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.

Australia Pacific business review

Despite the devastating impact of catastrophes on our customers, Australia Pacific recorded a strong combined operating ratio of 90.0%[1]. Positive pricing momentum, coupled with the continuing benefits of cell reviews and Brilliant Basics, contributed to a further 4.2%[2] improvement in the attritional claims ratio.

Vivek Bhatia
Chief Executive Officer • Australia Pacific

Gross written premium (US$M)

3,920

↑ **3%** from 2018 [3]

Net earned premium (US$M)

3,568

↑ **2%** from 2018 [4]

Underwriting result[1] (US$M)

358

↓ **$6M** from 2018

Combined operating ratio[1]

90.0%

2018 **90.3%**

Insurance profit margin

13.6%

2018 **13.3%**

2019 overview

Despite significant catastrophe events, Australia Pacific delivered a strong combined operating ratio and a marked uplift in earnings quality. This was underpinned by a further material improvement in the attritional claims ratio coupled with a reduced level of both prior accident year reserve releases and LMI earnings.

Australia Pacific achieved an average renewal rate increase of 7.3%[5], up from 7.1%[5] in the prior year. Continued strong industry-wide pricing momentum and Brilliant Basics initiatives enabled the business to achieve targeted premium rate increases, particularly in portfolios where rates have historically been materially inadequate. Premium rates across most portfolios moved closer to levels supporting an appropriate and sustainable return on equity.

Continued implementation of Brilliant Basics underwriting and claims initiatives have also been integral to the delivery of an improved combined operating ratio. Underwriting initiatives have been crucial in enabling enhanced risk selection and delivering targeted growth while simultaneously providing a more consistent experience for our customers and distributors.

Claims management initiatives aimed at enhancing supply chain and operational processing capabilities continue to benefit performance and customer experience.

QBE is working to deliver a corporate culture with a focus on improved outcomes for our customers and our people. In doing so, we are also addressing the regulatory change agenda coming from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and other enquiries.

Operating and financial performance

Underwriting performance

Australia Pacific reported a combined operating ratio of 90.0%[1] compared with 90.3%[1] in 2018. Significantly increased catastrophe costs, coupled with a reduced level of positive prior accident year claims development and further normalisation in LMI profitability, were more than offset by a further material improvement in the attritional claims ratio.

Continued enhancements to risk selection and pricing and claims initiatives were instrumental in driving a further marked reduction in the attritional claims ratio which improved to 50.4% from 54.0% in 2018. Significant improvement was achieved in strata, workers' compensation, private motor and commercial motor.

The gross cost of catastrophe claims increased significantly compared with 2018, and included the Townsville floods, storms in NSW and Queensland, as well as extensive and severe bushfires across Australia.

While the gross cost of large individual risk claims continues to reduce as a result of improved risk selection and claims management initiatives, the net cost increased in 2019 compared with the prior year due to a change in reinsurance protection.

In line with expectations, the combined operating ratio of our LMI business increased to 58.3%[1] from 54.8%[1] in 2018. The increase was primarily attributable to a higher average claim size as losses resulting from the unwind of the mining boom in Western Australia and regional Queensland, continue to transition through the portfolio.

On a constant currency basis, LMI net earned premium fell 8% reflecting the contraction in lending over recent years, the change in the premium earning pattern adopted in 2018 and the decision to purchase 30% quota share reinsurance protecting the 2019 underwriting year.

The fundamentals of the LMI portfolio continue to improve with more disciplined lending practices contributing to a year-on-year reduction in both arrears rates and notices of new delinquencies.

1 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
2 Excludes LMI.
3 Constant currency basis. Down 4% on a reported basis.
4 Constant currency basis. Down 5% on a reported basis.
5 Excludes premium rate changes relating to CTP.

Premium income

Gross written premium fell 4% to $3,920 million from $4,104 million in the prior year but was up 3% on a constant currency basis.

The increase in gross written premium was moderated by the impact of reduced borrowing on both LMI and householders business sold through bancassurance partners. In addition, CTP income reduced as a result of regulatory reform in NSW and SA.

Excluding LMI, CTP and the sale of the travel insurance business, underlying gross written premium growth was 6%.

Brilliant Basics pricing initiatives remain focused on portfolios where premium rates are below technical levels. We achieved an average renewal rate increase of 7.3% [1], up from 7.1% [1] in the prior year. Retention levels remained stable at around 85%.

Net earned premium reduced by 5% to $3,568 million from $3,758 million in the prior year but was up 2% on a constant currency basis. This was due to a combination of reduced reinsurance spend following the restructuring of the Group's external reinsurance program and the earning of 2018 premium growth.

Claims expense

Despite the significant increase in catastrophe activity in Australia, the net claims ratio improved to 60.7% [2] from 61.0% [2] in the prior year.

Excluding LMI, the attritional claims ratio improved to 51.1% from 55.3% in 2018. Since the first half of 2016, Australia Pacific's attritional claims ratio has reduced by 10.9%, reflecting a combination of targeted pricing increases, enhanced risk selection and claims management initiatives.

The net cost of catastrophe claims increased significantly to $193 million or 5.4% of net earned premium compared with $106 million or 2.8% in the prior year, reflecting heightened catastrophe experience in Australia, particularly the Townsville floods and widespread bushfires.

Despite a reduction in the incidence of large individual risk claims compared with the prior year, the net cost of large individual risk claims increased to $132 million or 3.7% of net earned premium from $118 million or 3.1% in the prior year due to revised reinsurance protections.

The underwriting result included positive prior accident year claims development of $104 million or 2.9% of net earned premium compared with $129 million or 3.4% in the prior year. This was largely attributable to favourable claim development on NSW CTP coupled with lower than expected average claim size following privatisation of the SA CTP market.

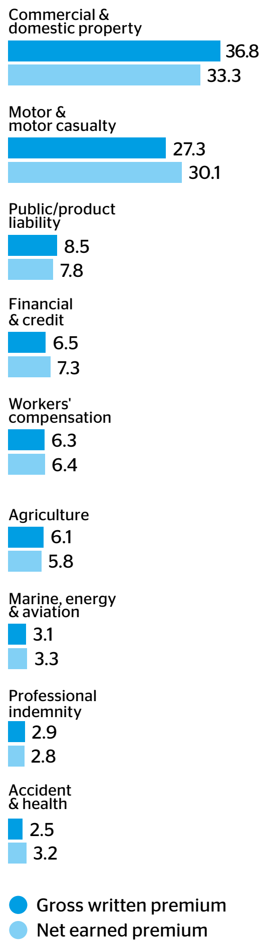
Commission and expenses

On a constant currency basis, commission costs were broadly in line with the prior year. The minor reduction in the commission ratio to 14.8% from 14.9% in 2018 was largely attributable to increased profit commission income following changes to the reinsurance program protecting our LMI business.

Expenses increased in constant currency due to a further reduction in fee income following the loss of the NSW builders' warranty contract coupled with ongoing investment as we respond to changes in the regulatory environment and the requirements of our customers.

Reflecting the strong performance of our NSW CTP portfolio, reported expenses included a profit normalistion charge (transitional excess profits and losses or TEPL) which adversely impacted the expense ratio.

Gross written premium and net earned premium by class of business (%)



Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2019	2018	2017
Gross written premium	US$M	**3,920**	4,104	4,139
Gross earned premium	US$M	**3,885**	4,103	4,252
Net earned premium	US$M	**3,568**	3,758	3,895
Net incurred claims	US$M	**2,223**	2,310	2,444
Net commission	US$M	**526**	561	548
Expenses	US$M	**519**	542	532
Underwriting result	US$M	**300**	345	371
Net claims ratio	%	**62.3**	61.5	62.7
Net commission ratio	%	**14.8**	14.9	14.1
Expense ratio	%	**14.5**	14.4	13.7
Combined operating ratio	%	**91.6**	90.8	90.5
Adjusted combined operating ratio [2]	%	**90.0**	90.3	90.5
Insurance profit margin	%	**13.6**	13.3	13.8

1 Excludes premium rate changes relating to CTP.
2 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.

Climate change – our approach to risks and opportunities

As an international insurance underwriter and investor, the physical, transition and liability impacts of climate change are of strategic importance to QBE. We consider climate change to be a material risk for our business as well as a driver of significant opportunities.

We continue to support the objectives of the Paris Agreement and the Nationally Determined Contributions of the countries in which we operate. We fully support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and, in 2018, we publicly committed to enhancing our disclosures in line with the TCFD recommendations. This report details our approach to managing our climate-related risks and opportunities, including our progress and performance against our Climate Change Action Plan.

Consistent with our governance practices, we are developing appropriate strategic and risk management approaches to the climate-related risks and opportunities we have identified in order to strengthen the resilience of our business and support our customers.

QBE's Climate Change Action Plan

In 2018 we released our Climate Change Action Plan. During 2019, our focus was on progressing our understanding of climate-related risks and opportunities and considering our strategic response.

	DESCRIPTION	ACTION	2017	2018	2019	2020
Governance	**Disclose the organisation's governance around climate-related risks and opportunities**	**Board:** • Strengthen Group Board and Committee oversight of climate-related issues		✓		
		• Strengthen divisional governance of climate-related issues		✓		
		Management: • Establish senior cross-functional, cross-divisional Climate Change Working Group to support the Board and management in identifying and managing climate-related risks and opportunities	✓			
		• Sign TCFD Statement of Support with commitment to begin disclosures in February 2019		✓		
Strategy	**Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material**	• Complete high level impact assessment of physical, transition and liability risks and opportunities across the business over the short, medium and long-term		✓		
		• Review investment strategy to ensure it appropriately reflects consideration of climate-related risks and opportunities		✓		
		• Complete further detailed analysis of climate-related risks and opportunities in priority underwriting portfolios. Refer pages 34 to 37			✓	
		• Review underwriting strategy in line with detailed analysis of climate-related risks and opportunities. Refer pages 34 to 37			✓	
		• Participate in the UNEP FI insurance industry TCFD pilot group on scenario analysis. Refer page 37		○	•••	●
		• Integrate additional climate-related scenario analysis into strategic planning across the business			○	●
Risk Management	**Disclose how the organisation identifies, assesses and manages climate-related risks**	• Establish ESG Risk team to coordinate ongoing integration of climate-related risks and opportunities across the business		✓		
		• Review Enterprise Risk Management Strategy and Framework to ensure they appropriately reflect climate change considerations		✓		
		• Review risk classes, risk appetites and risk management standards and processes to ensure that climate change risks are properly reflected		✓		
		• Integrate multi-year scenario analysis into risk management strategy			○	●
Metrics & Targets	**Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material**	• Disclose scope 1, 2 and 3 operational greenhouse gas emissions	✓			
		• Evaluate metrics and targets for assessing climate-related risks and opportunities that are in line with strategy and risk management processes			○	●
		• Disclose metrics and performance against targets for assessing climate-related risks and opportunities				○ ●

KEY ○ Commencement date ••• Continued in progress ● Target completion date ✓ Action completed

Governance

Our climate governance framework clearly defines the roles and responsibilities for effective oversight and management of climate-related risks and opportunities at the Board and senior management levels.

The Board Risk & Capital Committee and the Executive Non-Financial Risk Committee received quarterly reports on environment, social and governance (ESG) issues, including climate change. This year, we established three working groups under the Climate Change Steering Committee to focus our work in the key areas of physical, transition and liability risk. These cross functional groups comprise representatives from our underwriting, finance, investment, risk, sustainability, strategy, reinsurance and product development teams and reach across all our divisions. Further detail on the work undertaken this year by the working groups is outlined in the Strategy section of this report on pages 34 to 37.

Group Board

Risk & Capital
Climate-related risk management

Audit
Climate-related financial reporting

Investment
Climate-related investment risks and opportunities

Operations & Technology
Climate-related operational risks and opportunities

Group Executive Committee

Accountable for implementing climate change strategy

Receiving and reviewing progress reports

Group CRO
Accountable for embedding climate-related risk into the Group's risk management framework

Group CFO
Accountable for reviewing climate-related disclosures including TCFD

Group CUO
Accountable for embedding climate-related risks and opportunities within underwriting decisions

Group Executive, Corporate Affairs and Sustainability
Accountable for embedding climate strategy into company brand, narrative and engagement

Executive Non-Financial Risk Committee
Accountable for overseeing the integration of ESG risk into business processes

Head of ESG Risk
Integrating climate-related risks and opportunities into business processes

Delivering and reporting on the Climate Change Action Plan

Group Chief Investment Officer
Integrating climate-related risks and opportunities into investments

Group Head of Sustainability
Aligning climate-related strategy with overall sustainability strategy

External reporting and stakeholder engagement

ESG Risk Committee
Reviewing ESG business policies and strategies, including climate-related policy positions, and providing recommendations to the Executive Non-Financial Risk Committee for approval

Climate Change Steering Committee
Overseeing the identification and management of climate-related risks and opportunities, reporting and working group activities.

Climate change and remuneration

A component of our Group Executive Committee's (GEC) short-term incentive (STI) outcome is determined with reference to the achievement against strategic priorities. 75% of our Group Chief Risk Officer's STI outcome, and 35% of the outcome for all other members of the GEC, is determined in this manner.

QBE's 2019 strategic priorities include managing risk (including implementation of our Climate Change Action Plan) and operating sustainably (including the effective management of climate-related risks and opportunities).

Specific roles within QBE that are responsible for integrating the identification and management of climate-related risks into business processes and developing, managing and implementing the strategy to address the environmental impacts of our operations include QBE's Head of ESG Risk and QBE's Head of Environment respectively. The performance objectives for these roles, and their achievement of those objectives, is a key reference when determining incentive outcomes.

Time horizons

Taking into account average policy duration allowing for renewals, as well as the average term of its investments, QBE defines short, medium, and long-term risk time horizons as follows:

Short-term:
0 to 3 years

Medium-term:
3 to 8 years

Long-term:
8+ years

Strategy

In 2019, we have continued to progress our Climate Change Action Plan, with a focus on identifying risks and opportunities and developing our strategic responses across both underwriting and investment management.

Underwriting

This year we focused on identifying climate-related risks and opportunities across some of our key underwriting portfolios. This work has been driven by our physical, transition and liability working groups.

Physical risks

Climate change will increase the frequency and severity of acute weather-related events such as floods, bushfires, tropical cyclones, hail, storms and coastal inundation, as well as lead to chronic changes such as sea level rise, increased heat waves and droughts over time. During 2019, we saw severe drought and extensive bushfires across Australia and wildfires in North America, as well as severe flooding in the UK. As an international provider of insurance such as property, crop, marine and aviation, QBE is exposed to these risks.

QBE assesses the impact of weather-related events using catastrophe models. Our catastrophe modelling team uses sophisticated computer simulations of natural catastrophes to estimate their financial impact. By allowing for scientific predictions of the impact of climate change under different climate scenarios, we also use those computer models to quantify the financial impact of climate change on weather-related events. One key component of a catastrophe model is the hazard module that generates weather events such as cyclones, flood and hail which are the foundation for simulating damages to the properties we insure and estimating claims under the insurance policies protecting our clients' assets.

QBE has long recognised that climate change has a direct impact on the unpredictability and extremity of weather conditions around the world. In 2014, our Annual Report included a spotlight on catastrophe modelling. Since then, QBE has continued to invest in and greatly increase our natural catastrophe modelling capabilities as well as embed the insights into our strategic planning and operational management.

Crop insurance in the US

QBE is a significant provider of crop insurance to the US market. Under this federally funded program, the federal government sets all pricing, and while participating insurers are required to offer coverage, they have options following underwriting assessment to substantially reduce their exposure to individual contracts. The crop insurance business is exposed to physical risk through long-term trends in climatic conditions including hail events; however, there are a number of mitigating factors that reduce the physical risk to the portfolio. The government pricing practices for the program are designed to ensure that premium rates reflect risk, and are updated in line with trends in annual experience for individual farms and crops, so that any adverse trends in claims due to climate change will be met with increased premiums and/or changing coverages. As yields improve or decline, farmer coverages change accordingly. This is known as a change in the farmer's actual production history, which drives coverage levels.

There is strong political support for the program, and therefore the federal government is expected to continue to subsidise premiums sufficiently to ensure carriers will continue to participate and be able to achieve reasonable returns for their participation. Technological improvements in farming practice, seeds, and weather and climate information continue to drive resilience in agricultural production, which can potentially mitigate adverse climate trends. QBE continues to work with its crop insurance customers to drive technological improvements and ensure the sustainability of the business.

Analysis: hurricanes in North America and tropical cyclones in Australia

What did we do?

In 2019, in partnership with catastrophe modelling firm RMS, we assessed the impact of hurricanes in North America and tropical cyclones in Australia, which represent some of our largest exposures to weather-related events. We considered impacts on our existing portfolio up to 2100 under scenarios consistent with a 2–3˚C global mean temperature rise. This initial analysis did not show material increases in our expected claims costs before 2050. During 2020, we will continue to assess the impact, allowing for alternative emissions scenarios. We will also extend the analysis to other weather-related exposures in our portfolio.

What did we find?

Our initial work supports the strong likelihood of a material increase in tropical cyclone-related claims under all scenarios. Annual claims cost related to hurricanes and tropical cyclones could go up by more than 50% in the second half of the century, with a wide variation in local impact, and a rate of change that will depend on how the global community addresses this critical challenge. However, in the short to medium-term, the impact on tropical cyclone claims will be difficult to assess due to the inherent volatility of cyclones, which have a relatively low frequency and large variability in cost driven by whether or not they make landfall and impact on population centres.

How are we responding?

We have started to adjust our catastrophe models to factor in the expected impacts of climate change until 2100. While we already have a robust quantification of QBE's exposure to weather events, this refinement of our models can provide insights into the magnitude and timing of the impact that climate change will have on our business.

In the short-term, QBE will manage the high volatility of natural catastrophe claims by considering a wide range of event frequency and severity in our capital planning, and by deploying a comprehensive Group catastrophe reinsurance program.

Over the long-term we anticipate that the physical impacts of climate change – even under scenarios consistent with the achievement of the Paris Agreement – will result in our customers seeking increased insurance for the protection of their assets and the services they provide. We also recognise that over the longer-term, climate change will impact our customers and the communities that we serve. This may cause insurance premiums to become unaffordable, especially for customers in areas more exposed to weather-related events, potentially resulting in a loss of revenue. In order to address this risk, QBE is engaging with external stakeholders, including national and local governments, to encourage adaptation and resilience measures against weather-related events.

What are our next steps?

During 2020, we will continue to adjust our catastrophe models for a broader range of weather phenomena and geographies, and participate in the development of scenario analysis as part of the United Nations Environment Programme Finance Initiative Principles for Sustainable Insurance (PSI) TCFD Pilot project.

A$**500,000**

QBE support for bushfire relief

Australian bushfires

The bushfires over the Australian summer of 2019–2020 had a devastating impact on many of our customers and their communities and we have worked with them to help them recover and rebuild their lives. In the immediate aftermath of these fires, QBE deployed additional resources to ensure insurance claims could be handled as quickly as possible, while emergency assistance payments and temporary accommodation assistance and mental health support services were also available to our customers. Given the unprecedented scale of the fires, and to reduce the burden for our customers, we waived excesses for individual customers making bushfire-related claims for their personal insurance. This included personal insurance claims for home buildings, contents, landlords, motor vehicles for private use and caravans. In addition, QBE pledged A$500,000 to the bushfire support and recovery services of our disaster relief partners, Red Cross and Save the Children.

It is well recognised that climate change will increase the frequency and severity of bushfires, driven by rising temperatures and drier conditions, and result in more damage to ecosystems, property and people. [1] We will continue to increase our understanding of physical climate risk, including bushfire, and contribute to the transition to a low carbon economy. We also acknowledge that minimising disaster risk and building resilience requires a collective effort with public, private and community sectors. Where we cannot help our customers directly, we will continue to play an active role in advocating, both independently and through our industry associations, all levels of government for initiatives to reduce the risks and impacts of climate-related disasters. We will actively participate in, and provide our insights to, bushfire inquiries on issues such as enhancing the efficiency of the recovery process, addressing the risks of natural disasters and the impact of climate change, and resilience options to address bushfire risks.

Transition risks and opportunities

Through our insurance and investment activities, we are exposed to the risks and opportunities arising from the transition towards a low carbon economy. Some sectors will require a bigger transition than others. We seek to collaborate with government, industry and our customers to support an orderly transition.

Analysis: transition risks and opportunities in emissions intensive industries

What did we do?

In 2019, we undertook scenario analysis to identify the risks and opportunities associated with the transition to a low carbon economy. We focused on three industries which will require significant changes if the world is to meet the goals of the Paris Agreement – energy, transport and heavy industry.

We developed two qualitative scenarios consistent with meeting the objective of the Paris Agreement. The first scenario is early and coordinated transition driven by political ambition, regulatory and policy support. The second scenario presented a delayed and uncoordinated transition, with ambitious action around 2025–30. We then held deep dive workshops to identify the risks and opportunities associated with each of the three industries.

What did we find?

We identified a range of opportunities and risks across underwriting and investment, both at a high level and at an industry specific level. Opportunities include development of new insurance products, and investment opportunities in renewable energy and low emissions transport. Risks include changes to insurance premiums in declining sectors, stranded assets and regulatory and reputation risks.

How are we responding?

In 2019, we developed a Group Energy Policy (see page 38 for more detail) to respond to the risks in the energy sector, including targeting zero direct investment in, and phasing out insurance for, the thermal coal industry. We have continued to grow our investment exposure to low carbon projects through Premiums4Good (see page 38 for more detail).

What are our next steps?

We will continue to develop and embed our response to the risks and opportunities identified into our strategy and risk management processes.

For examples of solutions we offer to support our customers' transition to a low-carbon economy and manage the risks associated with climate change, refer to QBE's 2019 Sustainability Report.

1 2014, Fifth Assessment Report, Intergovernmental Panel on Climate Change; 2008, The Garnaut Climate Change Review.

Liability risks

Liability risks are a specific type of transition legal risk that impact general insurers. As climate change effects become more apparent, parties who have suffered loss and damages from climate change could seek recovery from parties they believe to be responsible. Any successful actions could potentially lead to responsible parties seeking to recover these costs under insurance policies.

Legal action on climate change has been most active in the US and primarily relates to regulatory or similar actions against energy companies that are alleged to have not disclosed or managed climate-related risks. In Australia, legal action has been taken against superannuation funds, alleging that the trustees have breached their fiduciary duties by failing to adequately consider climate change risks.

Climate-related liability claims may arise on professional indemnity contracts where professionals may have failed to take climate change into account when providing advice. The increased frequency or severity of weather-related events due to climate change increases the potential for liability claims. Such indirect liability claims have the potential to arise in the short-term as climate change begins to be more widely understood, but we do not expect this to have a material financial impact in the short-term.

Analysis: climate litigation

What did we do?

This year, the liability working group reviewed cases of litigation in the US, and identified our potential exposures by product, economic sector and state. Additionally, the group reviewed our exposure to potential claims outside the US by assessing our products and exposure as well as developing a framework for the ongoing monitoring of claims.

What did we find?

To date there have been no successful material insurance claims, and we do not anticipate any such climate-related liability claims in the short-term.

How are we responding?

We continue to monitor litigation activity and changes in the legislative and regulatory environment that may affect our exposure to climate-related liability risk.

What are our next steps?

During 2020 we will consider our underwriting strategy with respect to climate-related claims by reviewing risk selection, underwriting appetite and pricing.

Partnerships and initiatives

We are involved in a range of initiatives, allowing us to contribute our expertise, support the development of our strategic climate responses and advocate for climate mitigation and resilience measures on behalf of our customers.

Industry

- Insurance Council of Australia's Climate Change Action Committee
- Actuaries Institute Climate Change Working Group
- Australian Sustainable Finance Initiative
- ClimateWise
- Climate Measurement Standards Initiative
- Australian Government National Resilience Taskforce

Operations

- CDP
- RE100

Investment

- UNEP FI Principles for Responsible Investment
- Investor Group on Climate Change
- Responsible Investment Association Australasia

Underwriting

- UNEP FI PSI
- UNEP FI PSI TCFD Pilot Group

UNEP FI PSI TCFD Pilot Group

QBE is part of the UNEP FI PSI TCFD Pilot Group with the objective of building scenarios and approaches for insurers and reinsurers to assess climate-related risks and opportunities. The Pilot has progressed more slowly than we anticipated in our Climate Change Action Plan and we expect it to be completed by the end of 2020. The work undertaken as part of the Pilot will help to inform our scenario analysis and strategic responses in 2020.

For further detail on our collaboration on climate change, sustainable finance and resilience, refer to QBE's 2019 Sustainability Report.

Responsible investment

We are a signatory to the UN Principles for Responsible Investment. We have a dedicated Impact and Responsible Investments team.

Signatory of:

PRI Principles for Responsible Investment

Premiums4Good

Ambition to grow our impact investments to

$2B by 2025

Investment management

QBE manages a multi-asset, multi-currency portfolio. Our fixed income portfolio represents approximately 85%–90% of our overall investment assets and is mostly managed directly using in-house portfolio managers and analysts. Growth assets comprise the remaining 10%–15% of our investment assets, and we mostly use external investment fund managers and passive index vehicles to access a variety of asset classes.

In 2018 within our manager selection and due diligence program, we strengthened our external fund manager reviews and extended our annual ESG review for all existing managers. In 2019, we continued our ESG reviews and engagement with our external managers, including understanding their progress on TCFD disclosures.

In 2019 we completed an initial carbon footprint of our fixed income (corporate credit) portfolio based on weighted average carbon intensity, including a retrospective analysis which considered the carbon intensity of the corporate credit portfolio for the past five years. This baseline identified that the corporate credit portfolio's exposure to carbon risk is low and so is well positioned for the transition to a low carbon economy relative to the broader corporate bond market. We also established processes for the ongoing monitoring of our portfolio and we continue to engage with issuers identified as the highest emitters in our corporate credit portfolio.

In 2019, we developed a Group Energy Policy (further details below) which includes commitments for investment management.

To monitor compliance with the commitments outlined within the policy and enhance our ESG risk screening processes, we have established new investment monitoring processes and started using new third party data sources to both enhance the negative screening and exclusions and to monitor progress. As at 31 December 2019, we have no direct investment in the thermal coal sector and we retain less than 0.5% of total funds under management in the thermal coal sector.

Premiums4Good

Premiums4Good is an innovative QBE initiative whereby we invest up to 25% of our customers' premiums into investments that have additional social or environmental benefits at no extra cost to our customers. Our investments which support the transition to a low carbon economy are $356 million and include green bonds, renewable energy projects and sustainable infrastructure. We have expanded our ambition to grow our impact investing allocation to $2 billion by 2025.

Further detail on Premiums4Good as well as case studies on some of our climate-related investments are in the Premiums4Good Investment Impact Report 2018–19.

Risk management

Climate-related risk is a type of strategic risk, which we identify, assess and manage using our Enterprise Risk Management (ERM) framework and ESG business practices. Climate-related risk is also implicitly considered within the insurance, credit, market, liquidity and operational risk classes.

For further detail on how we embed ESG into our ERM framework, refer to the Sustainable Insurance section of QBE's 2019 Sustainability Report.

This year we have undertaken both transition and physical scenario analysis to understand the risks and opportunities associated with climate change in our priority portfolios and geographic regions.

Further details of what we did, what we found and how we are responding are in the Strategy section on pages 34 to 37.

Group Energy Policy

In early 2019 we developed our Group Energy Policy, which focuses on support for our customers in the transition to a low carbon economy consistent with the objectives of the Paris Agreement. We do this by providing insurance services and investing in renewable energy and other technologies that support the transition to a low carbon economy. Our Policy will also minimise our exposure to transition risk arising from the phasing out of thermal coal. Our commitments include:

- zero direct investment in the thermal coal industry by 1 July 2019[1];
- no new direct insurance services for new construction projects for thermal coal mines or power stations or thermal coal transport infrastructure, except for statutory or compulsory insurance; and
- phasing out all direct insurance services for thermal coal customers by 1 January 2030, except for statutory or compulsory insurance.

We will continue to review our investment and insurance policies to ensure our approach is in line with our risk appetite.

1 We will maintain a margin of up to 0.5% of total funds under management in order to allow for inadvertent exposures via our indirectly managed investments, such as through equity index funds.

Regulatory oversight of climate risk

During 2019, insurance supervisors in our markets began to introduce regulatory requirements in relation to climate-related risks. We continue to consult with supervisors and have commenced planning and implementation to ensure we meet these requirements. In September 2019, we participated in an International Association of Insurance Supervisors and Sustainable Insurance Forum workshop on TCFD implementation within the insurance industry in Zurich. Our participation enabled us to advocate for efficient and effective regulation, to develop best practice, and to minimise regulatory risk for QBE.

UK Prudential Regulation Authority (PRA) Supervisory Statement

The UK PRA Supervisory Statement SS3/19, *Enhancing banks' and insurers' approaches to managing the financial risks from climate change* took effect on 15 April 2019. This impacts our PRA-regulated entities, QBE European Operations plc and QBE UK Limited. QBE has submitted its roadmap to the PRA, which aligns with our Climate Change Action Plan activities. We have also undertaken a General Insurer Stress Test in line with the UK PRA requirements.

ESG risk training

In 2019, we developed and delivered internal training and information sessions on ESG risks, including climate change, to build capability for our employees and Board members. This will be further enhanced and rolled out more broadly.

Metrics and targets

This year, QBE set new climate-related operational performance targets. In 2020, QBE will identify metrics to measure and monitor climate-related risks and opportunities relating to our investments and underwriting activities.

In 2019, QBE also became the first Australian-headquartered insurer to join the RE100 initiative, committing to source 100% of our electricity requirements from renewable sources by 2025.

Progress towards our climate-related targets is presented below.

MEASURE	TARGET	2019 PROGRESS	STATUS
Energy use (GJ)	15% reduction by 2021 (from 2018 levels)	153,296 (-14%)	On track
Net scope 1 & 2 emissions (1.5°C trajectory aligned science-based target) (tCO_2-e)	30% reduction by 2025 (from 2018 levels)	12,772 (-57%)	Achieved
Renewable electricity use (MWh)	100% by 2025	18,876 (63%)	On track
Air travel (tCO_2-e)	Reduce air travel by 20% by 2021 (from 2017 levels)	12,160 (-31%)	Achieved
Investment in thermal coal industry	Zero direct investment by 1 July 2019	Direct investment in thermal coal is zero	Achieved
Impact investing ambition	$2 billion by 2025	$663 million	On track

More detail on QBE's Sustainability Framework and our performance and progress is available in QBE's 2019 Sustainability Report.

In 2019, we maintained our carbon neutral status

28,931

tCO_2-e

offset through the Qantas Future Planet program

Risk – our business

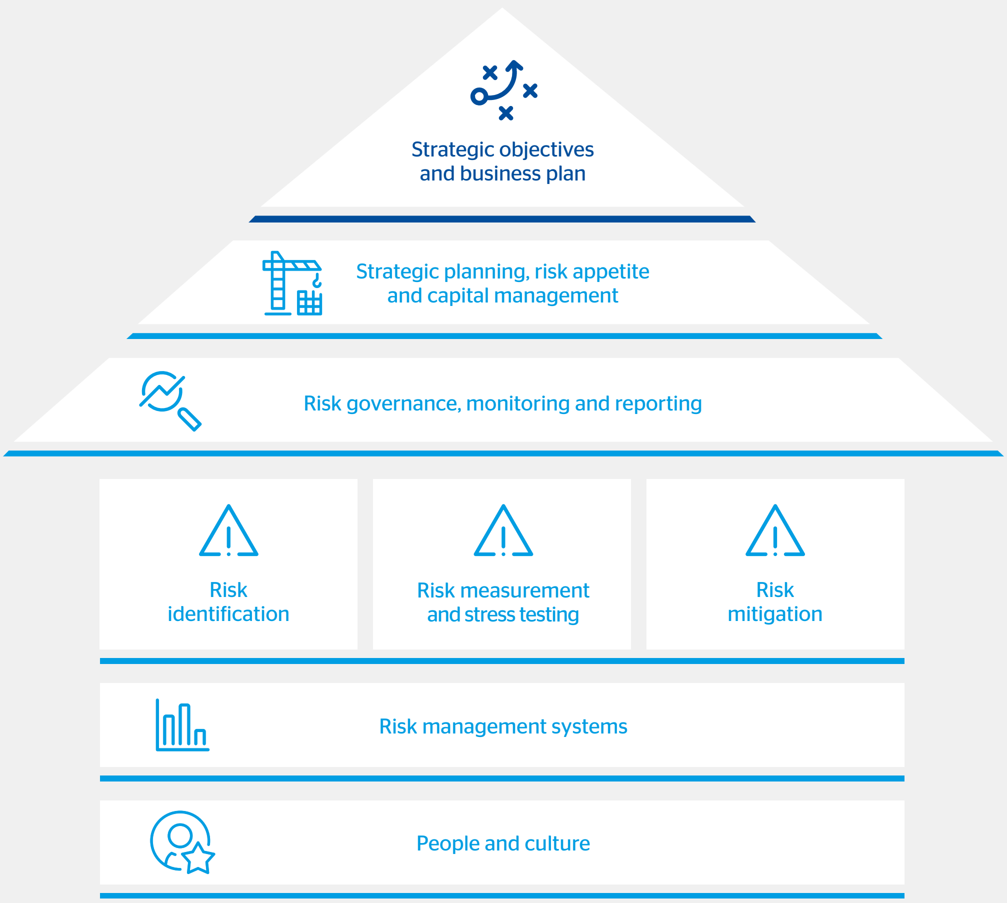
Our business is fundamentally about how we identify, mitigate and manage risks for QBE and for our customers. Expectations of our customers, regulators and the Board have increased significantly over recent times, with greater awareness of fiduciary and social responsibility across the spectrum of QBE's global operations.

QBE is well placed to meet those increased expectations, particularly as we continue to strengthen culture, governance and accountability across the Group.

Risk management was one of QBE's strategic priorities in 2019. We have stepped up efforts to ensure that our risk management practices and systems remain robust, independent and aligned with global best practice. We have reduced our risk profile at the same time as improving our underwriting discipline, and we have strengthened our approach to ESG risks. Uplift in the management of non-financial risks has been a particular focus.

QBE's Enterprise Risk Management (ERM) framework

QBE's ERM framework is applied across the Group and provides a sound foundation for reducing uncertainty and volatility in business performance. It is supported by frameworks for each material risk class: strategic risk, insurance risk, credit risk, market risk, liquidity risk, operational risk, compliance risk and group risk.



During 2019, Group Risk partnered with the business to ensure appropriate governance and oversight of a number of strategic activities. We supported the business in strengthening our risk management with an eye to the future through the RISKsight program. RISKsight is a coordinated, Group-wide approach to uplifting QBE's risk management. The cell review process continues to drive performance, ensure risks are actively managed and bring transparency. The Group Chief Risk Officer (CRO) attends many of the cell reviews. We have also worked with the underwriting and claims teams on the development of the new Group underwriting and claims standards as part of the Brilliant Basics initiative.

2019 has seen the implementation of agreed actions in response to the 2018 Australian Prudential Regulation Authority (APRA) self-assessment within the RISKsight program, including the build of the new Governance, Risk and Compliance (GRC) system, development of new risk policies and standards, approval of the risk control libraries for core functions, and updating the Risk Appetite Statements (RASs) across the Group.

We continue to strengthen and unify our capability and approach to risk management. The Risk function has strengthened during 2019 with the recruitment of senior management to drive the various strategic initiatives across the Group. Group-wide alignment and stronger oversight have been achieved with divisional CROs reporting directly to the Group CRO. Compulsory risk training modules have been implemented, promoting risk awareness and understanding, and remuneration practices have been reviewed with managing risk embedded in performance goals.

Governance

Our Risk Management Strategy (RMS) describes our approach to managing risk and the key elements of the ERM framework that give effect to this strategy. The Group Board is responsible for ensuring that an effective RMS is established, maintained and implemented across QBE and that risks are managed in accordance with the ERM framework. The RMS is reviewed on an annual basis, and results are reported to the Group Board Audit Committee and Group Board Risk & Capital Committee.

The RMS has been updated to reflect Group and divisional board feedback. The RMS now more clearly articulates the key principles for managing risk, the strategy for managing risk within the three lines of defence model, and key changes in QBE's material risk classes with the additional compliance risk class.

The RMS sets out our risk governance including how responsibilities are allocated across board and management committees and management, the processes for monitoring and the regular reporting required.

There is increased focus on non-financial risks by management committees and the board with additional resourcing, expertise and reporting across various metrics including culture, operational, IT and cyber risk. This focus is supported by separate financial and non-financial agendas for the Board Risk & Capital Committee and a separate executive risk committee focusing on financial and non-financial risk.

Strategic objectives and business plan

Risk management is embedded in our business planning process, which focuses on our strategic objectives over a three-year horizon. We assess material risks and mitigation strategies and perform Group-wide stress testing to develop actions to increase the likelihood of achieving our business plan and objectives and staying within our risk appetite and tolerance.

Managing risk is a core strategic priority that is embedded in the performance goals of all executives and senior management. Staff are made aware of and receive regular engagement on managing risk as a strategic priority. QBE continues to deliver the managing risk transformation into 2020 as part of the RISKsight program.

Strategic planning, risk appetite and capital management

Our strategic planning process considers factors such as market conditions, prior year results, business objectives, operational initiatives, financial targets and risk appetites, which inform our annual business plan.

Our RAS sets out the nature and level of risk that the Group Board and Group Executive Committee are willing to take in pursuit of our business objectives. The RAS is used to support risk-based decision making by clearly defining our appetite (what we should do) and tolerance (what we can do), and is cascaded, as appropriate, into the operating divisions.

Strategic priority

Managing risk

Managing risk is a core strategic priority that is embedded in the performance goals of all executives and senior management. Staff are made aware of and receive regular engagement on managing risk as a strategic priority. QBE continues to deliver the managing risk transformation into 2020 as part of the RISKsight program.

New risk management system

InSight

We have launched QBE's new risk management system, "InSight". This will enable stronger and more consistent Group-wide management and reporting of risks and related matters.

The Group's RASs have been updated during 2019 following close engagement with the business, management and the Board. This has delivered greater alignment across the Group, underpinned by a more quantitative approach enabling measurement and monitoring, clarified accountability across metrics and achieved a tighter link between the RAS and the business plan.

QBE's Internal Capital Adequacy Assessment Process (ICAAP) ensures that QBE maintains adequate capital to achieve balance between our strategic planning aspirations and our risk appetite. QBE uses several capital management tools to support the assessment of risk and allocation of capital including:

- QBE's Economic Capital Model (ECM) – an internal model developed to measure overall exposure to risk as well as exposure to each of our main categories of risk. The model provides a quantitative base for us to understand, monitor and manage our exposures. We also use the model to make better business decisions, assess economic capital requirements and measure performance on a risk-adjusted basis.
- Analysis of regulatory and rating agency capital models – to better understand how regulatory and rating agencies assess the impact of our strategic decisions on our risk profile and capital requirements, we conduct financial modelling with reference to the requirements of the various capital environments in which QBE operates.
- Bespoke risk assessment tools – we use catastrophe models, scenario analysis, stress tests and reverse stress tests to evaluate business plans and support our capital plan.

The ICAAP is supported by both the ECM and scenario analysis, and is used to:

- manage the capital held by QBE;
- monitor the risk profile against appetite;
- ensure the risks taken by QBE are commensurate with required returns;
- allocate capital to operating entities for planning and performance monitoring purposes; and
- analyse alternative reinsurance options and regulatory and rating agency submissions.

Our Group Reinsurance Management Strategy sets out our approach to reinsurance as part of our overall approach to risk and capital management.

Risk governance, monitoring and reporting

As previously mentioned, the Group Board is responsible for ensuring that an effective RMS is established, maintained and implemented across QBE.

Risk monitoring and reporting are embedded across the Group, supported by the three lines of defence:

1. The business, our first line of defence, generates risk exposure and is accountable for identifying, owning and controlling risks, and for ensuring that accepted risks are within the Group's risk appetite.
2. Group Risk and Group Compliance functions provide independent oversight and challenge, by establishing and maintaining Group-wide minimum standards and policies.
3. Internal audit provides independent assurance to assist the Group Board in discharging its responsibility for sound and prudent management of QBE, by providing an objective review of the effectiveness and integrity of the RMS.

Risk identification, measurement, stress testing and mitigation

QBE adopts a robust risk identification, measurement and mitigation process to support the ERM framework.

These processes are outlined within each material risk policy and include key activities to manage risk such as the Risk and Control Self-Assessment (RCSA) process, incident and issue management process, emerging risk forums, stress testing and scenario analysis, cell reviews, performance monitoring, and targeted risk reviews.

Risk management systems

QBE utilises Group-wide risk management systems to facilitate the recording, measurement, aggregation, monitoring and reporting of material risks to Group and key stakeholders. These systems enable the analysis of QBE's material risks, which helps us to better understand the risk environment and support risk-based decision making. We have launched QBE's new risk management system, "InSight". This will enable stronger and more consistent Group-wide management and reporting of risks and related matters.

Risk and control libraries

The RCSA process has been enhanced with a substantial uplift in understanding and assessment of QBE's risks and controls. The risk and control libraries have been updated with greater alignment across the Group, enabling aggregation of QBE's material risks.

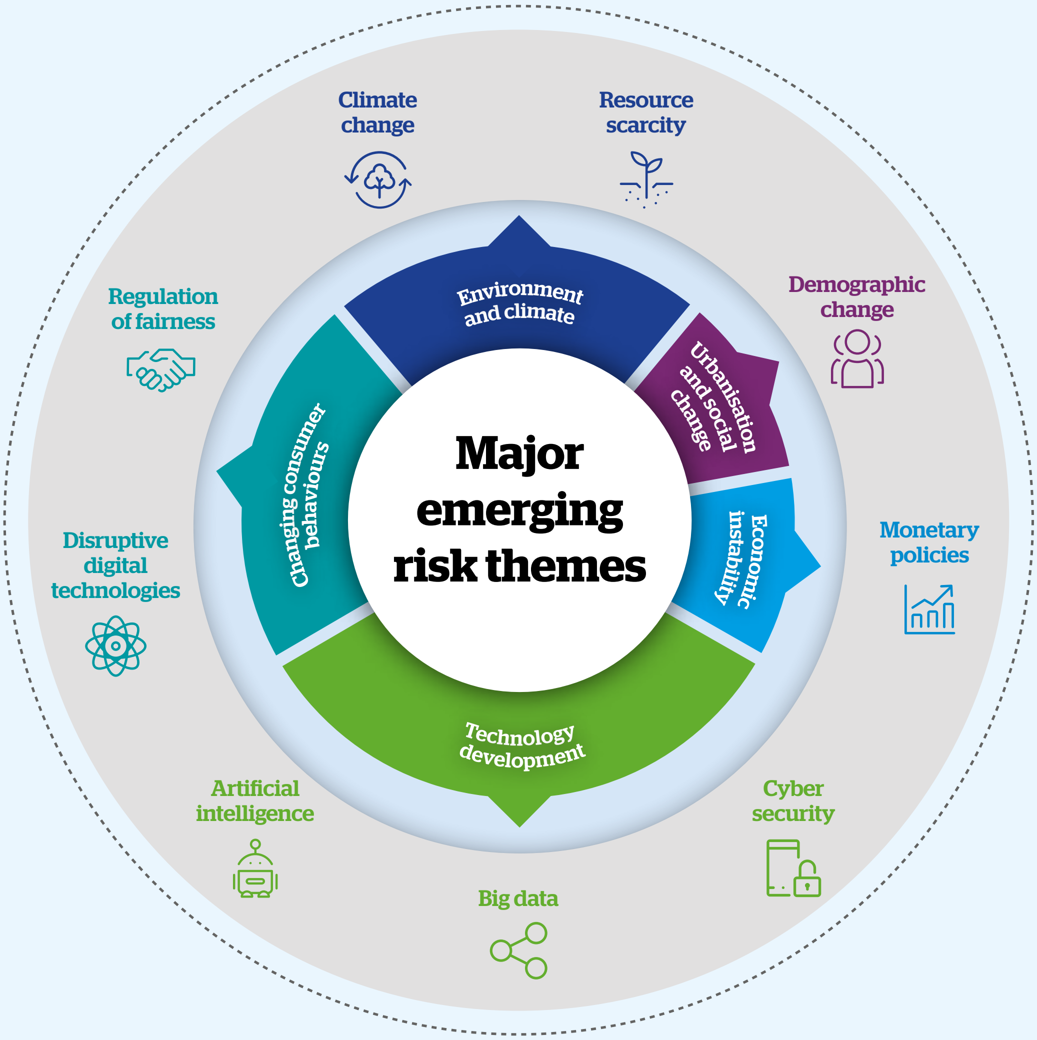
Risk culture

QBE is committed to, and supports, a strong risk culture. We recognise the importance of risk awareness and risk culture in the effectiveness of QBE's ERM framework and an informal control mechanism for the organisation. We are continuing to focus on aligning our risk culture, the wider organisational culture and conduct risk. Further, we are embedding Group-wide accountability for risk culture through remuneration and reward. We have developed a risk culture standard, including our measurement approach to provide the Board with a view of the organisation's risk culture. We have embedded expected risk behaviours in our QBE DNA which are used in our people processes across the Group. They are also included in our Code of Ethics and Conduct which is applicable to all directors, employees and other representatives across the Group.

Regulatory risk

As an international insurance group, QBE is subject to oversight by many prudential regulatory regimes, as well as extensive legal and regulatory requirements and obligations, industry codes, and business and ethical standards across our business activities. To manage the regulatory and compliance risk we face, we combine local expertise with a globally consistent compliance framework and consider regulatory risk as part of our strategic risk class. We continue to monitor regulatory developments in each of the markets in which the Group operates.

Emerging risks



The Group Emerging Risks Forum has identified five emerging risk themes:

Environment and climate, Urbanisation and social change, Political and economic instability, Technology development, and Changing consumer behaviours. Subject matter experts in divisional emerging risk forums undertake detailed assessments of emerging risks in line with our Emerging Risks Standard, including the identification, analysis, stress and scenario testing, and monitoring and reporting on emerging risks.

Board of Directors

W. Marston (Marty) Becker JD, BSBA

Chairman

Marty was appointed as an independent non-executive director of QBE in 2013 and Chairman in April 2014. Marty is a member of the Audit, Investment, People & Remuneration, Risk & Capital, and Operations & Technology Committees. Marty has over 38 years' experience in general insurance, reinsurance, investment banking and private equity. He previously served as President and CEO of Alterra Capital Holdings Limited from 2006–2013 and his past leadership roles with insurers and reinsurers include serving as chair of Hales & Company (2000–2005), vice chair and director of Royal & SunAlliance USA (1999–2000), and chair and CEO of Orion Capital Corporation (1996–1999). Marty is a member of the Board of Governors of West Virginia University.

Patrick (Pat) Regan BSc, FCA

Group Chief Executive Officer

Pat joined QBE in 2014 and was appointed Group Chief Executive Officer in 2018. He previously held the position of Group Chief Financial Officer (June 2014–September 2017) and Chief Executive Officer, Australian & New Zealand Operations (August 2016–December 2017). Before joining QBE, Pat was the Chief Financial Officer at Aviva plc in London (2010–2014) with responsibility for finance, strategy, investor relations and mergers and acquisitions. Pat has over 30 years' business experience with more than 20 of those in insurance and financial services. Pat was previously the CFO/COO of Willis and has held several roles at RSA and AXA.

Stephen Fitzgerald (AO) BEc

Independent non-executive director

Stephen was appointed as an independent non-executive director of QBE in 2014. He is Chairman of the Investment and People & Remuneration Committees. He is also a member of the Risk & Capital Committee. Stephen enjoyed a long career with Goldman Sachs (1992–2012) holding a number of leadership roles in London, Tokyo, Hong Kong and Australia. He was Chairman of Goldman Sachs, Australia and New Zealand when he retired in 2012. Stephen was also previously a member of the Board of Guardians of the Future Fund (Australia's Sovereign Wealth Fund). Stephen is currently the Managing Partner of Affirmative Investment Management and sits on the board of The Great Barrier Reef Foundation, the Male Champions of Change Limited and is a member of the Investment Committee of the British Museum.

John M Green B JURIS/LLB, FAICD, SF FIN

Deputy Chairman

John became an independent non-executive director of QBE in 2010. As well as Deputy Chairman of the Board, he is also Deputy Chairman of the Investment and Operations & Technology Committees and a member of the People & Remuneration, Risk & Capital and Audit Committees. He also chaired the Board's subcommittee on QBE's self-assessment against APRA's CBA report on governance, accountability and culture. John has extensive Australian and international board and advisory experience, including as a director of Worley Limited (2002–2016), as an executive director at Macquarie Group leading its financial institutions group, and as a partner at two major law firms. John is a non-executive director of the Cyber Security Cooperative Research Centre and Challenger Limited (both appointed December 2017). He is also a novelist and co-founder of independent book publisher Pantera Press.

Kathryn (Kathy) Lisson BSc (Hons)

Independent non-executive director

Kathy was appointed as a non-executive director in September 2016. Kathy is Chair of the Operations & Technology Committee and a member of the Audit Committee. Kathy has over 30 years' experience across insurance and banking in technology, operations and management. In England, she was Chief Operating Officer for two insurance companies (QBE Europe and Brit Insurance) and Operational Transformation Director at Barclays Bank, which included delivering global solutions in digital technology, cyber security and IT risk. In Canada, Kathy held several executive positions at Bank of Montreal, including President of its Mortgage Corporation and EVP Technology Strategy and Delivery. Kathy was also a senior partner at Ernst & Young and Price Waterhouse in Canada, leading their insurance and banking advisory practices. Kathy has previously held non-executive director roles in the UK and in Canada.

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Sir Brian Pomeroy MA, FCA

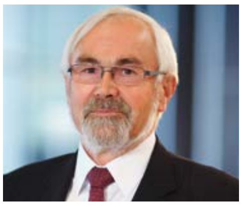
Independent non-executive director

Sir Brian was appointed as an independent non-executive director of QBE in June 2014. Sir Brian is Deputy Chairman of the Audit Committee and a member of the Investment and Risk & Capital Committees. Sir Brian has extensive experience in the insurance industry, including in his previous role as a Nominated Member of the Council of Lloyd's and as Chairman of the Independent Commission on Equitable Life Payments. He was formerly a non-executive member of the Board of the Financial Conduct Authority in the UK and a non-executive director on QBE's European regulated boards. Sir Brian also chaired the UK Treasury's Financial Inclusion Taskforce, the Payments Council and the Gambling Commission. He was the senior partner of Deloitte Consulting in the UK until 1999.

Jann Skinner BCom, FCA, FAICD

Independent non-executive director

Jann was appointed as an independent non-executive director of QBE in October 2014. She is Chairman of the Audit Committee, Deputy Chairman of the Risk & Capital Committee and a member of the People & Remuneration Committee. Jann was a non-executive director on QBE's Australian regulated boards, where she was also Chairman of the Audit and Risk & Capital Committees. Jann has over 30 years' professional experience in audit and accounting with a focus on financial services, particularly the insurance industry. She worked with PricewaterhouseCoopers from 1975–2004 and was an audit partner of the firm for 17 years before retiring in 2004. Jann is a non-executive director of Telix Pharmaceuticals Ltd, HSBC Bank Australia Limited and Create Foundation Limited. Previously, Jann was a non-executive director of Enstar Australia Group and the Tasmanian Public Finance Corporation.



Rolf Tolle Dipl. Pol

Independent non-executive director

Rolf was appointed as an independent non-executive director in March 2016. Rolf is the Chairman of the Risk & Capital Committee and a member of the People & Remuneration and Audit Committees. He has significant experience in specialist insurance and reinsurance businesses, having held senior positions in a number of global companies, including being Lloyd's first ever Franchise Performance Director. He was in this role for approximately seven years and was consequently awarded the Silver Medal for Services at Lloyd's, an honour bestowed to only a few individuals since its creation in 1917. He is also on the advisory board of Wrisk Ltd. Rolf was previously a director of Beazley plc and Beazley Furlonge Ltd.

Michael (Mike) Wilkins (AO) BCom, MBA, FCA, FAICD

Independent non-executive director

Mike was appointed as an independent non-executive director of QBE in November 2016. Mike is Deputy Chairman of the People & Remuneration Committee and a member of the Audit and Operations & Technology Committees. Mike has more than 30 years' experience in financial services. He was the Managing Director and CEO of Insurance Australia Group Limited until November 2015 and previously served as Managing Director and CEO of Promina Group Limited and Managing Director of Tyndall Australia Limited. He is currently a non-executive director of Medibank Private Limited (appointed May 2017) and previously served as a non-executive director of AMP Limited (September 2016 to February 2020), Alinta Limited, Maple-Brown Abbott Limited, The Geneva Association and the Australian Business and Community Network. Mike was the founding member of the Australian Business Roundtable for Disaster Resilience & Safer Communities from 2013 until his retirement in 2015. Mike has been appointed Chairman of QBE effective 1 March 2020.

Fred Eppinger BA, MBA

Retired independent non-executive director

Fred served as an independent non-executive director of QBE from 1 January 2019 until his retirement on 6 December 2019. Fred was a member of the Risk & Capital and Operations & Technology Committees. He has more than 35 years' experience in finance and strategic marketing in the North American insurance industry. Fred was the President and Chief Executive Officer of The Hanover Insurance Group, Inc. for 13 years until 2016. He also previously served as Executive Vice President, Property and Casualty for The Hartford Financial Services Group, Inc. In September 2019, Fred was appointed as Chief Executive Officer of the publicly-traded company Stewart Information Services Corporation. Fred is also a non-executive director of Centene Corporation.

Group Executive Committee

Patrick (Pat) Regan BSc, FCA

Group Chief Executive Officer

Pat joined QBE in 2014 and was appointed Group Chief Executive Officer in 2018. He previously held the position of Group Chief Financial Officer (June 2014–September 2017) and Chief Executive Officer, Australian & New Zealand Operations (August 2016–December 2017). Before joining QBE, Pat was the Chief Financial Officer at Aviva plc in London (2010–2014) with responsibility for finance, strategy, investor relations and mergers and acquisitions. Pat has over 30 years' business experience with more than 20 of those in insurance and financial services. Pat was previously the CFO/COO of Willis and has held several roles at RSA and AXA.

Inder Singh BCom

Group Chief Financial Officer

Inder joined QBE in 2015 and was appointed Group Chief Financial Officer in early 2018. His previous roles at QBE include Chief Financial Officer for Australian & New Zealand Operations and Group Head of Corporate Development and Financial Planning & Analysis. Inder has more than 20 years' experience in financial services spanning property & casualty, life insurance and banking. He started his career at Arthur Andersen before working in investment banking in Sydney and London with Deutsche Bank and UBS. Prior to joining QBE, he was Group M&A Director at Aviva plc in London where he led a number of transformational transactions.

Vivek Bhatia BEng, MBA, CFA

Chief Executive Officer, Australia Pacific

Vivek joined QBE in February 2018 in the role of Chief Executive Officer, Australian & New Zealand Operations and in January 2019 he was appointed Chief Executive Officer, Australia Pacific. Before joining QBE, Vivek was inaugural Chief Executive Officer and Managing Director of icare, the NSW Government public financial corporation managing the State's insurance and care schemes. Vivek has more than 20 years' experience in the insurance and management consulting sectors. Vivek was previously the Chief Executive Officer of Wesfarmers Insurance in Australia, where he was responsible for leading the multi-brand, multi-channel insurer through a significant transformation journey. He has also co-led McKinsey & Co's Asia Pacific Restructuring & Transformation practice.

Vivienne (Viv) Bower BA Organisational Communication

Group Executive, Corporate Affairs and Sustainability

Viv joined QBE in January 2017 and was appointed Group Executive Corporate Affairs and Sustainability in 2019. Formerly Group Head of Corporate Affairs and Investor Relations for Lendlease, Viv has served in a number of senior consulting and internal roles specialising in investor relations and corporate affairs. This includes Head of Group Internal Communications at Westpac and Group General Manager of Communications at Multiplex Group (now Brookfield Multiplex), a global contracting and development company.

Jason Brown BEc, ACA

Group Chief Underwriting Officer

Jason has been involved in the financial services industry for over 25 years. Jason was the Chief Executive Officer, Asia Pacific from August 2017 and commenced the newly created role of Group Chief Underwriting Officer in January 2019. Jason joined QBE in 2002 after 13 years at Ernst & Young in the Financial Services Group in both assurance and consulting in Australia and the UK. Jason worked in Australian & New Zealand Operations as Executive General Manager, Technical & Operations (2005–2012) with responsibility for underwriting, reinsurance, actuarial and acquisitions before becoming Chief Risk Officer for Australian & New Zealand Operations and subsequently QBE Group.

Peter Grewal BA (Hons), CMIIA

Group Chief Risk Officer

Peter joined QBE in July 2018 as Group Chief Risk Officer. Prior to joining QBE, Peter was the Chief Risk Officer, Reinsurance, at Swiss Re with a global remit covering property and casualty, and life and health reinsurance. Earlier in his career Peter held roles in internal audit, including Head of Group Internal Audit for Swiss Re, Head of Internal Audit for Scottish Re and Head of Audit for HSBC (Bank of Bermuda).

Todd Jones BSc, MBA

Chief Executive Officer, North America

Todd joined QBE in October 2019 as Chief Executive Officer, North America. Prior to joining QBE, Todd held a number of senior roles at Willis Towers Watson, including most recently as Head of Global Corporate Risk and Broking, and previously as CEO for Willis North America. Todd began his career as a technical broker in D&O and management liability, serving both large complex as well as middle market clients. Todd has over 25 years' insurance and financial services industry experience.

Matt Mansour MBA

Group Chief Information Officer

Matt joined QBE in August 2018 as Group Chief Information Officer and was appointed to the Group Executive Committee in May 2019. Having held various senior roles in global organisations, such as Barclays Bank and GE, Matt is a senior executive with over 27 years' experience in technology, operations and digital business leadership roles.

Margaret Murphy BA (Hons) Business

Group Executive, People & Change

Margaret joined QBE in October 2016. Prior to this, she spent 10 years at Barclays Bank, based in the UK and working globally. She held various executive human resources and transformation roles across the group, including within the retail bank, corporate bank and global functions leading large scale organisational change. She began her career with London Underground and subsequently spent time with Inchcape and British American Tobacco, and was Head of Reward and Performance at J Sainsbury plc before joining Barclays in 2006.

Richard Pryce BHis (Hons)

Chief Executive Officer, International

Richard joined QBE in 2012 and was appointed Chief Executive Officer, European Operations in 2013; he was then appointed Chief Executive Officer, International in 2019. Richard began his insurance career with R.W. Sturge syndicate at Lloyd's where he became Claims Director. In 1996, Richard moved to Ockham as Professional Lines Class Underwriter for Syndicate 204. Richard went on to run ACE's Financial Lines business in London before becoming President of ACE Global Markets in 2003 and ACE UK in 2007. He has worked in the London insurance market for over 35 years.

Carolyn Scobie BA, LLB, MA, AGIA and ACIS

Group General Counsel and Company Secretary

Carolyn joined QBE in January 2016 as Group General Counsel and Company Secretary. Prior to joining QBE, Carolyn was Group General Counsel at global industrial property group Goodman for 17 years, where she ran a multi-disciplinary legal team working across 16 countries. Carolyn has extensive experience in corporate law, compliance, regulatory matters, litigation and managing the complexity of multiple jurisdictions.

Corporate governance statement

QBE Insurance Group Limited (QBE) is committed to the highest standards of corporate governance as reflected in its DNA. The QBE DNA interlinks seven cultural elements that are fundamental to QBE and how QBE needs to operate in the future to succeed, recognising its customers, people, shareholders and the community. QBE believes that a culture that rewards transparency, integrity and performance will promote its long-term sustainability and the ongoing success of its business.

This Corporate Governance Statement relates to the 2019 financial year and should be read in conjunction with QBE's 2019 Annual Report and the 2019 Sustainability Report. This Corporate Governance Statement has been approved by the Board and is dated 17 February 2020.

Board and management

Board functions

The Board charter sets out the role and responsibilities of the Board, including matters expressly reserved for the Board and those delegated to its Committees and management. The role of the Board is to represent and serve the interests of shareholders by providing guidance and oversight of the Company's strategies, policies and performance. This includes demonstrating leadership, setting the strategic direction for the QBE Group, approving the values of the QBE Group that underpin the desired culture, monitoring the performance of management in the delivery of strategy, and instilling of the values and desired culture of the QBE Group. The Board's principal objective is to maintain and increase shareholder value while ensuring that the activities of the QBE Group are properly managed.

The Board reviews strategy on an ongoing basis. To help the Board maintain its understanding of the business and to effectively assess management, directors receive regular presentations from the divisional chief executive officers and other senior managers of the various divisions on relevant topics, including budgets, three-year business plans and operating performance. The Board receives updated forecasts during the year. The non-executive directors also have contact with senior executives at numerous times and in various forums during the year.

Visits by non-executive directors to the QBE Group's offices in key locations are encouraged. The Board meets regularly in Australia and, due to QBE's substantial overseas operations, usually spends time in the United Kingdom and the United States each year. QBE also held a global non-executive directors' conference in New York in June 2019. The Board visited the QBE Group's operations in New York in June 2019 and in London in October 2019.

Each formal Board meeting normally considers reports from the Group Chief Executive Officer and the Group Chief Financial Officer together with other relevant reports. The non-executive directors regularly meet in the absence of management. The Chairman and Group Chief Executive Officer in particular, and directors in general, including those on the divisional boards, have substantial contact outside Board and Committee meetings.

Details of the number of Board meetings held during the 2019 financial year and attendance by directors are set out in the Directors' Report.

Senior management functions

Management's responsibilities are to:

- develop a draft strategy, make recommendations to the Board and implement the Board-approved strategy, subject to market conditions;
- instill and reinforce QBE's values and desired culture;
- prepare annual budgets and three-year business plans;
- carry on day-to-day operations within the Board-approved annual budget and three-year business plans, subject to market conditions;
- design and maintain internal controls;
- set up and keep under review an effective risk management and compliance management system, and monitor and manage all material risks consistent with the strategic objectives, risk appetite statements and policies approved by the Board;
- provide the Board with accurate, timely and clear information on the QBE Group's operations, including on compliance with material legal and regulatory requirements and any conduct materially inconsistent with QBE's Code of Ethics and Conduct;
- inform the Board of material matters and keep the Board and market fully informed about material continuous disclosure; and
- ensure succession plans exist for all Group executive positions other than the Chief Executive Officer.

The Board delegates responsibility to the Group Chief Executive Officer for the day-to-day management of the business.

QBE has operated under an extensive written system of delegated authorities for many years. In particular, a written delegated authority with specified limits is approved by the Board each year to enable the Group Chief Executive Officer to conduct the QBE Group's business in accordance with detailed budgets and business plans. This delegated authority deals with topics such as underwriting, reinsurance protection, claims, investments, acquisitions and expenses. The Group Chief Executive Officer delegates his authority to management throughout the QBE Group on a selective basis, taking into account expertise and past performance. Compliance with delegated authorities is monitored by management and adjusted as required for actual performance, market conditions and other factors. Management and the QBE Group's internal audit teams review compliance with delegated authorities and any breach can lead to disciplinary procedures, including dismissal.

1 Performance overview
2 Business review
3 Governance
4 Directors' Report
5 Financial Report
6 Other information

Chairman

The independent Chairman of the Board of QBE is Marty Becker, who was appointed in April 2014. In his role as Chairman, Marty Becker is responsible for ensuring that the Board functions as an effective and cohesive group. The Chairman works closely with the Group Chief Executive Officer to determine the strategic direction for QBE and to establish high standards of governance and leadership. On 13 February 2020, QBE announced that Mike Wilkins would succeed Marty Becker as QBE's Chairman on 1 March 2020.

Committees

The Board is supported by several Committees which meet regularly to consider audit, risk management, investments, remuneration, technology, operations and other matters. The main Committees of the Board are the Audit, Investment, People & Remuneration, Governance & Nomination, Risk & Capital and Operations & Technology Committees. Further sub-committees of the Board may be convened to confer on particular issues from time to time. Any non-executive director may attend a Committee meeting. The Committees have free and unfettered access to QBE's senior managers and may consult external advisers at QBE's cost, including requiring their attendance at Committee meetings, with the consent of the Chairman. A report on each Committee's last meeting is provided at the next Board meeting.

Each Committee comprises at least three independent directors and each Committee Chairman is an independent director who is not the Chairman of the Board (excluding the Governance & Nomination Committee, the Chairman of which is Marty Becker). Each Committee operates under a written charter approved by the Board. These charters are available at www.qbe.com. The membership of each Committee is provided at www.qbe.com and details of the number of Committee meetings held during the 2019 financial year and attendance by Committee members at Committee meetings are set out in the Directors' Report. Further information regarding the Committees can be found throughout this Corporate Governance Statement.

Company Secretary

The Company Secretary acts as secretary to the Board and all of the Committees and is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. All directors have direct access to the Company Secretary.

The Company Secretary's role is described in the Board charter and includes communication with regulatory bodies and the Australian Securities Exchange (ASX), all statutory and other filings, assisting with good information flows within the Board and its Committees and between non-executive directors and senior management, as well as facilitating induction and professional development as required. The Company Secretary may also provide guidance to directors in relation to governance matters.

Board skills and experience

Directors are selected to achieve a broad range of skills, experience and expertise complementary to the QBE Group's insurance activities. As Fred Eppinger retired on 6 December 2019, the Board comprised nine directors at 31 December 2019, being an independent Chairman, seven other independent directors, and the Group Chief Executive Officer.

The Board has a skills matrix covering the range of competencies and experience of each director. When the need for a new director is identified, the required experience and competencies of the new director are considered in the context of this matrix and any gaps that may exist.

The Board's skills matrix is below.

SKILLS		INDUSTRY
Financial literacy	Government relations	General insurance
Legal	Executive leadership	Reinsurance
Governance	Digital technology	Investment banking
Strategy	Cyber security	Private equity
Commercial expertise	IT risks	Financial services
Risk management	Data analytics	Accounting

Details of individual directors, including their qualifications and experience, independence status and period of office serving on the Board, are set out in the Board of Directors' section and can also be found on the QBE website at www.qbe.com.

Independence of the Board

The majority of the Board are independent directors, applying the "independence" definition of the ASX Corporate Governance Council. When applying this definition, the Board has determined that an independent director's relationship with QBE as a professional adviser, consultant, supplier, customer or otherwise is not material unless amounts paid under that relationship exceed 0.1% of QBE's revenue. The roles of QBE's Chairman and Group Chief Executive Officer are also not exercised by the same individual.

Directors are required to advise the Board on an ongoing basis of any interest they have that they believe could conflict with QBE's interests. If a potential conflict does arise, either the director concerned may choose not to, or the Board may decide that he or she should not, receive documents or take part in Board discussions whilst the matter is being considered.

Tenure

The mere fact that a director has served on the QBE Board for a lengthy period of time does not, of itself, suggest a lack of independence; however, the Board has agreed that an independent director's term should be approximately 10 years. Under QBE's Constitution, there is no maximum fixed term or retirement age for non-executive directors. The Board considers that a mandatory limit on tenure would deprive the QBE Group of valuable and relevant corporate experience in the complex world of international general insurance and reinsurance. The tenure of each director is set out in the Board of Directors' section and can also be found on the QBE website at www.qbe.com.

Corporate governance statement continued

QBE's Constitution provides that no director, except the Group Chief Executive Officer, shall hold office for a continuous period in excess of three years or past the third AGM following a director's appointment, whichever is the longer, without submission for individual re-election.

Board selection process

The Board has a Governance & Nomination Committee which meets regularly during the year around the time of the Board meetings. The Committee assists the Board in appointing directors so that the Board as a whole has the necessary range of skills, knowledge and experience to be effective. The Governance & Nomination Committee is comprised of all the non-executive directors of the Board and is chaired by Marty Becker.

A formal process for the selection and appointment of directors is undertaken by the Governance & Nomination Committee and Board. Appropriate background checks are undertaken before the Board appoints a new director or puts forward a candidate for election. External consultants may be employed, where necessary, to search for prospective directors. Candidates are assessed against the required skills and on their qualifications, background and personal qualities. In addition, candidates must have the required time to commit to the position. The Board regularly reviews the mix of skills that is required to operate effectively. Under QBE's Constitution, the size of the Board is limited to 12 directors. The Board considers that a maximum of 12 directors reflects the largest realistic size of the Board that is consistent with:

- maintaining the Board's efficiency and cohesion in carrying out its governance duties on behalf of shareholders;
- reducing the risk of a director being insufficiently involved and informed in the business of QBE; and
- providing individual directors with greater potential to contribute and participate.

QBE also provides shareholders with all material information in its possession that is relevant to a decision on whether or not to elect or re-elect a director through a number of channels, such as the Notice of Meeting, director biographies and other information contained in the Annual Report.

The Board believes that orderly succession and renewal contribute to strong corporate governance and are achieved by careful planning and continual review. As an ongoing evaluation, the Board regularly discusses its make-up in relation to the mix of skills, diversity and geographic location of directors to meet the needs of QBE.

Director induction and training

Upon appointment, each non-executive director (and senior executive) is provided with a written agreement which sets out the terms of their appointment. Directors also attend induction sessions upon their appointment, where they are briefed on QBE's history and vision, DNA, strategy, financials, and risk management and governance frameworks.

The Board ensures it has the information it requires to be effective, including, where necessary, independent professional advice. A non-executive director may seek such advice at QBE's cost with the consent of the Chairman. Directors are also provided with ongoing professional development and training programs to enable them to develop and maintain their skills and knowledge at QBE's cost, with the consent of the Chairman. Non-executive directors are required to complete at least ten hours of continuing professional development each year, including on insurance, customer and regulatory matters.

Performance evaluation and remuneration

Performance evaluation – Board and directors

The Chairman oversees the performance of the Board, its Committees and each director. The Board regularly reviews its performance through internal and external assessments, and recommendations for either improvement or increased focus are agreed and promptly implemented.

A Board performance evaluation was conducted in 2019 for the 2018 year. Planning for the Board performance evaluation for the 2019 year commenced in early 2020. The review covers the performance of the Board and its Committees, both at the Group and divisional levels.

People & Remuneration Committee

The Board has a People & Remuneration Committee which meets at least quarterly to assist it in overseeing major remuneration practices of the QBE Group. The People & Remuneration Committee is comprised of independent directors and is chaired by Stephen Fitzgerald.

Performance evaluation – senior management

The People & Remuneration Committee oversees the performance of senior management. In addition, the Board continually monitors the performance of senior management through regular contact and reporting.

In 2019, QBE used a balanced scorecard of an individual's achievement against specific strategic priorities. Other than as set out in the Remuneration Report, senior management has 35% of their short-term incentive plan outcome determined with reference to individual objectives.

The scorecard is aligned to QBE's business plans and measures objectives which support QBE's strategic objectives in 2019. The Remuneration Report sets out a summary of the key objectives and outcomes for the Group Chief Executive Officer. The Group Chief Executive Officer's scorecard was formulated initially through a discussion between the Group Chief Executive Officer and the Chairman and was approved by the Board. Consistent with the Group Chief Executive Officer's scorecard, the scorecards for the rest of senior management align with QBE's business plans and support the strategic priorities. The approval and assessment process for the senior management scorecards is completed by the People & Remuneration Committee.

A senior management performance evaluation was conducted in 2019 for the 2018 year. The 2019 objectives for senior management were used to measure their performance for the 2019 year. These performance evaluations take place in the first quarter of 2020.

Remuneration policies and practices

Details of QBE's policies and practices regarding the remuneration of executives and non-executive directors (being Key Management Personnel) are set out in the Remuneration Report.

Other than meeting statutory superannuation requirements, QBE does not have in place any retirement benefit schemes for non-executive directors.

QBE's policy for dealing in securities of QBE Insurance Group Limited or other entities outlines QBE's approach to derivatives or otherwise limiting the economic risk of participating in an equity-based remuneration scheme. The QBE Share Trading Policy is available at www.qbe.com.

Group governance

In 2019, QBE delivered 21 initiatives to address the findings of the Self-Assessment on Governance, Accountability, and Culture completed in December 2018. The effectiveness of the implemented activities has been reviewed to ensure that they are operating as intended, including a review of the Whistleblowing Policy and Ethics Hotline and incorporation of new corporate standards in performance management processes.

Governance Framework

The Group Board adopted in 2018 an updated Group Governance Framework. The Framework sets out five overarching governance principles that support best practice governance across the QBE Group and is designed to encourage collective accountability across Group and the divisions.

The Framework defines the roles, responsibilities and composition of the Group and divisional Boards and Committees to ensure they provide appropriate guidance and oversight over the business. The Framework also strengthens the relationship and information flows between these governance bodies, so they can work together to achieve the best possible outcomes for QBE.

In December 2019, the Board approved QBE's Executive Governance Framework. The Framework governs the mechanisms supporting the exercise of Group functions by executives, with a focus on information flows between Group executive committees, the Board and divisions.

Group policies

The Group Board approved a revised Policy Governance Framework in December 2019, effective 1 January 2020. The refreshed Framework clarifies roles and responsibilities across the Group for the development, approval and maintenance of policies, standards and procedures. The Framework will contribute to an improved risk and compliance culture by clarifying employee expectations and accountability for compliance monitoring and enforcement.

QBE's Code of Ethics and Conduct applies to all employees as well as directors, agents and contractors. The Code was updated in March 2019 to reflect the QBE DNA and was successfully rolled out to all employees across the Group. QBE's Code of Ethics and Conduct is available at www.qbe.com.

QBE has updated its Group Whistleblowing Policy to reflect the amended Australian whistleblowing laws passed in February 2019, effective 1 January 2020. QBE's Group Whistleblowing Policy is available at www.qbe.com.

Director conduct is covered by both the Code of Ethics and Conduct and the non-executive directors' nomination, performance evaluation and tenure guidelines. These guidelines cover director conduct, particularly in regard to tenure, performance and evaluation. The guidelines are included in the Board charter which is available at www.qbe.com. In 2019, the Group Board also established a formal continuing professional development program for all non-executive directors, with required activities in insurance, customer and regulatory areas.

The QBE Group has global policies in key compliance areas, including conflicts of interest, anti-bribery and anti-corruption, sanctions, whistleblowing, diversity and inclusion, work, health and safety and privacy. In 2019, QBE reviewed and updated the Group Sanctions, Anti-Bribery and Corruption and Priority Data Breach policies. Global policies are also in place to address prudential requirements of the Australian Prudential Regulation Authority, including risk management, business continuity management, reinsurance management, fitness and propriety and outsourcing.

In recognition of the importance of protecting employee and customer data across the QBE Group, the Group Privacy Officer chairs a global Privacy Working Group. QBE's global approach in key compliance areas recognises that employees (including contractors, directors and agents) are key to maintaining a compliant and ethical approach to QBE's business practices. Most global policies are supported by Group standards and procedures that provide additional information and guidance to support employees. In 2019, the Group Board approved a new Compliance Risk Policy and Framework and launched a new global Governance, Risk and Compliance system offering the ability to log and track compliance obligations. QBE has also enhanced its leadership capability in compliance with the appointment of a Group Chief Compliance Officer.

In Australia, QBE complies with the General Insurance Code of Practice, a self-regulated code relating to the provision of products and services to customers of the general insurance industry in Australia. The Code Governance Committee (CGC) is the independent body that monitors and enforces insurers' compliance with the Code. QBE's Australian business is also a member of the Australian Financial Complaints Authority (AFCA), the external dispute resolution scheme that deals with complaints from consumers in the financial system.

Corporate governance statement continued

Diversity and inclusion

QBE has a strong commitment to diversity and to offering a dynamic workplace culture that values and leverages the ideas, capabilities and experiences of our global workforce. The Global Diversity & Inclusion policy was revised in 2018, aiming through its implementation to ensure the Group is:

- attracting and hiring diverse teams that enhance the approach to problem solving and innovation;
- supporting productivity and engagement by offering an inclusive, flexible and modern workplace;
- leveraging diverse skills to enhance the customer experience and organisational growth; and
- supporting our local communities and strengthening our brand reputation.

To achieve this, the Group Executive Committee, which represents the Global Diversity & Inclusion Council, has set the following objectives which are implemented and overseen by the Council and assessed and reviewed annually by the People & Remuneration Committee of the Group Board:

AREA OF FOCUS	ACHIEVEMENTS IN 2019
Inclusive leadership – look to support the set-up of collaborative/inclusive teams and normalise flexibility to increase productivity and retention	• Continued our program to engage senior leaders across QBE (QBE Champions of Change) and to support them in role modelling inclusive behaviours and creating an inclusive culture for our people by embedding the QBE DNA. • The Flex@QBE principles are aimed at normalising flexibility in the way we work, having the right technology, workplace design and ways of working to empower all our employees. These principles continued to be embedded through the course of the year through our people activities. • Commitment at the top of the organisation through agreement to external pledges which require visible sponsorship and accountability – including Male Champions of Change in Australia, HM Treasury Women in Finance Charter and Lloyd's of London Inclusive Behaviours pledge in the UK and France's L'Autre Cercle charter on LGBT+ inclusion. This is in addition to our signatory to the Statement of Support for the Women's Empowerment Principles.
Diversity in leadership representation – progressively inclusive, gender balanced leadership teams at senior management	• Female representation at senior management (Group Executive Committee and Levels 1–3) increased a further 2% over the year, reaching 34%. • The Group continues to see gender balance in our hiring, with 48% of all hires being women. We have also continued to build our pipeline of female talent, with 58% of promotions across the Group being women. • Embedding a global process for executive hiring (Group Executive Committee, Level 1 and key Level 2 roles) continues to be a focus.
Strong pipeline of diverse talent – progressively implement equitable access policies and practices to govern QBE's attraction, retention and optimisation of all talent	• Refreshed talent and succession validation approach rolled out. Our leaders are taking increased personal responsibility for mentoring, sponsoring and driving career conversations. • In Australia, our female talent program (Lead In) was undertaken once more targeting Levels 3 and 4 women – this was successfully completed and will continue to run in the future.
Fair remuneration – seek to reward our employees fairly and support gender pay equity through regular analysis, monitoring and transparent communication	• In 2019, in addition to our regular global pay equity analysis, we continued to advance our methodology to measure gender pay equity using multivariate regression analysis in our major markets of Australia, the United States, the United Kingdom and the Philippines. This allowed us to assess gender pay equity based on the key drivers of pay in our organisation, such as the role, location and performance of the employee. • As an average across these markets, our gender pay equity gap is sufficiently small enough to be confident that we pay men and women equally in like-for-like roles. However, we recognise that at an individual level, some pay gaps still exist and we are working to address any identified gaps through our ongoing salary review processes and other initiatives. During 2020, we expect to make further progress in this area with targeted adjustments to an employee's pay as identified and required, alongside ongoing reviews of our people processes to ensure gender-balanced outcomes.
Customer satisfaction and retention – progressively review our products, policies and practices to enhance equitable access to our diverse customer base	• QBE continues to offer Premiums4Good to our customers, which invites them to join with us to make a real difference. They can ask us to invest 25% of their insurance premium in impact investments – investments in securities with an additional environmental or social objective. This social objective now also includes social inclusion, diversity and gender.

Gender balance at Board and senior management levels

Across the Group, in 2015 we set ourselves the goals of achieving 35% of women in senior management (i.e. women in leadership) and 30% of women on our Board by 2020. We achieved another 2% increase in senior management during 2019; however, our Board composition remained unchanged. Succession planning for the Board includes actions to progress towards the 30% gender target which will be reviewed in 2020.

Details of gender representation across our workforce and management levels together with targets are set out below:

GENDER REPRESENTATION	GENDER TARGET BY 2020	ACTUAL 31 DECEMBER 2019	ACTUAL 31 DECEMBER 2018[1]	ACTUAL 31 DECEMBER 2017	ACTUAL 31 DECEMBER 2016	BASELINE 31 DECEMBER 2015
QBE Board	30%	**22%**	22%	22%	27%	22%
Group Executive Committee (GEC)		**27%**	27%	11%	11%	10%
Level 1		**20%**	23%	22%	22%	20%
Level 2		**29%**	26%	22%	22%	21%
Level 3		**35%**	34%	32%	30%	29%
Women in senior management (Total % of GEC and Levels 1–3)	35%	**34%**	32%	30%	28%	27%
Women in workforce	40-60%	**52%**	53%	53%	53%	53%

1 Restated to align with current year methodology.

QBE's gender target of 40–60% for women in workforce reflects our aim to maintain a gender balance across the organisation, while providing a flexible approach which supports our commitment to achieving our targets for gender diversity in the composition of our Board and senior management.

In addition to gender equality, QBE's commitment extends to other areas of diversity including:

- actively promoting inclusion for lesbian, gay, bisexual, transgender and intersex plus (LGBTI+) employees with a global QBE Pride employee network and working with Pride in Diversity and Stonewall;
- ongoing commitment to supporting Indigenous communities in Australia building on QBE's second Innovate Reconciliation Action Plan during NAIDOC week, and developing the third Innovate Reconciliation Action Plan; and
- looking to ensure accessibility in the workplace and enhance our ability to employ people with a disability, QBE Europe continuing to be recognised as Disability Confident Committed status by the government.

For further details on our approach and progress, refer to QBE's 2019 Sustainability Report. QBE also makes an annual filing to comply with the Workplace Gender Equality Act (WGEA) in Australia disclosing our performance against the "Gender Equality Indicators". The report can be found at www.qbe.com.

Communications with shareholders

Shareholder engagement

QBE is committed to regularly communicating with its shareholders and other stakeholders in a timely and accessible manner, and to encouraging shareholder participation at its general meetings. Detailed information about QBE can be found on the website at www.qbe.com including:

- its history;
- the Board and management;
- QBE's Constitution, Board charter and the charters of each of its Committees;
- Corporate governance and policies;
- periodic disclosures, including Annual Report, Half Year Report and Sustainability Report;
- ASX announcements;
- shareholder calendar;
- Notices of Meetings and any accompanying documents;
- presentation materials provided at investor and analyst briefings; and
- webcasts of meetings of shareholders and investor and analyst briefings.

The QBE website includes a dedicated Investor Relations section where shareholders can access relevant information regarding their shares. There is also a direct link where shareholders can access their shareholding online through QBE's share register, Computershare. They can update their personal information and provide their email address and elect to receive communications electronically. Shareholders can discuss their shareholding with either QBE's shareholder services department by email to shares@qbe.com or by contacting QBE's share registry, Computershare, by email to qbe.queries@computershare.com.au or by phone at +61 3 9415 4840. Shareholders may request to receive a hard copy of the Annual Report by updating their communication preferences by logging into their shareholding at www.investorcentre.com.

Corporate governance statement continued

QBE has a comprehensive investor relations program that facilitates effective communication with its investors. The Group Chief Executive Officer, Group Chief Financial Officer, Group Chief Risk Officer, Group General Counsel and Company Secretary, Global Head of Investor Relations and divisional chief executives generally deal with analysts, investors, media, rating agencies and others, taking account of regulatory guidelines including those issued by the ASX on continuous disclosure. The presentations on the 30 June and 31 December results and other major presentations are sent to the ASX before the presentations commence and are available promptly on the QBE Group's website. The 30 June and 31 December presentations are also webcast live and subsequently archived on the QBE Group's website.

Annual General Meetings

QBE welcomes and encourages shareholder participation at its Annual General Meeting (AGM), either in person or by proxy. The AGM is held in Sydney each year. Within the required statutory period before each AGM, QBE will distribute to shareholders a Notice of Meeting and proxy form in accordance with the requirements of the *Corporations Act 2001*, the ASX Listing Rules and the Company's Constitution. To encourage effective participation at AGMs, QBE:

- issues Notices of Meetings that are honest, accurate and not misleading;
- includes explanatory notes for all resolutions included in the Notice;
- encloses a proxy appointment form with the Notice which clearly indicates how a shareholder may appoint a proxy, direct their proxy how to vote on a particular resolution if they so choose, and if they appoint the Chairman of the meeting as their proxy, how the Chairman intends to vote undirected proxies;
- only combines or "bundles" resolutions in Notices of Meeting in limited circumstances; and
- provides shareholders with the opportunity to lodge proxies electronically.

Shareholders are encouraged to provide questions or comments ahead of the meeting, so that these can be addressed at the meeting. QBE will make directors, members of the management team and the external auditor available to shareholders at the AGM for asking questions regarding the items of business, including about the conduct of the audit and the preparation and content of the auditor's report.

Votes at the meeting are by way of a poll, one vote for each fully paid ordinary share.

Continuous disclosure

QBE takes its continuous disclosure obligations seriously and issues market releases during the year to satisfy those obligations. Significant developments affecting the Company may be the subject of an announcement to ASX. All ASX announcements are placed on QBE's website at www.qbe.com as soon as practicable after release.

QBE's Continuous Disclosure Policy is available at www.qbe.com.

Verification of periodic corporate reports

QBE prepares periodic corporate reports for the benefit of investors such as annual reports, half-yearly reports and sustainability reports. Where a corporate report is not subject to audit or review by an external auditor, QBE follows a robust process for satisfying itself that the report is materially accurate and balanced and that it provides investors with appropriate information to make investment decisions.

Periodic corporate reports are drafted by staff with direct responsibility for, or expertise in, the subject matter and are supported by evidence, including by documenting the various sources of information and consultation undertaken within QBE or with external parties. The information is reviewed by a separate business unit with adequate knowledge and skills to verify the accuracy and completeness of the information provided. For certain types of data, such as that included in the annual sustainability report, QBE uses independent assurance engagements to confirm that the data has been properly prepared and presented in all material aspects.

The Board and its Committees review and approve statutory and other significant corporate reports prior to release to the market. All other periodic corporate reports are submitted for approval to the Disclosure Committee, a committee composed of senior executives including the Group Chief Executive Officer and Group Chief Financial Officer.

Financial and other reporting

Audit Committee

The Board has an Audit Committee which meets at least quarterly to support the Board in overseeing the effectiveness of the QBE Group's financial reporting and risk management framework. In particular, the Audit Committee oversees and monitors the integrity of the QBE Group's financial reporting, including climate-related financial disclosures. The Audit Committee is comprised of independent directors and is chaired by Jann Skinner.

Group Chief Executive Officer and Group Chief Financial Officer declaration

Prior to the Audit Committee's review and the Board's approval of the 2019 Annual Report, the Group Chief Executive Officer and Group Chief Financial Officer provided a declaration to the Board that, in their opinion, the financial records were properly maintained, that the financial statements complied with the appropriate accounting standards and that they gave a true and fair view of the financial position and performance of the QBE Group. The declaration also provides that the opinion of the Group Chief Executive Officer and Group Chief Financial Officer was based on a sound system of risk management and internal control which is operating effectively.

External auditor independence

QBE firmly believes that the external auditor must be, and must be seen to be, independent. The external auditor confirms its independence and the Audit Committee confirms this by separate enquiry. The Audit Committee meets with the external auditor in the absence of management as part of each Committee meeting. The external auditor attends the AGM and a representative is available to answer questions from shareholders relevant to the audit.

The Audit Committee has free and unfettered access to the external auditor. The external auditor has free and unfettered access to the Audit Committee.

QBE has issued an internal guideline on external auditor independence. Under this guideline, the external auditor is not allowed to provide the excluded services of preparing accounting records, financial reports or asset or liability valuations. Furthermore, it cannot act in a management capacity, as a custodian of assets or as a share registry.

The Board believes some non-audit services are appropriate given the external auditor's knowledge of the QBE Group. QBE may engage the external auditor for non-audit services other than excluded services subject to the general principle that fees for non-audit services should not exceed 50% of all fees paid to the external auditor in any one financial year. External tax services are generally provided by an accounting firm other than the external auditor.

The Audit Committee approves the audit plan each year and receives information on the external auditor's fees. QBE also considers the terms of engagement of the external auditor every few years. The *Corporations Act 2001* and Australian professional auditing standards require rotation of the lead engagement partner after five years. The lead engagement partner of the external auditor was last rotated in 2019.

In the event that the Audit Committee thought it appropriate to change the firm undertaking QBE's external audit, it would conduct a competitive tender process.

Actuarial review

It is a longstanding practice of the directors to ensure that the QBE Group's insurance liabilities are assessed by actuaries.

The central estimate of QBE Group's insurance liabilities, comprising outstanding claims and premium liabilities, is determined by experienced internal actuarial staff. Actuarial staff form an independent view of both the central estimate and the probability of adequacy of outstanding claims and premium liabilities. At 31 December 2019, close to 100% of QBE's outstanding claims central estimate was also reviewed by external actuaries.

Internal audit

A global internal audit function is a core part of QBE's three lines of defence approach to effective risk management. QBE's Group Internal Audit is an independent global function that operates on an integrated basis and is managed by the Group Head of Internal Audit. Group Internal Audit is formally accountable to the Chair of the Group Board Audit Committee and has an operational reporting line to the Group Chief Financial Officer. Group Internal Audit operates under an Audit Committee-approved Internal Audit Charter that provides Group Internal Audit with free and unrestricted access to the Audit Committee, and all management, records, and properties. Group Internal Audit's primary purpose is to assist the Audit Committee and senior management to discharge their responsibility for sound and prudent management of risk at QBE. Group Internal Audit does this by performing audits, reviews, and investigations to provide independent assurance that the design and operation of controls across QBE's global operations are effective. Group Internal Audit develops and delivers an annual risk-based internal audit plan, that is aligned to QBE's risk management framework, and includes audits to address relevant regulatory requirements. The annual Group Internal Audit plan ensures that higher materiality risk processes are reviewed more frequently. Audit findings and related themes are reported to management, local audit committees and the Audit Committee.

Risk management

QBE is in the business of managing risk. The Board and management are fully committed to adopting a disciplined approach to risk management to deliver leading practice and to maintaining robust and independent risk management processes and systems. QBE's risk framework supports its businesses across all divisions and provides a sound foundation for reducing uncertainty and volatility in business performance.

Risk & Capital Committee

The Board monitors the QBE Group's performance and, as such, plays a significant role in ensuring that an effective risk management strategy is established and maintained. The Board has a Risk & Capital Committee which meets at least quarterly to support the Board in overseeing the effectiveness of QBE Group's risk and capital management frameworks. The proper oversight of these frameworks supports strategic objectives, informs business plans and ensures that current and future risks are identified, assessed and monitored in line with risk appetite. Under its charter, the Risk & Capital Committee is required to review the risk framework periodically to confirm it continues to be sound. This review was undertaken during 2019 as part of the annual refresh of the Risk Management Strategy.

The Risk & Capital Committee is comprised of independent directors and is chaired by Rolf Tolle. The Risk & Capital Committee has free and unfettered access to the Group Chief Risk Officer and other relevant senior management.

Environmental, social, governance and economic risk

Information about how QBE approaches sustainability and the management of environmental, social and governance (ESG) issues can be found in the climate change action plan on pages 32 to 39 and in the 2019 Sustainability Report available at www.qbe.com.

Further details of how QBE manages risk are set out in the Risk Report on pages 40 to 43. An overview of QBE's risk management framework, including QBE's material economic risks and how these are mitigated, is also set out in note 4 to the Financial Report.

Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2019

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at the end of, or during, the year ended 31 December 2019.

Directors

The following directors held office during the whole of the financial year and up to the date of this report:
Marty Becker (Chairman)
Stephen Fitzgerald AO
John M Green (Deputy Chairman)
Kathryn Lisson
Sir Brian Pomeroy
Patrick Regan
Jann Skinner
Rolf Tolle
Michael Wilkins AO

Mr Fred Eppinger was appointed to the Board on 1 January 2019 and resigned on 6 December 2019.

Consolidated results

	STATUTORY RESULT	
	2019 US$M	**2018 US$M**
Gross written premium	**13,442**	13,657
Gross earned premium revenue	**13,257**	13,601
Net earned premium	**11,609**	11,640
Net claims expense	**(8,102)**	(7,405)
Net commission	**(1,819)**	(1,957)
Underwriting and other expenses	**(1,690)**	(1,798)
Underwriting result	**(2)**	480
Net investment income on policyholders' funds	**649**	346
Insurance profit	**647**	826
Net investment income on shareholders' funds	**387**	201
Financing and other costs	**(257)**	(305)
(Losses) gains on sale of entities and businesses	**(8)**	12
Unrealised losses on assets held for sale	**–**	(25)
Share of net loss of associates	**(3)**	(2)
Restructuring and related expenses	**(43)**	–
Amortisation and impairment of intangibles	**(51)**	(80)
Profit before income tax from continuing operations	**672**	627
Income tax expense	**(104)**	(72)
Profit after income tax from continuing operations	**568**	555
Loss after income tax from discontinued operations	**(21)**	(177)
Profit after income tax	**547**	378
Net loss attributable to non-controlling interests	**3**	12
Net profit after income tax attributable to ordinary equity holders of the company	**550**	390

Result

Net profit after income tax for the year ended 31 December 2019 was $550 million, up from a profit of $390 million last year.

The Group's former operations in Latin America continue to be separately reported as a discontinued operation, details of which are provided in note 7.1.3 to the financial statements. Commentary below reflects the performance of our continuing operations.

Gross written premium reduced by $215 million year on year due to the stronger US dollar and the impact of divestments, which were partly offset by premium growth in all segments. Reinsurance expense decreased by $313 million, mainly reflecting an additional $190 million cost in the prior year to reinsure the Hong Kong construction workers' compensation portfolio and current year savings following the restructuring of the Group's external reinsurance program. Net earned premium of $11,609 million was broadly in line with $11,640 million in 2018.

The Group reported an underwriting loss of $2 million compared with an underwriting profit of $480 million last year, equating to a combined operating ratio of 100.0% compared with 95.9%. The 2019 result was impacted by a material reduction in risk-free rates used to discount outstanding claims ($231 million) and the impact of the Ogden decision in the UK ($61 million), which added 2.0% and 0.5%, respectively, to the combined operating ratio. Excluding the impacts of changes in risk-free rates in both periods, the Ogden decision in the current period and the Hong Kong reinsurance transaction in the prior period, the combined operating ratio was 97.5% compared with 95.7% in the prior period. The increase was driven by weather-related claims in the North American Crop business and the higher net cost of large individual risk and catastrophe claims following the restructure of the Group's reinsurance program.

The net claims ratio was 69.8% compared with 63.6% in the prior period. Excluding the impacts of the aforementioned changes in risk-free rates, the Ogden decision and the prior period reinsurance transaction, the net claims ratio was 67.3% compared with 64.1% last year. The net claims ratio was impacted by underperformance in the Crop result and the higher net cost of large individual risk and catastrophe claims as discussed above.

The combined commission and expense ratio was 30.2% compared with 32.3% in the prior period. Excluding the prior period reinsurance transaction, the combined commission and expense ratio of 30.2% was down compared with 31.6% in the prior period, driven mainly by expense efficiency initiatives.

Net investment and other income was $1,036 million compared with $547 million in 2018. Fixed income returns benefited from significant mark-to-market gains as a result of lower risk-free rates and credit spread tightening, while growth assets also significantly outperformed during 2019.

The Group's effective tax rate was 15% compared with 11% in the prior period, with the increase reflecting the mix of corporate rates in the jurisdictions in which QBE operates and the utilisation of previously unrecognised tax losses in the US tax group.

Dividends

The directors announce a final dividend of 27 Australian cents per share, compared with 28 Australian cents per share for 2018. The dividend will be 30% franked. The total dividend payout is A$681 million, or 65% of adjusted net cash profit, compared with A$669 million for 2018. Further details in relation to dividends paid during the year are set out on page 132 of this Annual Report.

Our objective is to deliver a stable and growing dividend to our shareholders. Our current dividend policy sets the full year dividend payout ratio in an ordinary year at around 65% of cash profit.

Activities

The principal activities of QBE during the year were underwriting general insurance and reinsurance risks, management of Lloyd's syndicates and investment management.

Presentation currency

The Group has presented the Financial Report in US dollars because a significant proportion of its underwriting activity is denominated in US dollars. The US dollar is also the currency that is widely understood by the global insurance industry, international investors and analysts.

Operating and financial review

A review of the Group's operations during the year and the results of those operations is set on pages 4 to 31 of this Annual Report. These pages also deal with the Group's operations, financial position, business strategies and prospects for future financial years.

Outstanding claims liability

The net central estimate of outstanding claims is determined by the Group Chief Actuary after consultation with internal and external actuaries. The assessment takes into account the statistical analysis of past claims, allowance for claims incurred but not reported, reinsurance and other recoveries and future interest and inflation factors.

As in previous years, the directors consider that substantial risk margins are required over the actuarial net central estimate to mitigate the inherent uncertainty in the net central estimate. The probability of adequacy of the outstanding claims liability at 31 December 2019 was 90.0% compared with 90.1% last year. The Australian Prudential Regulation Authority (APRA) prudential standards provide a capital credit for outstanding claims in excess of a probability of adequacy of 75%.

Group indemnities

Article 78 of the Company's constitution provides that the Company indemnifies past and present directors, secretaries or other officers against any liability incurred by that person as a director, secretary or other officer of the Company or its subsidiaries. The indemnity does not apply to any liability (excluding legal costs):

- owed to the Company or a related body corporate (e.g. breach of directors' duties);
- for a pecuniary penalty under section 1317G or a compensation order under sections 1317H or 1317HA of the *Corporations Act 2001* (or a similar provision of the corresponding legislation in another jurisdiction); or
- that is owed to someone other than the Company or a related body corporate and which did not arise out of conduct in good faith.

The indemnity extends to legal costs other than where:

- in civil proceedings, one or more of the above exclusions apply;
- in criminal proceedings, the person is found guilty;
- the person is liable in proceedings brought by the Australian Securities and Investments Commission (ASIC), a corresponding regulator in another jurisdiction or a liquidator (unless as part of the investigation before proceedings are commenced); or
- the court does not grant relief after an application under the *Corporations Act 2001* or corresponding legislation in another jurisdiction.

In addition, a deed exists between the Company and each director which includes an indemnity in similar terms to article 78 of the Company's constitution.

Directors' and officers' insurance

QBE pays a premium each year in respect of a contract insuring directors, secretaries, senior managers and employees of the Group together with any natural person who is either a trustee or a member of a policy committee for a superannuation plan established for the benefit of the Group's employees against liabilities past, present or future. The officers of the Group covered by the insurance contract include the directors listed on pages 44 and 45, the Group Company Secretary, Carolyn Scobie, and Deputy Company Secretary, Peter Smiles.

In accordance with normal commercial practice, disclosure of the amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

No such insurance cover has been provided for the benefit of any external auditor of the Group.

Significant changes

There were no significant changes in the Group's state of affairs during the financial year other than as disclosed in this Annual Report.

Likely developments and expected results of operations

Likely developments in the Group's operations in future financial years and the expected results of those operations have been included in the review of operations on pages 4 to 31 of this Annual Report.

Events after balance date

Other than the declaration of the final dividend, no matter or circumstance has arisen since 31 December 2019 that, in the opinion of the directors, has significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future financial periods.

Material business risks

As a global insurance and reinsurance business, QBE is subject to a substantial variety of business risks. The Board believes that effective management of these risks is critical to delivering value for QBE's stakeholders. It is QBE's policy to adopt a rigorous approach to managing risk throughout the Group. Risk management is a continuous process and an integral part of QBE's governance structure, QBE's broader business processes and, most importantly, QBE's culture.

Some of the material business risks that QBE faces include strategic, insurance, credit, market, liquidity, operational, compliance and group risks. Explanations of these risks and their mitigations are set out in detail in note 4 to the financial statements which we recommend you read. Further details of how QBE manages risk are set out in the Risk Report on pages 40 to 43. QBE's Climate Change Action Plan on pages 32 to 39 and the section of the Corporate Governance Statement addressing the ASX Corporate Governance Council's Principle 7: Recognise and Manage Risk on page 55.

The Group makes judgements and estimates in respect of the reported amounts of certain assets and liabilities, the most significant of which are in relation to the determination of the net outstanding claims liability, the application of the liability adequacy test and the valuation of deferred tax assets and impairment testing of goodwill in North America. More detail of each of these is included in notes 2.3, 2.5.1, 6.2.3 and 7.2.1 respectively.

Meetings of directors

	FULL MEETINGS OF DIRECTORS[1]		MEETINGS OF NON-EXECUTIVE DIRECTORS		MEETINGS OF COMMITTEES: AUDIT		GOVERNANCE & NOMINATION		INVESTMENT		OPERATIONS & TECHNOLOGY		PEOPLE & REMUNERATION		RISK & CAPITAL		SUB-COMMITTEES[2]	
	H	A	H	A	H	A	H	A	H	A	H	A	H	A	H	A	H	A
Marty Becker	9	9	6	6	5	5	3	3	4	4	5	5	4	4	6	6	1	1
Fred Eppinger	8	7	6	5	–	–	3	2	–	–	5	4	–	–	6	5	–	–
Stephen Fitzgerald	9	8	6	6	–	–	3	3	4	4	–	–	4	4	6	6	1	1
John M Green	9	9	6	6	5	5	3	3	4	4	5	5	4	4	6	6	3	2
Kathryn Lisson	9	9	6	6	5	5	3	3	–	–	5	5	–	–	–	–	–	–
Sir Brian Pomeroy	9	9	6	6	5	5	3	3	4	4	–	–	–	–	6	6	2	2
Patrick Regan[3]	9	9	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3	3
Jann Skinner	9	8	6	6	5	5	3	3	–	–	–	–	4	4	6	6	3	3
Rolf Tolle	9	9	6	6	5	5	3	3	–	–	–	–	4	4	6	6	1	1
Michael Wilkins	9	9	6	6	5	5	3	3	–	–	5	5	4	4	–	–	2	2

H Number of meetings held while a Board or Committee member.
A Number of meetings attended while a Board or Committee member.
1 Includes meetings in the UK and the US.
2 Ad hoc committees of the Board were convened during the year in relation to the financial results and other reporting matters.
3 Patrick Regan attended Audit, Investment, Operations & Technology, People & Remuneration and Risk & Capital Committee meetings by invitation, not being a member of these committees.

Further meetings occurred during the year, including meetings of the Chairman and Group Chief Executive Officer and meetings of the directors with management. From time to time, directors attend meetings of committees of which they are not currently members.

Directorships of listed companies held by the members of the Board

From 1 January 2017 to 17 February 2020, the directors also served as directors of the following listed entities:

	POSITION	DATE APPOINTED	DATE CEASED
John M Green			
Challenger Limited	Director	6 December 2017	–
Michael Wilkins			
AMP Limited	Director	12 September 2016	14 February 2020
Medibank Private Limited	Director	25 May 2017	–
Jann Skinner			
Telix Pharmaceuticals Limited	Director	19 June 2018	–

Qualifications and experience of directors

The qualifications and experience of each director are set out on pages 44 to 45 of this Annual Report.

Qualifications and experience of company secretaries

Carolyn Scobie, BA, LLB, MA, AGIA and GAICD
Carolyn joined QBE in January 2016 as Group General Counsel and Group Company Secretary. Prior to joining QBE, Carolyn was Group General Counsel at global industrial property group, Goodman, for 17 years, where she ran a multi-disciplinary legal team working across 16 countries. Carolyn has extensive experience in corporate law, compliance, regulatory matters, litigation and managing the complexity of multiple jurisdictions.

Peter Smiles, LLB, MBA, FGIA, FCIS and GAICD
Peter is Deputy Company Secretary of QBE Insurance Group Limited and a company secretary of various QBE subsidiaries in Australia. He has 28 years of insurance experience, which includes 22 years as a corporate lawyer. Prior to commencing employment with QBE in 2002, Peter worked for the NRMA Insurance Group in various corporate roles. In addition to his current company secretarial duties, he acts as a corporate lawyer advising QBE Group head office departments.

Directors' interests and benefits

Ordinary share capital

Directors' relevant interests, including those of their personally related parties, in the ordinary share capital of the Company at the date of this report are as follows:

DIRECTOR	NUMBER OF SHARES HELD
Marty Becker	**148,067**
Stephen Fitzgerald	**54,237**
John M Green	**37,258**
Kathryn Lisson	**28,293**
Sir Brian Pomeroy	**27,527**
Patrick Regan	**915,538**
Jann Skinner	**50,000**
Rolf Tolle	**45,885**
Michael Wilkins	**28,514**

Options and conditional rights

At the date of this report, Patrick Regan had 773,138 (2018 446,654) conditional rights to ordinary shares of the Company. No executives hold options at the date of this report. Details of the schemes under which options and rights are granted are provided in the Remuneration Report and in note 8.4 to the financial statements.

The names of all persons who currently hold options granted under the Employee Share and Option Plan (the Plan) and conditional rights to ordinary shares of the Company are entered in the registers kept by the Company pursuant to section 168 of the *Corporations Act 2001*.

Environmental regulation

While the Group is not currently required to report under any significant environmental regulations under either Commonwealth, State or Territory legislation, QBE's Climate Change Action Plan is provided on pages 32 to 39 and operational greenhouse gas emissions and other environmental data is disclosed in the 2019 Sustainability Report.

Remuneration Report

Remuneration Report contents

To our shareholders,

On behalf of the Board, I present QBE's Remuneration Report for 2019.

The Group delivered a solid set of financial results and good progress was made on the strategic priorities during 2019. Weather conditions in parts of the United States adversely impacted the Crop business which weighed on overall Group performance. However, the underlying fundamentals of QBE remain strong as reflected by the very strong results in the Australia Pacific and International divisions. In addition, we have further strengthened our talent, leadership and risk management capabilities across the Group, continued to embed the QBE DNA as we evolve our culture, built further momentum in the Brilliant Basics program and made significant progress in our approach to sustainability.

2019 performance and remuneration

In considering the 2019 remuneration outcomes and their alignment with the Group results, the Board has evaluated executives' performance through our new employee performance management framework (ME@QBE) which formally assesses the "how" as well as the "what". Particular attention has been given to management's efforts to enhance our approach to both managing risk and driving cultural change across the Group. We have continued to strengthen the assessment of individual executive accountability for risk management in their day to day roles. We have also reflected performance against the financial goals for 2019. As a result, the Board has awarded the Group Chief Executive Officer (CEO) a 2019 short-term incentive (STI) of 68.5% of his target opportunity (equivalent to 45.6% of maximum opportunity). Further details are provided on pages 64 to 65.

2020 performance targets

We set incentive targets that reflect the Group's business plans and the operating environment. In 2020, cash return on equity (cash ROE) and combined operating ratio (COR) are the financial performance measures underpinning 65% of STI performance outcomes (except for the Group Chief Risk Officer (CRO)). These targets are set by the Board in consideration of our market guidance set out on page 8. The remaining performance measures are non-financial and focus on the 2020 strategic priorities highlighted on page 9. Outcomes against these targets, as usual, will be disclosed in next year's Remuneration Report. The way we communicated segment results to the market was simplified in 2019 with Equator Re no longer separately reported; instead, the captive's results are folded back into the relevant divisional results. This was actioned to provide a holistic view of performance in each operating segment including reinsurance. For incentive purposes in 2020, the measurement of divisional COR will align to be consistent with external reporting.

The 2020 long-term incentive (LTI) performance measures will be relative total shareholder return (TSR) and average cash ROE, both measured over a three-year performance period. The three-year average cash ROE target range is 8% to 12%. The catastrophe collar will again be applied to LTI granted in 2020 as this appropriately addresses the potential for material impacts, both negative and positive on multiple awards due to extreme catastrophe events or equally very benign periods over the three-year performance period. Further details on the catastrophe collar are provided on page 72.

Looking ahead

We have not made any structural changes to our incentive plans for 2020, although note that changes are likely for 2021 to comply with the new regulatory requirements, including the proposed Financial Accountability Regime and APRA draft Prudential Standard CPS 511 Remuneration. QBE supports the intent of the regulation and we are actively participating in consultations on design and implementation.

Thank you for your support. We look forward to your feedback.

Stephen Fitzgerald
Chairman, People & Remuneration Committee

This Remuneration Report sets out QBE's remuneration framework and provides detail of remuneration outcomes for key management personnel (KMP) for 2019 and how this aligns with QBE's performance.

Accounting standards define KMP as those executives and non-executive directors with the authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly.

The 2019 Remuneration Report has been prepared and audited in accordance with the disclosure requirements of the *Corporations Act 2001*.

Our remuneration framework at a glance

Our strategy

Our purpose

We give people the confidence to achieve their ambitions

Our remuneration principles

QBE's remuneration strategy is designed to attract, motivate and retain QBE's executives by providing market competitive remuneration aligned with the creation of sustained shareholder value.

- Simple and clear
- Linked to strategy
- Motivating
- Aligned to shareholders
- Globally consistent and locally competitive

How the remuneration framework supports the strategy

Simple and clear

A simple and clear view of how delivery of our strategy impacts incentive outcomes for our executives.

Adaptable to changes in our strategy and external environment

Performance targets aimed at delivering our long-term objectives will evolve with our strategy, changes to business cycles and the external operating environment.

Measures that are correlated with performance

Measures that focus on profitability, management of the balance sheet and our longer-term strategic priorities enable remuneration outcomes to reflect a holistic view of performance.

Encourages our executives to think and act like business owners

A significant portion of incentives are paid in equity which focuses executives on creating shareholder value, managing risk and being accountable for the long-term success of QBE.

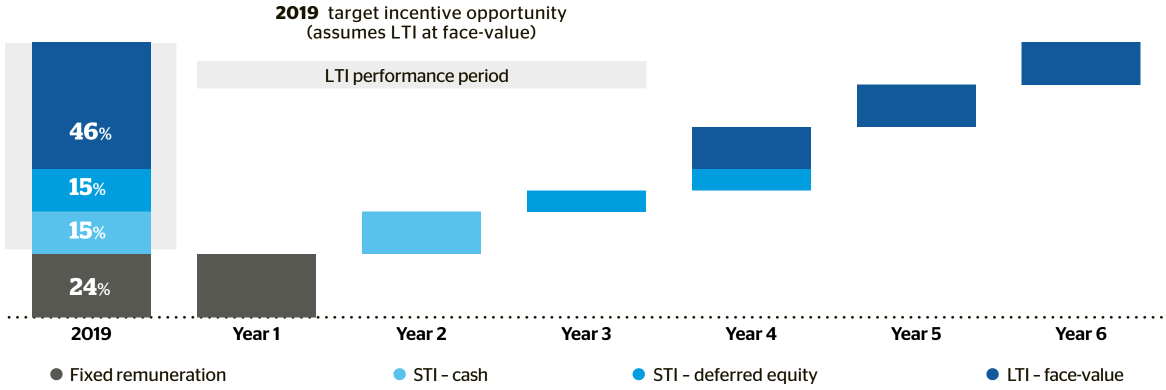
Aligning remuneration to culture and managing risk

The remuneration structure is designed to align remuneration with prudent risk-taking, underpinned by clear messaging of our QBE DNA which describes who we are, what we stand for and how we need to operate to be successful. The way the executives manage risk and conduct themselves, are key considerations of the Board in determining incentive outcomes.

Our executive KMP remuneration framework explained

Remuneration arrangements for the 2019 performance year

The remuneration structure for the Group CEO is set out below. It comprises fixed remuneration, STI cash, STI deferred equity and LTI equity:



Mr Regan's fixed remuneration increased from A$2,100,000 to A$2,200,000 on 1 January 2020. This increase now completes the staged adjustments to Mr Regan's fixed remuneration in accordance with his contractual terms agreed on appointment and as previously disclosed in the 2017 and 2018 Remuneration Reports. The Board is satisfied with the competitiveness of his remuneration levels against his peers in the Australian market carrying out similar global roles and global industry peers. Details of all adjustments to the fixed remuneration of executive KMP during the year are provided on pages 65 to 67.

Key features of STI and LTI arrangements for the Group CEO are provided below:

	2019	
FEATURE	**STI**	**LTI**
Remuneration components	• STI cash (50%) • STI deferred equity (50%)	• LTI equity (100%)
Group CEO target incentive opportunity	• 133% (target) • 200% (maximum)	• 200% (face-value)
Performance period	• 1 year	• 3 years
Equity deferral period	• 1–2 years from end of performance period	• 3–5 years from start of performance period
Performance measures	• Group cash ROE (25%) • Group COR (40%) • Strategic performance objectives (35%)	• Group average cash ROE (50%) • Relative TSR (50%)
Malus	• Subject to malus during the vesting period	
Executive minimum shareholding (x fixed remuneration)	• The minimum shareholding requirement (MSR) is 3x fixed remuneration for the Group CEO (1.5x for other executive KMP). • Time to achieve MSR is five years.	
Risk and behaviours	Performance assessments of each executive KMP include a formal assessment of risk and behaviours using input from the Group CRO, the Chairman of the People & Remuneration Committee, the Chairman of the Risk & Capital Committee and the Chairs of Divisional Boards where relevant.	

ℹ STI payouts for the 2019 performance year for each executive KMP can be found on pages 65 to 67.

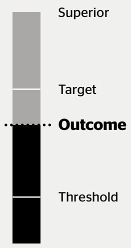
ℹ LTI grants were made in 2019 in accordance with the target remuneration mix for each executive KMP. The details of the LTI grants can be found on page 77.

How we performed

Financial performance

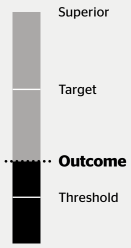
Group cash ROE

Award
76.7%



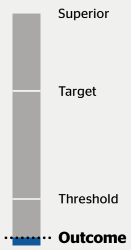
Group COR

Award
53.3%



North America COR

Award
0.0%

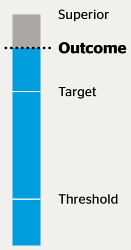


International COR

Award
131.7%

Australia Pacific COR

Award
128.3%



2019 saw further improvements in the underlying foundations of our business, as well as substantial progress across all of the strategic priorities, positive divisional outcomes in Australia Pacific and International, and a solid group-wide financial performance. However, adverse weather conditions in the United States impacted the performance outcomes for the Group in 2019. The adjusted Group cash ROE was 8.9%[1], resulting in an award of 76.7% for this measure. The adjusted Group COR was 97.5%[2], resulting in an award of 53.3% for this measure. The impact of these on the incentive payouts for executive KMP is provided on pages 65 to 67.

With effect from 2019, the financial performance of our operating segments in the Group's Annual Financial Report incorporate an allocation of the results of the Group's captive reinsurer, Equator Re, details of which are provided in note 1.3 in the Financial Report. For the purposes of determining 2019 incentive outcomes, the COR for each division does not include this change, reflecting the fact that annual financial targets were agreed on the former basis of reporting as part of the 2019 business planning process. In 2020, we will align all executive KMP incentive outcomes to include Equator Re results.

Financial performance – five-year summary

		2019	2018	2017	2016	2015
Statutory COR [3]	(%)	**100.0**	95.9	104.8	94.0	94.9
Net profit (loss) after income tax [3]	(US$M)	**571**	567	(1,249)	844	687
Statutory return on average shareholders' funds	(%)	**6.7**	4.5	(13.0)	8.1	6.4
Group cash ROE for incentive purposes [1]	(%)	**8.9**	8.0	(9.2)	8.4	7.8
Group COR for incentive purposes [2]	(%)	**97.5**	95.7	104.1	N/A	N/A

Return to shareholders – five-year summary

		2019	2018	2017	2016	2015
Share price at 31 December	(A$/share)	**12.88**	10.10	10.68	12.42	12.59
Dividend per share	(Australian cents)	**52**	50	26	54	50
Total shareholder return	(%)	**29.2**	(0.9)	(8.9)	5.3	15.2

Group CEO outcomes – five-year summary

	2019	2018	2017	2016	2015
STI or Executive Incentive Plan (EIP) (from 2017–2018) as % of target	**68.5**	98.6	15.6	75.3	75.0
LTI vested (% of grant)	**0**	0	0	0	0

Tracking of unvested LTI awards

LTI AWARD	PERFORMANCE MEASURES	VESTING DATES	TRACKING
2019	Average ROE and relative TSR	March 2022/23/24	On track

1 Details of the calculation of the Group's adjusted cash ROE are provided on page 15. For 2018 and prior years, cash ROE was adjusted for 50% of the impact of unbudgeted movements in discount rates. This adjustment no longer applies.
2 Details of the statutory to adjusted result reconciliation, including the calculation of the adjusted COR, are included on pages 14 to 15.
3 The 2019 and 2018 results reflect continuing operations only. For 2017 and prior years, reflects consolidated Group performance and discontinued operations.

Strategic performance objectives for 2019

In addition to the financial results, focus on our progress against our strategic priorities through 2019 helped determine incentive outcomes for the year.

Executive KMP have 35% of their STI outcome determined with reference to strategic performance objectives aligned to QBE's strategic priorities (75% for the Group CRO). The table below sets out a summary of the key objectives for the Group CEO for 2019 and outcomes achieved. Each of the executive KMP objectives are aligned with those below and their outcomes are provided in the following pages.

STRATEGIC PRIORITY	2019 OBJECTIVES	OUTCOMES
Deliver the 2019 plan	Continue to drive a rigorous performance management focus through cell reviews and deliver our 2019 target combined operating ratio. Reduce operational costs by $130 million (net) over a three-year period.	**The fundamentals of our business remain strong, as evidenced by the excellent results in Australia Pacific and International. Despite challenging weather conditions which affected our Crop business, the underlying performance in North America is improving. Performance management rigour translated to growth in gross written premium, continued improvement in the attritional claims ratio and delivery of our cost reduction targets for 2019.**
Brilliant Basics	Drive the next phase of the Brilliant Basics agenda, building on our early successes in upgrading our capabilities in the core areas of underwriting, pricing and claims. Further enhance our underwriting governance and pricing capability through the newly established Group Chief Underwriting Office.	**Brilliant Basics continues to grow in its sophistication and maturity. We have made meaningful investment to add talent to our underwriting, pricing and claims teams. In 2019, we further strengthened our underwriting governance, embedded global pricing standards including a standard definition for rate adequacy across the Group, and made significant improvements to our claims handling processes.**
Future focus	Build a successful QBE for the future and a strong platform for sustainable and targeted growth. Leverage our enhanced data and analytics capabilities, technology roadmap and leading Insurtech partnerships. Continue our focus on reducing complexity, increasing automation and simplifying processes.	**We have further progressed our work to eliminate technology debt and increase the stability and security of our technology environment. We successfully rolled out next generation network solutions across our technology estate and laid infrastructure foundations that support QBE's journey to the cloud. We continue to leverage our existing partnerships while targeting new partnerships and investments that accelerate QBE's capabilities.**
Operating sustainably	Continue our focus on sustainability and making positive contributions where we operate by working with our customers, partners and communities to address key economic, social and environmental issues.	**During 2019, we published our Group Energy Policy, launched our first global disaster relief and climate resilience partnerships and made further progress on our efforts to reduce our environmental footprint. We also committed to using 100% renewable electricity across our operations by 2025 and announced our ambition to grow Premiums4Good.**
Talent and culture	Bring our QBE DNA to life, which is essential to our ability to deliver for our people, customers, communities and our shareholders. Reward and celebrate our people and create an environment that supports diversity, inclusiveness and flexibility.	**We made good progress on our broader cultural transformation journey through embedding the QBE DNA and achieved improvements in the QBE 2019 Voice Survey results with an increase of 4% in employee engagement. We continued to make progress on women in leadership (up 2% to 34%). We have modernised our policies on ways of working including our Share the Care program in Australia. QBE was voted one of Australia's top LGBTI+ inclusion employers in 2019.**
Customer focus	Bring our new customer commitment program to life, delivering a consistent level of outstanding service to our customers and partners. Through technical expertise and know-how, we will provide solutions for our customers' current and emerging needs.	**Our teams focused on building their sector knowledge and industry expertise to better enable QBE to anticipate our customers' current and emerging needs. The rollout of our global customer commitment program and digital solutions continued to enable better customer outcomes and improved claims experiences.**
Managing risk	Build a stronger and more resilient QBE by continuing to invest in managing our risks in an increasingly dynamic environment.	**During 2019, we made significant investment to further strengthen risk management. We have placed a heavy focus on conduct, risk management and governance. Through multiple risk initiatives we have also meaningfully reinforced our risk appetite and policies.**

1 Performance overview
2 Business review
3 Governance
4 Directors' Report
5 Financial Report
6 Other information

1. GROUP CHIEF EXECUTIVE OFFICER AND EXECUTIVE KMP PERFORMANCE SNAPSHOTS

QBE discloses actual remuneration outcomes in the financial period under review.

The realised 2019 remuneration figures below include the accrued STI cash award for the 2019 financial year, the value of any conditional rights granted in prior years that vested during 2019 and executive shareholdings against the MSR. The value of vested conditional rights awards has been calculated using the share price on the vesting date. These figures are different from those shown in the statutory table on page 75. For example, the statutory table includes an apportioned accounting value for all unvested conditional rights held during the year, which remain subject to performance and service conditions and consequently may or may not ultimately vest.

Group Chief Executive Officer

Patrick Regan
Group Chief Executive Officer

Term as KMP in 2019
Full year

Country of residence
Australia

Total value of shareholdings against the MSR (times fixed rem) **8.1**

Target remuneration mix

24% | 15% | 15% | 46%

2019 STI outcome (US$000)

50% $665
50% $665

68.5% of target

measured on...

25.0% Group cash ROE (achieved 76.7%)
40.0% Group COR (achieved 53.3%)
35.0% Strategic performance objectives (achieved 80.0%)

2019 realised remuneration (US$000) **$3,442** Total

$1,459 | $665 | $665 | $516 | $137

Divisional executive KMP

Vivek Bhatia
Chief Executive Officer, Australia Pacific

Term as KMP in 2019
Full year

Country of residence
Australia

Total value of shareholdings against the MSR (times fixed rem) **2.2**

Target remuneration mix

31% | 25% | 13% | 31%

2019 STI outcome (US$000)

67% $614
33% $303

91.6% of target

measured on...

11.5% Group cash ROE (achieved 76.7%)
18.5% Group COR (achieved 53.3%)
35.0% Divisional COR (achieved 128.3%)
35.0% Strategic performance objectives (achieved 80.0%)

2019 realised remuneration (US$000) **$2,133** Total

$834 | $614 | $303 | $368 | $14

Key: Fixed remuneration · STI (cash) · STI (deferred) · LTI face-value · Value of vested rights · Other

Remuneration Report continued

1. GROUP CHIEF EXECUTIVE OFFICER AND EXECUTIVE KMP PERFORMANCE SNAPSHOTS

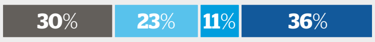
Todd Jones
Chief Executive Officer, North America

Term as KMP in 2019
Commenced 1 October 2019

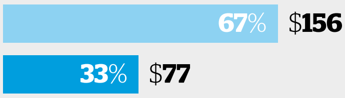
Country of residence
United States

Total value of shareholdings against the MSR (times fixed rem) **2.8**

Target remuneration mix



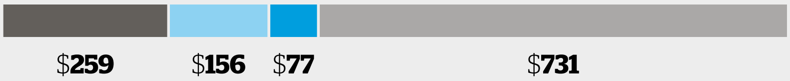
2019 STI outcome (US$000)



75.5% of target

measured on...
25.0% Group cash ROE (achieved 76.7%)
40.0% Group COR (achieved 53.3%)
35.0% Strategic performance objectives (achieved 100.0%)

2019 realised remuneration[1] (US$000) **$1,223** Total



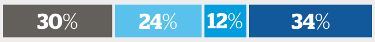
Richard Pryce
Chief Executive Officer, International

Term as KMP in 2019
Full year

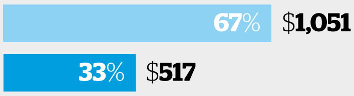
Country of residence
United Kingdom

Total value of shareholdings against the MSR (times fixed rem) **4.0**

Target remuneration mix



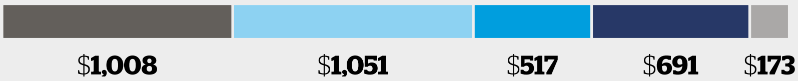
2019 STI outcome (US$000)



113.8% of target

measured on...
11.5% Group cash ROE (achieved 76.7%)
18.5% Group COR (achieved 53.3%)
35.0% Divisional COR (achieved 131.7%)
35.0% Strategic performance objectives (achieved 140.0%)

2019 realised remuneration[2] (US$000) **$3,440** Total



Group Head Office executive KMP

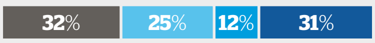
Jason Brown
Group Chief Underwriting Officer

Term as KMP in 2019
Full year

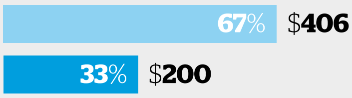
Country of residence
United Kingdom

Total value of shareholdings against the MSR (times fixed rem) **3.1**

Target remuneration mix



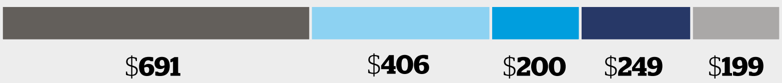
2019 STI outcome (US$000)



72.0% of target

measured on...
25.0% Group cash ROE (achieved 76.7%)
40.0% Group COR (achieved 53.3%)
35.0% Strategic performance objectives (achieved 90.0%)

2019 realised remuneration[3] (US$000) **$1,745** Total



1 "Other" total for Todd Jones includes a cash payment of $700,000 on commencement of employment with QBE, payable in March 2020.
2 The fixed remuneration for Richard Pryce was increased from £816,920 to £900,000 with effect from 1 January 2019 upon the expansion of his role to include Asia as well as European Operations.
3 The fixed remuneration for Jason Brown was increased from A$900,000 to A$950,000 with effect from 1 January 2019 upon his commencement in the role as Group Chief Underwriting Officer and an increase to his target STI to 120% also applied. Jason relocated to the United Kingdom from 4 November 2019.

Key: Fixed remuneration · STI (cash) · STI (deferred) · LTI face-value · Value of vested rights · Other

Peter Grewal
Group Chief Risk Officer

Term as KMP in 2019
Full year

Country of residence
Australia

Total value of shareholdings against the MSR (times fixed rem) **1.3**

Target remuneration mix

34% | 22% | 11% | 33%

2019 STI outcome (US$000)

67% $395
33% $195

113.1% of target

measured on...

9.6% Group cash ROE (achieved 76.7%)
15.4% Group COR (achieved 53.3%)
75.0% Strategic performance objectives (achieved 130.0%)

2019 realised remuneration (US$000)

$1,744 Total

$521 | $395 | $195 | $460 | $173

Margaret Murphy
Group Executive, People & Change

Term as KMP in 2019
Full year

Country of residence
Australia

Total value of shareholdings against the MSR (times fixed rem) **2.6**

Target remuneration mix

34% | 23% | 11% | 32%

2019 STI outcome (US$000)

67% $327
33% $161

86.0% of target

measured on...

25.0% Group cash ROE (achieved 76.7%)
40.0% Group COR (achieved 53.3%)
35.0% Strategic performance objectives (achieved 130.0%)

2019 realised remuneration[1] (US$000)

$1,177 Total

$567 | $327 | $161 | $78 | $44

Inder Singh
Group Chief Financial Officer

Term as KMP in 2019
Full year

Country of residence
Australia

Total value of shareholdings against the MSR (times fixed rem) **1.8**

Target remuneration mix

32% | 25% | 12% | 31%

2019 STI outcome (US$000)

67% $496
33% $244

80.7% of target

measured on...

25.0% Group cash ROE (achieved 76.7%)
40.0% Group COR (achieved 53.3%)
35.0% Strategic performance objectives (achieved 115.0%)

2019 realised remuneration (US$000)

$1,650 Total

$764 | $496 | $244 | $143 | $3

1 The fixed remuneration for Margaret Murphy was increased from A$750,000 to A$800,000 on 1 April 2019 following a market review. An expansion in the scope of her role to include Change as well as People following the resignation of the former Group Chief Operations Officer and subsequent elimination of that role, resulted in an increase in fixed remuneration to A$850,000 with effect from 1 June 2019.

Key: Fixed remuneration | STI (cash) | STI (deferred) | LTI face-value | Value of vested rights | Other

2. REMUNERATION GOVERNANCE

QBE has a robust remuneration governance framework overseen by the QBE Group Board. This ensures that the remuneration arrangements are appropriately managed and that the agreed frameworks and policies are applied across QBE.

QBE Group Board

Has overall responsibility for the remuneration strategy and outcomes for executives and non-executive directors.

People & Remuneration Committee

Is the main governing body for key people and remuneration items across the Group. Further details on the role and scope of the People & Remuneration Committee are set out in the QBE People & Remuneration Committee charter (available from www.group.qbe.com/corporate-governance/background-documents).

Group CEO	Divisional people & remuneration committees	External advisors

Use of external advisors

Remuneration consultants provide guidance on remuneration for executives, facilitate discussion, review remuneration and at-risk reward benchmarking within industry peer groups and provide guidance on current trends in executive remuneration practices.

Any advice provided by remuneration consultants is used as a guide and is not a substitute for consideration of all the issues by each non-executive director on the People & Remuneration Committee.

In 2019, the People & Remuneration Committee appointed Australian based firm Ernst & Young (EY) to act as its independent remuneration adviser. The People & Remuneration Committee and the Board are satisfied that the advice provided by EY during 2019 was free from undue influence.

The cost of advice and assistance provided by EY in 2019 was $18,000.

During 2019, management requested reports on market practice from PwC and other sources. No recommendations in relation to the remuneration of KMP were provided as part of these engagements.

Treatment of conditional rights on a change in control of QBE

In accordance with the rules of each of QBE's incentive plans, a change in control is defined as either a scheme of arrangement that has been approved by QBE's shareholders or the acquisition by a bidder of at least 50% of the issued and to be issued QBE shares under an unconditional takeover offer made in accordance with the *Corporations Act 2001*.

Should a change in organisational control occur, the People & Remuneration Committee has discretion to determine how unvested conditional rights should be treated, having regard to factors such as the length of time elapsed in the performance period, the level of performance to date and the circumstances of the change of control.

Minimum shareholding

The MSR ensures executives build their shareholding to have significant exposure to QBE's share price. Under the MSR, a minimum of 3x fixed remuneration for the Group CEO (1.5x for other executive KMP) is to be maintained as long as the executive KMP remains at QBE. The value of shareholdings as at 31 December 2019 for each executive KMP is shown on pages 65 to 67. New executive KMP are required to build their shareholdings over a five-year period after becoming an executive KMP.

Trading policy

Trading in QBE ordinary shares is generally permitted outside of designated blackout periods. The QBE Share Trading Policy states that non-executive directors and designated executives should notify any intended share transaction to nominated people within the Group. The policy prohibits the hedging of unvested equity entitlements by executives. The purpose of this prohibition is to ensure that, until equity has vested, there is an alignment between the interests of executives and shareholders, with the effect that share price movements (either positive or negative) will economically impact executive rewards. There is a further restriction on hedging vested equity entitlements if such entitlements count towards the executive's MSR.

The policy is enforced by requiring non-executive directors and executives to sign an annual declaration that confirms compliance with the restrictions on hedging. A copy of QBE's trading policy for dealing in securities is available from www.group.qbe.com/corporate-governance/background-documents.

Dilution limits for share plans

Shares awarded under QBE's employee share plans may be purchased on market or issued subject to Board discretion and the requirements of the *Corporations Act 2001* and the ASX Listing Rules. At 31 December 2019, the proportion of shares and unvested conditional rights and options held in the QBE Employee Share Plan is 1.57%. This is significantly less than the maximum of 10% over a 10-year period allowed under the plan rules.

Managing risk

By continuing to invest in managing our risk in an increasingly dynamic environment, we will build a stronger and resilient QBE.

The People & Remuneration Committee works with Group Risk and Human Resources to ensure that any risk associated with remuneration arrangements is managed within the Group's risk management framework. The Chairman of the People & Remuneration Committee is a member of the Risk & Capital Committee and vice versa.

The remuneration governance framework incorporates risk oversight policies, so that executives cannot unduly influence a decision that could materially impact their own incentive outcome. The attendance of the full Board at the People & Remuneration Committee meetings and close working relationship with the Risk & Capital Committee strengthen remuneration governance across QBE.

The performance-based components of remuneration established in QBE's incentive plans are designed to encourage behaviour that supports the Group's long-term financial soundness.

Specifically, the QBE incentive plans:
- recognise adherence to QBE's risk management processes and support the QBE risk culture in a robust and globally consistent manner through a minimum set of corporate standards that apply to all employees across the performance year;
- balance both short and long-term performance through STI and LTI based on performance against a range of financial metrics that measure progress against longer-term strategy;
- incorporate individual objectives through the STI that measure demonstrable proactive sound risk management, including the setting of a clear and consistent tone about the importance of managing risk throughout the organisation;
- set financial targets in the context of business plans that have been appropriately stress-tested by the Group CRO;
- defer a significant portion of the STI award in equity (which vests over an extended timeframe);
- have plan rules which provide the Board with discretion to take other factors into account when determining the appropriate award outcome;
- include a malus provision (see below);
- enable the build-up of meaningful shareholding through STI deferred equity and LTI underpinned by a minimum shareholding requirement for executive KMP (see page 68); and
- result in a target remuneration mix that is appropriately balanced between fixed/variable remuneration and short-term/long-term.

The Group CRO attends the People & Remuneration Committee annually to report on executive risk behaviours.

As part of the year end process, an individual assessment of risk for senior executives has been completed using input from the CRO. Across the QBE Group in 2019, 100 assessments were carried out including for executive KMP and divisional executive teams. As a result of the process, consequences can include executives leaving the organisation, performance ratings being adjusted downward and the position in incentive payout ranges being adjusted downward. This process can also recognise positive risk culture and risk management through the upward adjustment of performance ratings and incentives payouts. We continue to strengthen this process.

The Group Board approves a comprehensive delegated authority for the Group CEO, which is an integral part of QBE's risk management process.

Executive KMP are required to adhere to a range of group-wide policies to ensure risks are well managed, strong governance structures are in place and high ethical standards are maintained.

Malus provision

The "malus" provision gives the People & Remuneration Committee discretion to reduce the amount of an unvested award (including to zero) in certain circumstances during the retention period including in the case of:
- serious misconduct; or
- circumstances that materially undermine the reputation or performance of QBE; and

on the basis that, in each case, the conduct or circumstances were not foreseen at the time of granting the award.

This provision reflects QBE's obligations under APRA's Prudential Standard CPS 510 to incorporate terms allowing for the adjustment of incentive awards to protect QBE's financial soundness and ability to respond to unforeseen significant issues. A review against the malus provision was completed as part of the year end process. There was no requirement to apply the provision in 2019.

3. EXECUTIVE KMP REMUNERATION IN DETAIL

At QBE, our purpose is to give people the confidence to achieve their ambitions, both personally and professionally.

Having the right talent across the Group enables us to create shareholder value, whilst prudently managing risk and maintaining strong corporate governance.

To deliver our strategic ambitions we must ensure that our executive remuneration framework reflects QBE's desire to attract and retain the best people.

This section sets out our approach for 2019.

Executive remuneration structure

QBE's executive remuneration structure for 2019 comprised a mix of fixed and at-risk remuneration through STI and LTI plan arrangements.

The graphic provided on page 62 sets out the remuneration framework for the Group CEO for on target performance, and how the remuneration vests over an extended period of time.

The following provides further details for each of these components.

Fixed remuneration

The following outlines key details of executive KMP fixed remuneration.

Description

Fixed remuneration comprises cash salary, superannuation/pension and packaged benefits, additional annual benefits and associated taxes. Additional annual benefits may include health insurance, life assurance, personal accident insurance, car allowances, expatriate benefits, spouse travel to accompany the executive on business and the applicable taxes thereon. Such benefits exclude deemed interest on employee share loans and long service leave accruals.

Fixed remuneration is delivered in accordance with terms and conditions of employment.

Determining fixed remuneration levels

Fixed remuneration considers the diversity, complexity and expertise required of individual roles. Remuneration quantum is set in the context of QBE's broader reward strategy and internal relativities.

To assess the competitiveness of fixed remuneration, the People & Remuneration Committee considers market data and recognised published surveys. In addition, external market reviews are undertaken periodically to inform the setting of competitive fixed remuneration levels.

Executive roles that are Australian-based are generally benchmarked to the ASX30 and ASX10-50 peer group of companies, with a specific focus on global companies and companies in the financial services industry.

Overseas-based executives or roles that have a global reach are compared with a peer group consisting of global insurers. The peer group of companies used for remuneration benchmarking purposes is set out in the table below:

PEER GROUP	DESCRIPTION
ASX peer group	Excludes infrastructure trusts and companies domiciled overseas. The financial services company sub-peer group is determined based on the industry classification listed on the ASX and includes commercial banks and insurers. The sub-peer group of global companies in the ASX is determined based on the global complexity of the organisation using the following criteria: • companies with greater than 25% revenue from overseas; and • companies operating in greater than two geographic locations.
Global insurance peer group	Consists of large, global insurance companies in the Dow Jones Insurance Titans Index excluding life and health insurance, reinsurance and insurance brokers. RSA and Hartford are included in this peer group given their similarities to QBE.

STI

The following outlines the key details of the STI plan.

Description

The STI is a performance-based incentive delivered in the form of an annual cash payment and deferred award in the form of conditional rights to QBE shares. Performance is measured over a 12-month period.

Performance measures and rationale

STI outcomes are based on performance against Group cash ROE and COR and divisional COR targets in the case of divisional executives, as well as individual strategic performance objectives reflecting QBE's strategic priorities as they apply to each executive's role. An explanation of the financial measures and their rationale is provided below:

GROUP CASH ROE	COR
Definition: A measure of how effectively we are managing shareholder's investment in QBE. For the STI, this measure will generally be measured on the same basis as that used to determine shareholder dividends. As a principle, losses due to unbudgeted amortisation/impairment of intangibles will, other than in exceptional circumstances, be included in cash ROE so that executives remain accountable for the management of intangible assets.	**Definition:** Net claims, commissions and expenses as a percentage of net earned premium. Consistent with how we report COR to the market, this is measured excluding the impact of changes in risk-free rates used to discount net outstanding claims. For the purposes of determining 2019 incentive outcomes, the COR for each division has been calculated excluding the result of the Group's captive reinsurer (Equator Re).
Rationale: Cash ROE is a measure of how effectively we manage shareholder funds.	**Rationale:** COR is the most relevant measure of the profitability of our insurance operations. The measure excludes risk-free rates because it is the basis on which we report and the market assesses the performance of QBE.
Adjustments: Any other items (such as material acquisitions or divestments) not included in the business plan and deemed appropriate by the People & Remuneration Committee.	

Strategic performance objectives: The strategic performance objectives are linked to our longer-term strategic priorities. Executive KMP performance against the strategic performance objectives is evaluated annually by the Group CEO, and by the Chairman in respect of the Group CEO, through formal business review assessments which include management of risk. The strategic performance objective outcomes for 2019 are provided on page 64.

STI awards made for the 2019 performance year are detailed on pages 65 to 67.

Vesting schedule

The indicative STI vesting schedule is outlined below:

	THRESHOLD	TARGET	SUPERIOR
% of STI opportunity achieved	30%	100%	150%

The STI rules provide suitable discretion to the People & Remuneration Committee to adjust any formulaic outcome to ensure STI awards appropriately reflect performance.

Instrument and deferral mechanics

67% of any STI award is delivered in cash (50% in the case of the Group CEO) and 33% of any STI award is deferred as conditional rights to QBE shares (50% in the case of the Group CEO).

Deferred STI vests in two equal tranches – half on the first anniversary of the award and the remainder on the second anniversary of the award. Vesting is subject to service conditions and malus provisions during the deferral period. To calculate the number of conditional rights to be granted, the award value is divided by the volume weighted average sale price of QBE shares over the five trading days prior to the grant date. Notional dividends accrue during the deferral period.

Leaver provisions

On voluntary termination, dismissal or termination due to poor performance, all awards are forfeited.

"Good leaver" provisions (e.g. retirement, redundancy, ill health, injury, mutually agreed separation (in some cases)) will apply such that:

- STI opportunity is reduced to a pro-rata amount to reflect the proportion of the performance year in service; and
- deferred awards remain in the plan subject to the original vesting conditions.

Malus provisions

STI deferral is subject to malus, enabling awards to be either forfeited or reduced at the discretion of the People & Remuneration Committee.

3. EXECUTIVE KMP REMUNERATION IN DETAIL

LTI

The following outlines the key details of the LTI plan.

Description

The LTI plan consists of an award of conditional rights to QBE shares. Conditional rights are awarded at no cost to the executive KMP.

Performance measures

Vesting is subject to two equally weighted performance conditions measured over a three-year performance period:

AVERAGE CASH ROE	RELATIVE TSR
Definition: The arithmetic average of the three annual cash ROEs for the three-year performance period. To reduce the impact of extreme catastrophe events or equally very benign periods, we have introduced a catastrophe adjustment which effectively provides a ceiling and floor on catastrophe claims when determining LTI outcomes. See explanation below.	**Definition:** TSR is the change in percentage value of an entity's share price plus the value of reinvested dividends and any capital returns measured over the three-year performance period. TSR of QBE is measured against two independent peer groups: 1. ASX50 peer group (for 50% of the TSR component) 2. Global insurance peer group (for 50% of the TSR component)
Rationale: Cash ROE is the primary financial measure of success for QBE and is most tangible for long-term decision-making.	**Rationale:** The use of two independent peer groups (shown below) provides strong alignment to our shareholder base.

Adjustments: Managing catastrophe risk is a core part of our business, with natural flow through consequences for STI awards across the organisation; however, because the LTI performance period extends over three years, extreme or benign catastrophe periods can have a material effect across multiple LTI awards. A levelling mechanism, which effectively puts a ceiling and a floor on aggregate catastrophe claims when determining LTI outcomes, has been built into the plan from 2019. This levelling mechanism uses a range of +/- 1.5% of net earned premium either side of the budgeted catastrophe allowance for which LTI participants are exposed to catastrophe risk.

For 2019 (being the first year of the performance period), the range is $375 million to $725 million. This means where actual aggregate catastrophe claims (after allowing for reinsurance recoveries) exceed $725 million, aggregate catastrophe claims are capped at this amount for calculating cash ROE. Conversely, in a very benign period, the lower limit of the collar ($375 million) provides a floor on aggregate catastrophe claims for calculating cash ROE. The cost of catastrophe claims for 2019 was within the range of the collar and consequently no adjustment will be made for 2019.

Any other items (such as material acquisitions or divestments) not included in the business plan and deemed appropriate by the People & Remuneration Committee may be adjusted.

TSR Peer group 1 – ASX50 peer group (excludes any organisations domiciled overseas)

AGL Energy Limited	Cochlear Limited	National Australia Bank Limited	Suncorp Group Limited
Amcor Limited	Coles Group Limited	Newcrest Mining Limited	Sydney Airport
AMP Limited	Commonwealth Bank of Australia	Origin Energy Limited	Tabcorp Holdings Limited
APA Group	Computershare Limited	Qantas Airways Limited	Telstra Corporation Limited
Aristocrat Leisure Limited	Crown Resorts Limited	QBE Insurance Group Limited	Transurban Group
ASX Limited	CSL Limited	Ramsay Health Care Limited	Treasury Wine Estates Limited
Aurizon Holdings Limited	Dexus	REA Group Limited	Vicinity Centres
Australia and New Zealand Banking Group Limited	Fortescue Metals Group Limited	Rio Tinto Limited	Wesfarmers Limited
Australian Foundation Investment Company Limited	Goodman Group	Santos Limited	Westpac Banking Corporation
BHP Group Limited	GPT Group	Scentre Group	Woodside Petroleum Limited
Brambles Limited	Insurance Australia Group Limited	Sonic Healthcare Limited	Woolworths Group Limited
Caltex Australia Limited	Macquarie Group Limited	South32 Limited	
Cimic Group Limited	Mirvac Group	Stockland	

TSR Peer group 2 – Global insurance peer group

Allianz Se-Reg	Beazley	Insurance Australia Group Limited	The Hartford
American International Group	Chubb Corp	QBE Insurance Group Limited	Travellers Cos Inc/The
Aviva Plc	CNA	RSA Group	Zurich Insurance Group Ag
AXA Sa	Hiscox	Suncorp Group Limited	

LTI allocation

To calculate the number of conditional rights to be granted, the award value is divided by the volume weighted average price of QBE shares over the five trading days prior to the grant date.

Vesting schedules

The indicative Group average cash ROE vesting schedule for 2019 awards is outlined below:

QBE'S AVERAGE GROUP ROE PERFORMANCE	% OF LTI CONDITIONAL RIGHTS SUBJECT TO THE GROUP CASH ROE COMPONENT WHICH MAY VEST
Below 8.0%	0%
At 8.0%	30%
Between 8.0% and 12.0%	Straight line vesting between 30% and 100%
At or above 12.0%	100%

The indicative relative TSR vesting schedule for 2019 awards is outlined below:

QBE'S TSR PERFORMANCE RELATIVE TO THE PEER GROUPS	% OF LTI CONDITIONAL RIGHTS SUBJECT TO THE TSR COMPONENT WHICH MAY VEST
Less than 50th percentile	0%
At the 50th percentile	50%
Between 50th and 75th percentile	50% plus 2% for each percentile above the 50th percentile
75th percentile or greater	100%

The LTI rules provide suitable discretion to the People & Remuneration Committee to adjust any formulaic outcome to ensure LTI awards appropriately reflect performance.

Vesting periods

Following assessment of performance measures at the end of the three-year performance period, conditional rights will vest in three tranches as set out in the table below, subject to service conditions and malus provisions.

TRANCHE	VESTING DATE	PERFORMANCE PERIOD	PROPORTION OF ELIGIBLE 2019 LTI CONDITIONAL RIGHTS TO VEST
1	3 March 2022	End of the three-year performance period	33%
2	3 March 2023	First anniversary of the end of the performance period	33%
3	3 March 2024	Second anniversary of the end of the performance period	34%

Notional dividends accrue during the vesting period.

Leaver provisions

"Good leaver" provisions (e.g. retirement, redundancy, ill health, injury, mutually agreed separation (in some cases)) will apply such that a pro-rata amount (applied over the three-year performance period) of LTI conditional rights remain subject to the original performance and vesting conditions.

Malus provisions

LTI is subject to malus provisions, enabling awards to be either forfeited or reduced at the discretion of the People & Remuneration Committee.

Special LTI award

The LTI award made to Richard Pryce in 2019 includes performance criteria that align to specific deliverables as he transitions to retirement. Aside from tailored performance criteria, the terms and conditions of the LTI award to Mr Pryce are consistent with those of other executive KMP. A further tailored LTI award is planned for Mr Pryce in 2020.

For further details of LTI awards made in 2019 please refer to page 77. The 2019 LTI award and 2018 EIP award for the Group CEO were approved by shareholders at the 2019 Annual General Meeting.

3. EXECUTIVE KMP REMUNERATION IN DETAIL

Employment agreements

The table below summarises the material terms for the current executive KMP which are subject to applicable laws. The terms and conditions of employment of each executive KMP reflect market conditions at the time of their contract negotiation on appointment and thereafter.

CONTRACTUAL TERM	GROUP CEO	OTHER EXECUTIVE KMP
Duration	Permanent full-time employment contract until notice given by either party.	
Notice period (by executive KMP or QBE)	12 months: QBE may elect to make a payment in lieu of notice.	Six months: QBE may elect to make a payment in lieu of notice. For Todd Jones, notice required by QBE is 12 months, reducing to six months after 18 months of service.
Treatment of incentives – involuntary termination:	**On termination with cause or for poor performance:** All unvested incentives are forfeited. **On termination without cause:** For STI in the year of termination, the executive remains eligible to be considered for an award on a pro-rata basis, with any award to be determined following the end of the performance year and subject to the standard deferral arrangements. Unvested deferred EIP and STI conditional rights remain in the plan subject to the original vesting dates and malus provisions. A pro-rata number of LTI conditional rights, reflecting the portion of the three-year performance period the executive KMP was in service, remain in the plan subject to the original performance and vesting conditions. Legacy LTI awards generally remain in the plan subject to the original performance and vesting conditions; however, the People & Remuneration Committee has discretion to vest these awards. Legacy QIS-DEA awards generally remain in the plan subject to the original vesting conditions.	
Treatment of incentives – voluntary termination:	All unvested incentives are forfeited.	
Post-employment restraints	12 months non-compete and non-solicitation.	Six months non-compete and non-solicitation.

4. EXECUTIVE KMP REMUNERATION TABLES

4.1 Statutory remuneration disclosures

The following table provides details of the remuneration of QBE's executive KMP as determined by reference to applicable Australian Accounting Standards (AASB) for the financial year ended 31 December 2019. Remuneration has been converted to US Dollars using the average rate of exchange for the relevant year.

		SHORT-TERM EMPLOYMENT BENEFITS			POST EMPLOYMENT BENEFITS	OTHER LONG-TERM EMPLOYEE BENEFITS	SHARE BASED PAYMENTS		
	YEAR	BASE SALARY US$000	OTHER[1] US$000	STI CASH[2] US$000	SUPERANNUATION US$000	LEAVE ACCRUALS[3] US$000	CONDITIONAL RIGHTS[4] US$000	TERMINATION BENEFITS[5] US$000	TOTAL US$000
Patrick Regan	**2019**	**1,459**	**137**	**665**	**–**	**48**	**2,119**	**–**	**4,428**
	2018	1,494	350	686	–	–	1,452	–	3,982
Vivek Bhatia[6]	**2019**	**820**	**14**	**614**	**14**	**56**	**777**	**–**	**2,295**
	2018	802	765	674	15	50	720	–	3,026
Jason Brown[7]	**2019**	**685**	**199**	**406**	**6**	**–**	**449**	**–**	**1,745**
	2018	657	124	352	15	(6)	340	–	1,482
Peter Grewal[6]	**2019**	**507**	**173**	**395**	**14**	**9**	**511**	**–**	**1,609**
	2018	272	178	173	8	19	419	–	1,069
Todd Jones[8]	**2019**	**246**	**731**	**156**	**13**	**–**	**1,165**	**–**	**2,311**
	2018	–	–	–	–	–	–	–	–
Margaret Murphy	**2019**	**553**	**44**	**327**	**14**	**6**	**557**	**–**	**1,501**
	2018	548	26	372	15	2	406	–	1,369
Richard Pryce	**2019**	**1,008**	**173**	**1,051**	**–**	**–**	**1,344**	**–**	**3,576**
	2018	955	147	1,156	–	–	1,159	–	3,417
Inder Singh[6]	**2019**	**750**	**3**	**496**	**14**	**3**	**554**	**–**	**1,820**
	2018	632	31	486	13	(26)	306	–	1,442
Former executive KMP									
Russell Johnston[9]	**2019**	**606**	**16**	**75**	**22**	**–**	**492**	**1,383**	**2,594**
	2018	900	23	647	22	–	567	–	2,159
David McMillan[10]	**2019**	**481**	**169**	**–**	**–**	**–**	**(351)**	**–**	**299**
	2018	933	186	743	–	–	372	–	2,234
Total	**2019**	**7,115**	**1,659**	**4,185**	**97**	**122**	**7,617**	**1,383**	**22,178**
	2018[11]	7,193	1,830	5,289	88	39	5,741	–	20,180

1 "Other" includes provision of motor vehicles, health insurance, spouse travel, staff insurance discount benefits received during the year, life assurance and personal accident insurance and the applicable taxes thereon. It also includes the deemed value of interest-free share loans, tax accruals in respect of remuneration and other one-off expenses. For Todd Jones, this includes a cash payment of $700,000 on commencement to compensate for incentives forfeited in ceasing his previous employment to join QBE, payable in March 2020.
2 STI cash is payable in March 2020 for performance in 2019. For 2018, this refers to EIP cash.
3 Includes the movement in annual leave and long service leave provisions during the year.
4 The fair value at grant date of conditional rights is determined using appropriate models including Monte Carlo simulations, depending on the vesting conditions. The fair value of each conditional right is recognised evenly over the service period ending at vesting date. Where an award will no longer vest, the related accounting charge for any non-market component is reversed in full and the reversal is included in the table above. For Todd Jones, this includes $2,700,000 of conditional rights granted as compensation for incentives forfeited on ceasing his previous employment to join QBE in addition to a pro-rata grant of conditional rights for the 2019 LTI. Details of grants of conditional rights are provided on pages 76 to 77.
5 "Termination benefits" includes apportioned fixed remuneration, and related benefits if applicable, paid for the balance of the notice period to the termination date, STI cash awards from the date of ceasing to be executive KMP to the date of termination, the accelerated accounting charge or reversal of equity vesting or cancellation and other termination payments.
6 Vivek Bhatia, Peter Grewal and Inder Singh were all executive KMP for part of the year during 2018.
7 Jason Brown relocated to the United Kingdom with effect from 4 November 2019.
8 Todd Jones was executive KMP for part of the year, having commenced employment with QBE from 1 October 2019.
9 Former CEO, North America Russell Johnston's termination benefits, in accordance with contractual terms, includes apportioned fixed remuneration and related benefits from the date of ceasing to be an executive KMP (16 August 2019) to the end of his notice period ($574,000), a payment for career transition services ($25,000), legal fees ($20,000), and future accounting charges on unvested equity brought forward to 2019 due to termination ($764,000).
10 Former Group Chief Operations Officer David McMillan was an executive KMP for part of the year having ceased employment with QBE on 12 July 2019.
11 The 2018 totals above are not the same as those disclosed in the 2018 Remuneration Report because of changes in executive KMP.

4. EXECUTIVE KMP REMUNERATION TABLES

4.2 Conditional rights movements

Equity awards at QBE are granted in the form of conditional rights. A conditional right is a promise by QBE to acquire or issue one fully paid ordinary QBE Insurance Group Limited share where certain conditions are met.

The table below details conditional rights provided under the terms of both current and legacy plans, details of which can be found at pages 71 to 73 and 78, and contractual arrangements. LTI conditional rights are subject to future performance hurdles as detailed on pages 72 to 73.

Conditional rights under the STI for the 2019 performance year will be granted in March 2020.

2019	BALANCE AT 1 JAN 2019 NUMBER	GRANTED NUMBER[1]	VALUE AT GRANT DATE US$000[2]	VESTED AND EXERCISED NUMBER[3]	VALUE AT VESTING DATE US$000	FORFEITED / LAPSED NUMBER[4]	NOTIONAL DIVIDENDS ATTACHING IN THE YEAR NUMBER	BALANCE AT 31 DEC 2019 NUMBER[5]
Patrick Regan	446,654	647,060	5,350	(59,489)	516	(293,027)	31,940	773,138
Vivek Bhatia	84,423	209,744	1,651	(42,211)	368	–	10,859	262,815
Jason Brown	103,171	140,132	1,083	(28,648)	249	(54,079)	6,917	167,493
Peter Grewal	94,943	90,159	686	(52,746)	460	–	5,705	138,061
Todd Jones	–	467,668	3,846	–	–	–	–	467,668
Margaret Murphy	129,949	127,161	994	(8,919)	78	(27,602)	9,504	230,093
Richard Pryce	351,506	352,703	2,983	(79,160)	691	(163,637)	19,886	481,298
Inder Singh	86,058	175,282	1,370	(16,486)	143	(40,562)	8,808	213,100
Former executive KMP								
Russell Johnston	196,524	246,446	1,918	(40,282)	350	(204,240)	6,764	205,212
David McMillan	15,250	248,535	1,952	(3,812)	33	(265,838)	5,865	–

1 On commencement of employment, Todd Jones was granted conditional rights as compensation for incentives forfeited on ceasing his previous employment to join QBE. The awards comprise two equal tranches of conditional rights, with vesting on 1 March 2020 and 1 March 2021 subject to service conditions, and a pro-rata LTI grant subject to the performance conditions detailed on pages 72 to 73. A special LTI grant of conditional rights to Richard Pryce in 2019 has performance conditions as detailed on page 73.

2 The value at grant date is calculated in accordance with AASB 2 *Share-based Payment.*

3 Includes the second tranche of the deferred portion of the 2016 STI award which vested during 2019. The 2016 STI plan structure aligned closely to the 2019 STI plan. STI outcomes were subject to the achievement of multiple performance measures over the one-year performance period including the Group's ROE target; individual performance ratings; and, for divisional staff, divisional return on allocated capital targets.

4 Includes the 2016 LTI award which lapsed during 2019. The 2016 LTI plan structure aligned closely to the 2019 LTI plan. Equally weighted performance conditions included Group ROE performance targets and the performance of the Group's relative TSR against a comparator group consisting of companies in the Dow Jones Insurance Titans Index Group (adjusted to those with most relevance to QBE's business operations).

5 For Russell Johnston this represents the balance at 16 August 2019, the date he ceased to be an executive KMP. All conditional rights for David McMillan lapsed on ceasing to be an executive KMP.

4.3 Valuation of conditional rights outstanding at 31 December 2019

The table below details the conditional rights issued affecting remuneration of executives in the previous, current or future reporting periods.

2019	GRANT	GRANT DATE	PERFORMANCE PERIOD START DATE	EXERCISE DATE	CONDITIONAL RIGHTS AT 31 DEC 2019 NUMBER[1]	MAXIMUM VALUE OF AWARD TO VEST	FAIR VALUE PER CONDITIONAL RIGHT A$[2] GROUP ROE	TSR	TIME
Patrick Regan	2017 EIP	5-Mar-18	1-Jan-17	2020–2022	98,194	1,012,380			10.31
	2018 EIP	4-Mar-19	1-Jan-18	2020–2023	315,018	4,060,582			12.89
	2019 LTI	4-Mar-19	1-Jan-19	2022–2024	359,926	3,969,088	12.89	9.17	
Vivek Bhatia	Special	1-Feb-18	1-Feb-18	4-Mar-20	44,031	480,819			10.92
	2018 EIP	4-Mar-19	1-Jan-18	2020–2023	115,949	1,411,099			12.17
	2019 LTI	4-Mar-19	1-Jan-19	2022–2024	102,835	1,066,919	12.17	8.58	
Jason Brown	2017 EIP	5-Mar-18	1-Jan-17	2020–2022	21,326	219,871			10.31
	2018 EIP	4-Mar-19	1-Jan-18	2020–2023	60,630	737,867			12.17
	2019 LTI	4-Mar-19	1-Jan-19	2022–2024	85,537	887,448	12.17	8.58	
Peter Grewal	Special	1-Jul-18	1-Jul-18	4-Mar-20	44,015	425,625			9.67
	2018 EIP	4-Mar-19	1-Jan-18	2020–2023	29,774	362,350			12.17
	2019 LTI	4-Mar-19	1-Jan-19	2022–2024	64,272	666,829	12.17	8.58	
Todd Jones	Special	1-Oct-19	1-Oct-19	2020–2021	317,422	3,999,517			12.60
	2019 LTI	1-Oct-19	1-Jan-19	2022–2024	150,246	1,533,641	12.60	7.82	
Margaret Murphy	2017 EIP	5-Mar-18	1-Jan-17	2020–2022	19,728	203,396			10.31
	Special	5-Mar-18	5-Mar-18	4-Mar-21	77,724	801,334			10.31
	2018 EIP	4-Mar-19	1-Jan-18	2020–2023	64,084	779,902			12.17
	2019 LTI	4-Mar-19	1-Jan-19	2022–2024	68,557	711,281	12.17	8.58	
Richard Pryce	2017 EIP	5-Mar-18	1-Jan-17	2020–2022	113,395	1,169,102			10.31
	2018 EIP	4-Mar-19	1-Jan-18	2020–2023	207,976	2,531,068			12.17
	Special	4-Mar-19	1-Jan-19	2022–2024	159,927	1,946,312			12.17
Inder Singh	2017 EIP	5-Mar-18	1-Jan-17	2020–2022	30,261	311,991			10.31
	2018 EIP	4-Mar-19	1-Jan-18	2020–2023	88,571	1,077,909			12.17
	2019 LTI	4-Mar-19	1-Jan-19	2022–2024	94,268	978,023	12.17	8.58	
Former executive KMP									
Russell Johnston[3]	2017 EIP	5-Mar-18	1-Jan-17	2020–2022	38,879	400,842			10.31
	2018 EIP	4-Mar-19	1-Jan-18	2020–2023	115,129	1,401,120			12.17
	2019 LTI	4-Mar-19	1-Jan-19	2022–2024	136,878	1,420,106	12.17	8.58	
David McMillan[4]	2017 EIP	5-Mar-18	1-Jan-17	2020–2022	11,696	120,586			10.31
	2018 EIP	4-Mar-19	1-Jan-18	2020–2023	131,070	1,595,122			12.17
	2019 LTI	4-Mar-19	1-Jan-19	2022–2024	123,072	1,276,879	12.17	8.58	

1 Includes original grant of conditional rights and notional dividends.
2 The fair value of conditional rights at grant date is determined using appropriate models including Monte Carlo simulations, depending on the vesting conditions. The fair value of each conditional right is recognised evenly over the service period ending at vesting date. For the 2019 LTI allocations the TSR fair value shown above was averaged over the two peer groups.
3 For Russell Johnston this represents the number of conditional rights at 16 August 2019, immediately prior to ceasing to be an executive KMP.
4 For David McMillan this represents the number of conditional rights at 12 July 2019, immediately prior to ceasing to be an executive KMP. All rights were subsequently lapsed.

4. EXECUTIVE KMP REMUNERATION TABLES

4.4 Executive shareholdings

The table below details movements during the year in the number of ordinary shares in QBE held by executives, including their personally related parties.

2019	INTEREST IN SHARES AT 1 JAN 2019 NUMBER	DIVIDENDS REINVESTED NUMBER	CONDITIONAL RIGHTS VESTED NUMBER	SHARES PURCHASED / (SOLD) NUMBER	INTEREST IN SHARES AT 31 DEC 2019[1] NUMBER	INTEREST IN SHARES AT 31 DEC 2019 SUBJECT TO NON-RECOURSE LOANS NUMBER
Patrick Regan	823,138	32,911	59,489	–	915,538	–
Vivek Bhatia	–	1,819	42,211	–	44,030	–
Jason Brown	130,112	6,812	28,648	–	165,572	2,676
Peter Grewal	–	1,190	52,746	(53,936)	–	–
Todd Jones	–	–	–	–	–	–
Margaret Murphy	2,613	497	8,919	–	12,029	–
Richard Pryce	155,909	5,240	79,160	(37,325)	202,984	–
Inder Singh	13,838	1,307	16,486	–	31,631	–
Former executive KMP						
Russell Johnston	90,215	911	40,282	(14,486)	116,922	–
David McMillan	16,570	45	3,812	(1,838)	18,589	–

1 For Russell Johnston and David McMillan this represents the interest in shares at 16 August 2019 and 12 July 2019 respectively, the dates they ceased to be executive KMP.

4.5 Loans

Prior to 20 June 2005, non-recourse loans were provided by the Group to executive KMP for the purchase of shares in QBE. All non-recourse loans are due to be paid within 10 days of ceasing employment. Under AASB 2 *Share-based Payment*, non-recourse loans and the related shares are derecognised and are instead treated as options.

2019	BALANCE AT 1 JAN 2019 A$000	LOANS MADE IN THE YEAR A$000	REPAYMENTS A$000	BALANCE AT 31 DEC 2019 A$000	INTEREST NOT CHARGED A$000[1]	HIGHEST BALANCE IN THE PERIOD A$000
Jason Brown	3	–	–	3	–	3

1 Deemed value of interest not charged for the period as executive KMP.

4.6 Legacy equity schemes

The information below summarises QBE's legacy incentive plans.

Executive incentive plan (EIP) – until 31 December 2018

The EIP was an at-risk reward structure comprised of cash and deferred equity that vested progressively over a five-year period. The EIP was replaced by the STI and LTI plans for executive KMP for 2019 but remains in use for senior employees below the executive KMP level. 40% of the award is delivered in cash (20% in the case of the Group CEO) and 60% of the award is deferred as conditional rights to fully paid ordinary QBE shares (80% in the case of Group CEO).

The conditional rights were deferred over four equal tranches; 25% over each of the four anniversaries of the award. EIP outcomes were subject to the achievement of multiple performance measures over the one-year performance period including the Group's ROE and COR targets, individual performance ratings and for divisional staff, divisional COR targets.

QBE incentive scheme (QIS) – until 31 December 2013

The QBE Incentive Scheme (QIS) was a short-term, at-risk reward structure comprised of cash and deferred equity awards (QIS-DEA). It came into effect from 1 January 2010 and was applicable to deferred equity awards made in the period March 2011 to March 2014. Half of the conditional rights vest after three years and the remaining half after five years. During the period from the date of the QIS grant to the vesting date of the conditional rights, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of QBE. The shares issued pursuant to the conditional rights are issued without payment being made by the recipient (i.e. at a nil exercise price).

5. NON-EXECUTIVE DIRECTOR REMUNERATION

The following section contains information on the approach to non-executive director remuneration, the fees, other benefits and shareholdings.

Remuneration philosophy

Non-executive director remuneration reflects QBE's desire to attract, motivate and retain experienced independent directors and to ensure their active participation in the Group's affairs for the purposes of corporate governance, regulatory compliance and other matters. QBE aims to provide a level of remuneration for non-executive directors comparable with its peers, which include multinational financial institutions. The Board reviews surveys published by independent remuneration consultants and other public information to ensure that fee levels are appropriate. The remuneration arrangements of non-executive directors are distinct and separate from the executive KMP.

Fee structure and components

The aggregate amount approved by shareholders at the 2017 AGM was A$4,000,000 per annum.

The total amount paid to non-executive directors in 2019 was A$3,851,000 (2018 A$3,536,000).

Under the current fee framework, non-executive directors receive a base fee expressed in Australian dollars. In addition, a non-executive director (other than the Chairman) may receive further fees for chairmanship or membership of a board committee.

No changes were made to non-executive remuneration during 2019 and none are proposed for 2020.

The non-executive director fee structure in place since 2017 is shown in the table below.

ROLE	CHAIRMAN FEE	DEPUTY CHAIRMAN FEE	MEMBER FEE
Board	A$663,000	A$229,000	A$208,000
Committee	A$50,000	–	A$27,000

Other benefits

Non-executive directors do not receive any performance-based remuneration such as cash incentives or equity awards. Under QBE's constitution, non-executive directors are entitled to be reimbursed for all travel and related expenses properly incurred in connection with the business of QBE. All non-executive directors receive an annual cash travel allowance of A$42,750 (A$64,000 for the Chairman) in addition to fees for the time involved in travelling to Board meetings and other Board commitments.

Superannuation

QBE pays superannuation to Australian-based non-executive directors in accordance with Australian superannuation guarantee legislation. Overseas-based non-executive directors receive the cash equivalent amount in addition to their fees. From 1 January 2020, Australian-based directors may elect to opt out of superannuation contributions as long as they are still receiving contributions from at least one employer. In such cases, a superannuation allowance will be paid in lieu of actual contributions.

Minimum shareholding requirement

With effect from 1 April 2014, a non-executive director MSR was introduced for the Group Board. Under this requirement, non-executive directors have five years to build a minimum shareholding equal to 100% of annual base fees.

To assist current and new non-executive directors in meeting the requirement, a Director Share Acquisition Plan (DSAP) was established with effect from 1 June 2014. The DSAP allows non-executive directors to sacrifice a portion of their pre-tax director fees to acquire QBE shares.

Where the MSR has not been met, non-executive directors are required to sacrifice a mandatory minimum amount of 20% of pre-tax fees into the DSAP until the minimum shareholding is achieved. Shares acquired in this way are not subject to performance targets, as they are acquired in place of cash payments. Directors' shareholdings are shown overleaf. All non-executive directors have met the MSR as at 31 December 2019.

5. NON-EXECUTIVE DIRECTOR REMUNERATION

Non-executive director shareholdings

The table below details movements during the year in the number of ordinary shares in QBE held by the non-executive directors, including their personally related parties.

2019	INTEREST IN SHARES AT 1 JAN 2019 NUMBER	CHANGES DURING THE YEAR NUMBER	INTEREST IN SHARES AT 31 DEC 2019 NUMBER
Marty Becker	136,985	11,082	148,067
Fred Eppinger[1]	–	3,115	3,115
Stephen Fitzgerald	48,478	5,759	54,237
John M Green	37,258	–	37,258
Kathryn Lisson	23,297	4,996	28,293
Sir Brian Pomeroy	22,297	5,230	27,527
Jann Skinner	50,000	–	50,000
Rolf Tolle	39,759	6,126	45,885
Michael Wilkins	25,107	3,407	28,514

1 Fred Eppinger commenced 1 January 2019 and retired 6 December 2019. The interest in shares represents the number as of 6 December 2019.

Remuneration details for non-executive directors

The table below details the nature and amount of each component of the remuneration of QBE's current non-executive directors. Remuneration has been converted to US Dollars using the average rate of exchange for the relevant year.

		SHORT-TERM EMPLOYMENT BENEFITS		POST EMPLOYMENT BENEFITS		
NON-EXECUTIVE DIRECTOR	YEAR	FEES[1] US$000	OTHER US$000	SUPERANNUATION – SGC[2] US$000	SUPERANNUATION – OTHER US$000	TOTAL US$000
Marty Becker	**2019**	**553**	**4**	**–**	**–**	**557**
	2018	595	–	–	–	595
Fred Eppinger[3]	**2019**	**217**	**3**	**–**	**–**	**220**
	2018	–	–	–	–	–
Stephen Fitzgerald	**2019**	**288**	**–**	**–**	**–**	**288**
	2018	302	–	–	–	302
John M Green	**2019**	**283**	**–**	**14**	**12**	**309**
	2018	310	–	15	14	339
Kathryn Lisson	**2019**	**250**	**4**	**–**	**–**	**254**
	2018	268	–	–	–	268
Sir Brian Pomeroy	**2019**	**255**	**2**	**–**	**–**	**257**
	2018	290	–	–	–	290
Jann Skinner	**2019**	**244**	**–**	**14**	**9**	**267**
	2018	261	–	15	10	286
Rolf Tolle	**2019**	**270**	**2**	**–**	**–**	**272**
	2018	290	–	–	–	290
Michael Wilkins	**2019**	**231**	**–**	**14**	**7**	**252**
	2018	248	–	15	8	271
Total	**2019**	**2,591**	**15**	**42**	**28**	**2,676**
	2018	2,564	–	45	32	2,641

1 Travel allowances, additional fees in lieu of superannuation in Australia and amounts sacrificed in relation to the DSAP are included in directors' fees.
- Marty Becker, Fred Eppinger, Stephen Fitzgerald, Kathryn Lisson, Sir Brian Pomeroy and Rolf Tolle receive additional fees of 9.5% in lieu of superannuation in Australia.
- Marty Becker, Fred Eppinger, Stephen Fitzgerald, Kathryn Lisson, Sir Brian Pomeroy, Rolf Tolle and Michael Wilkins all participate in the DSAP.

2 John Green, Jann Skinner and Michael Wilkins are Australian residents. Superannuation is calculated as 9.5% of fees. Superannuation in excess of the statutory minimum may be taken as additional cash fees or in the form of superannuation contributions at the option of the director.

3 Fred Eppinger commenced 1 January 2019 and retired 6 December 2019.

Directors' Report continued

FOR THE YEAR ENDED 31 DECEMBER 2019

Auditor

PricewaterhouseCoopers, Chartered Accountants, continues in office in accordance with section 327B of the *Corporations Act 2001*.

Non-audit services

During the year, PricewaterhouseCoopers performed certain other services in addition to statutory duties.

The Board, on the advice of the Audit Committee, has considered the position and is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are also satisfied that the provision of non-audit services by the auditor, as set out in note 8.7 to the financial statements, did not compromise the auditor independence requirements of the *Corporations Act 2001*.

A copy of the auditor's independence declaration required under section 307C of the *Corporations Act 2001* is set out on page 82.

Details of amounts paid or payable to PricewaterhouseCoopers for audit and non-audit services are provided in note 8.7 to the financial statements.

Rounding of amounts

The Company is of a kind referred to in the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.* Amounts have been rounded off in the Directors' Report to the nearest million dollars or, in certain cases, to the nearest thousand dollars in accordance with that instrument.

Signed in SYDNEY this 17th day of February 2020 in accordance with a resolution of the directors.

W. Marston Becker
Director

Patrick Regan
Director

Directors' Report continued

FOR THE YEAR ENDED 31 DECEMBER 2019

Auditor's independence declaration for the year ended 31 December 2019

As lead auditor for the audit of QBE Insurance Group Limited for the year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of QBE Insurance Group Limited and the entities it controlled during the period.

Voula Papageorgiou
Partner, PricewaterhouseCoopers

Sydney
17 February 2020

Financial Report contents

This Annual Report includes the consolidated financial statements for QBE Insurance Group Limited (the ultimate parent entity or the Company) and its controlled entities (QBE or the Group). All amounts in this Financial Report are presented in US dollars unless otherwise stated. QBE Insurance Group Limited is a company limited by its shares and incorporated and domiciled in Australia. Its registered office is located at:

Level 27, 8 Chifley Square
Sydney NSW 2000
Australia

A description of the nature of the Group's operations and its principal activities is included on pages 4 to 31, none of which is part of this Financial Report. The Financial Report was authorised for issue by the directors on 17 February 2020. The directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the company. All material press releases, this Financial Report and other information are available at our QBE investor centre at our website: www.qbe.com.

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTE	2019 US$M	2018 US$M
Gross written premium		**13,442**	13,657
Unearned premium movement		**(185)**	(56)
Gross earned premium revenue	2.1	**13,257**	13,601
Outward reinsurance premium		**(1,825)**	(1,562)
Deferred reinsurance premium movement		**177**	(399)
Outward reinsurance premium expense		**(1,648)**	(1,961)
Net earned premium (a)		**11,609**	11,640
Gross claims expense	2.2	**(9,676)**	(8,931)
Reinsurance and other recoveries revenue	2.2	**1,574**	1,526
Net claims expense (b)	2.2	**(8,102)**	(7,405)
Gross commission expense		**(2,178)**	(2,222)
Reinsurance commission revenue	2.1	**359**	265
Net commission (c)		**(1,819)**	(1,957)
Underwriting and other expenses (d)		**(1,690)**	(1,798)
Underwriting result (a)+(b)+(c)+(d)		**(2)**	480
Investment and other income – policyholders' funds	3.1	**660**	357
Investment expenses – policyholders' funds	3.1	**(11)**	(11)
Insurance profit		**647**	826
Investment and other income – shareholders' funds	3.1	**393**	207
Investment expenses – shareholders' funds	3.1	**(6)**	(6)
Financing and other costs	5.1.2	**(257)**	(305)
(Losses) gains on sale of entities and businesses	7.1.1	**(8)**	12
Unrealised losses on assets held for sale	7.1.2	**–**	(25)
Share of net loss of associates		**(3)**	(2)
Restructuring and related expenses		**(43)**	–
Amortisation and impairment of intangibles	7.2	**(51)**	(80)
Profit before income tax from continuing operations		**672**	627
Income tax expense	6.1	**(104)**	(72)
Profit after income tax from continuing operations		**568**	555
Loss after income tax from discontinued operations	7.1.3	**(21)**	(177)
Profit after income tax		**547**	378
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net movement in foreign currency translation reserve	5.3.2	**28**	275
Net movement in cash flow hedge and cost of hedging reserves	5.3.2	**(7)**	–
Income tax relating to these components of other comprehensive income		**2**	38
Other comprehensive income from discontinued operations after income tax		**10**	147
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit plans		**(9)**	20
Income tax relating to this component of other comprehensive income		**2**	(5)
Other comprehensive income after income tax		**26**	475
Total comprehensive income after income tax		**573**	853
Profit (loss) after income tax from continuing operations attributable to:			
Ordinary equity holders of the company		**571**	567
Non-controlling interests		**(3)**	(12)
		568	555
Profit (loss) after income tax attributable to:			
Ordinary equity holders of the company		**550**	390
Non-controlling interests		**(3)**	(12)
		547	378
Total comprehensive income (loss) after income tax attributable to:			
Ordinary equity holders of the company		**576**	865
Non-controlling interests		**(3)**	(12)
		573	853

EARNINGS PER SHARE FOR PROFIT AFTER INCOME TAX ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	NOTE	2019 US CENTS	2018 US CENTS
For profit after income tax from continuing operations			
Basic earnings per share	5.5	**43.4**	42.1
Diluted earnings per share	5.5	**43.1**	41.7
For profit after income tax			
Basic earnings per share	5.5	**41.8**	29.0
Diluted earnings per share	5.5	**41.5**	28.6

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

AS AT 31 DECEMBER 2019

	NOTE	2019 US$M	2018 US$M
Assets			
Cash and cash equivalents	5.2	**547**	863
Investments	3.2	**23,790**	21,989
Derivative financial instruments	5.6	**195**	176
Trade and other receivables	2.6	**4,621**	5,185
Current tax assets		**36**	75
Deferred insurance costs	2.5	**1,907**	1,662
Reinsurance and other recoveries on outstanding claims	2.3	**5,104**	5,551
Other assets		**13**	11
Assets held for sale	7.1.2	**–**	533
Defined benefit plan surpluses	8.6	**45**	36
Right-of-use lease assets		**275**	–
Property, plant and equipment		**170**	196
Deferred tax assets	6.2	**479**	442
Investment properties		**37**	35
Investments in associates		**25**	28
Intangible assets	7.2	**2,791**	2,800
Total assets		**40,035**	39,582
Liabilities			
Derivative financial instruments	5.6	**202**	208
Trade and other payables	2.7	**1,675**	1,327
Current tax liabilities		**43**	31
Liabilities held for sale	7.1.2	**–**	453
Unearned premium	2.5	**6,460**	6,212
Outstanding claims	2.3	**19,915**	19,579
Lease liabilities		**299**	–
Provisions		**136**	137
Defined benefit plan deficits	8.6	**42**	26
Deferred tax liabilities	6.2	**15**	21
Borrowings	5.1	**3,095**	3,188
Total liabilities		**31,882**	31,182
Net assets		**8,153**	8,400
Equity			
Share capital	5.3.1	**7,594**	7,830
Treasury shares held in trust		**(1)**	(7)
Reserves	5.3.2	**(1,335)**	(1,363)
Retained profits		**1,895**	1,921
Shareholders' funds		**8,153**	8,381
Non-controlling interests		**–**	19
Total equity		**8,153**	8,400

The consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2019

	SHARE CAPITAL US$M	TREASURY SHARES HELD IN TRUST US$M	RESERVES US$M	RETAINED PROFITS US$M	SHARE-HOLDERS' FUNDS US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
As reported at 31 December 2018	**7,830**	**(7)**	**(1,363)**	**1,921**	**8,381**	**19**	**8,400**
Adjustment on adoption of new accounting standards (note 8.1.1)	**–**	**–**	**–**	**(83)**	**(83)**	**–**	**(83)**
As at 1 January 2019	**7,830**	**(7)**	**(1,363)**	**1,838**	**8,298**	**19**	**8,317**
Profit (loss) after income tax	**–**	**–**	**–**	**550**	**550**	**(3)**	**547**
Other comprehensive income	**–**	**–**	**33**	**(7)**	**26**	**–**	**26**
Total comprehensive income (loss)	**–**	**–**	**33**	**543**	**576**	**(3)**	**573**
Transactions with owners in their capacity as owners							
Shares bought back on-market and cancelled	**(205)**	**–**	**–**	**–**	**(205)**	**–**	**(205)**
Shares acquired and held in trust	**–**	**(63)**	**–**	**–**	**(63)**	**–**	**(63)**
Share-based payment expense	**–**	**–**	**38**	**–**	**38**	**–**	**38**
Shares vested and/or released	**–**	**69**	**(41)**	**–**	**28**	**–**	**28**
Contributions of equity, net of transaction costs and tax	**1**	**–**	**–**	**–**	**1**	**–**	**1**
Net changes in non-controlling interests	**–**	**–**	**(4)**	**–**	**(4)**	**(12)**	**(16)**
Reclassification on disposal of owner occupied property	**–**	**–**	**3**	**(3)**	**–**	**–**	**–**
Dividends paid on ordinary shares	**–**	**–**	**–**	**(488)**	**(488)**	**(4)**	**(492)**
Dividend reinvestment under Bonus Share Plan	**–**	**–**	**–**	**5**	**5**	**–**	**5**
Foreign exchange movement	**(32)**	**–**	**(1)**	**–**	**(33)**	**–**	**(33)**
As at 31 December 2019	**7,594**	**(1)**	**(1,335)**	**1,895**	**8,153**	**–**	**8,153**

	SHARE CAPITAL US$M	TREASURY SHARES HELD IN TRUST US$M	RESERVES US$M	RETAINED PROFITS US$M	SHARE-HOLDERS' FUNDS US$M	NON-CONTROLLING INTERESTS US$M	TOTAL EQUITY US$M
As at 1 January 2018	8,931	(50)	(1,785)	1,763	8,859	42	8,901
Profit (loss) after income tax	–	–	–	390	390	(12)	378
Other comprehensive income	–	–	460	15	475	–	475
Total comprehensive income (loss)	–	–	460	405	865	(12)	853
Transactions with owners in their capacity as owners							
Shares bought back on-market and cancelled	(243)	–	–	–	(243)	–	(243)
Shares acquired and held in trust	–	(30)	–	–	(30)	–	(30)
Share-based payment expense	–	–	34	–	34	–	34
Shares vested and/or released	–	69	(53)	–	16	–	16
Contributions of equity, net of transaction costs and tax	1	–	–	–	1	–	1
Net changes in non-controlling interests	–	–	–	–	–	(7)	(7)
Reclassification on disposal of owner occupied property	–	–	(2)	2	–	–	–
Dividends paid on ordinary shares	–	–	–	(252)	(252)	(4)	(256)
Dividend reinvestment under Bonus Share Plan	–	–	–	3	3	–	3
Foreign exchange movement	(859)	4	(17)	–	(872)	–	(872)
As at 31 December 2018	7,830	(7)	(1,363)	1,921	8,381	19	8,400

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTE	2019 US$M	2018 US$M
Operating activities			
Premium received		**13,705**	14,302
Reinsurance and other recoveries received		**2,373**	1,589
Outward reinsurance premium paid		**(1,815)**	(2,564)
Claims paid		**(8,899)**	(9,874)
Acquisition and other underwriting costs paid		**(3,729)**	(3,961)
Interest received		**473**	492
Dividends received		**127**	219
Other operating payments		**(154)**	(201)
Interest paid		**(250)**	(240)
Income taxes paid		**(52)**	(205)
Net cash flows from operating activities	8.3	**1,779**	(443)
Investing activities			
Net payments for purchase of growth assets		**(127)**	(658)
Net (payments for purchase) proceeds on sale of interest bearing financial assets		**(890)**	2,192
Net payments for foreign exchange transactions		**(64)**	(46)
Payments for purchase of intangible assets		**(84)**	(70)
Proceeds on sale of property, plant and equipment		**1**	5
Payments for purchase of property, plant and equipment		**(30)**	(30)
Payments on acquisition of non-controlling interests		**(13)**	–
Proceeds on disposal of entities and businesses (net of cash disposed)		**131**	313
Net cash flows from investing activities		**(1,076)**	1,706
Financing activities			
Payments for shares bought back on-market and cancelled		**(205)**	(243)
Purchase of treasury shares		**(63)**	(30)
Proceeds from settlement of staff share loans		**1**	1
Payments relating to principal element of lease liabilities		**(59)**	–
Proceeds from borrowings		**–**	3
Repayment of borrowings		**(199)**	(409)
Dividends paid		**(459)**	(237)
Net cash flows from financing activities		**(984)**	(915)
Net movement in cash and cash equivalents		**(281)**	348
Cash and cash equivalents at the beginning of the year		**863**	572
Effect of exchange rate changes		**(37)**	(35)
Net cash flows attributable to entities held for sale		**2**	(22)
Cash and cash equivalents at the end of the year	5.2	**547**	863

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2019

1. OVERVIEW

1.1 About QBE

About QBE Insurance Group

QBE is one of the world's largest insurance and reinsurance companies, with operations in all the major insurance markets. Formed in Australia in 1886, QBE employs more than 11,700 people and carries on insurance activities in 27 countries, with operations in Australia, Europe, North America, Asia and the Pacific. QBE's captive reinsurer, Equator Re, provides reinsurance protection to our divisions in conjunction with the Group's external reinsurance programs.

QBE is listed on the Australian Securities Exchange and is a for-profit entity.

About insurance

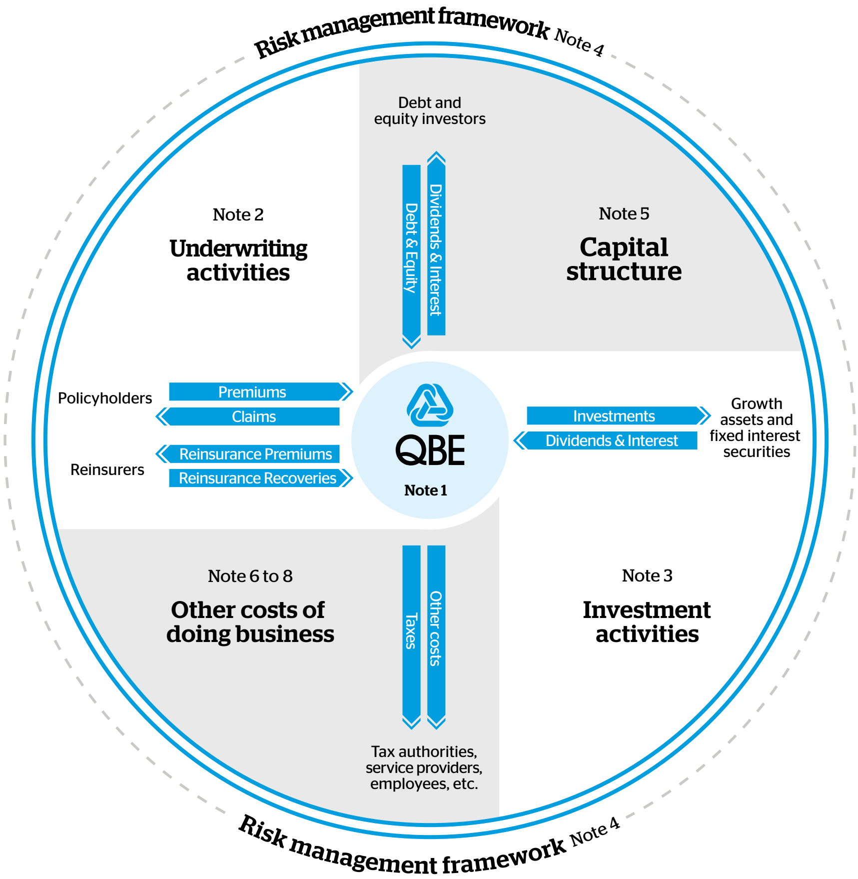
In simple terms, insurance and reinsurance companies help their customers (consumers, businesses and other insurance companies) to manage risk. More broadly put, an insurance company creates value by pooling and redistributing risk. This is done by collecting premium from those that it insures (i.e. policyholders), and then paying the claims of the few that call upon their insurance protection. The company may also choose to reduce some of its own accumulated risk through the use of outward reinsurance, which is insurance for insurance companies. As not all policyholders will actually experience a claims event, the effective pooling and redistribution of risk lowers the total cost of risk management, thereby making insurance protection more cost effective for all.

The operating model of insurance companies relies on profits being generated:

- by appropriately pricing risk and charging adequate premium to cover the expected payouts that will be incurred over the life of the insurance policy (both claims and operating expenses); and
- by earning a return on the collected premium and funds withheld to pay future claims through the adoption of an appropriate investment strategy.

Insurance therefore serves a critical function of providing customers with the confidence to achieve their business and personal goals through cost-effective risk management. This is achieved within a highly regulated environment, designed to ensure that insurance companies maintain adequate capital to protect the interests of policyholders.

The diagram below presents a simplified overview of the key components of this Financial Report.



1.2 About this report

This Financial Report includes the consolidated financial statements of QBE Insurance Group Limited (the ultimate parent entity or the Company) and its controlled entities (QBE or the Group).

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), balance sheet, statement of changes in equity and statement of cash flows as well as associated notes as required by Australian Accounting Standards. Disclosures have been grouped into the following categories in order to assist users in their understanding of the financial statements:

1. **Overview** contains information that impacts the Financial Report as a whole as well as segment reporting disclosures.
2. **Underwriting activities** brings together results and balance sheet disclosures relevant to the Group's insurance activities.
3. **Investment activities** includes results and balance sheet disclosures relevant to the Group's investments.
4. **Risk management** provides commentary on the Group's exposure to various financial and capital risks, explaining the potential impact on the results and balance sheet and how the Group manages these risks.
5. **Capital structure** provides information about the debt and equity components of the Group's capital.
6. **Tax** includes disclosures relating to the Group's tax balances.
7. **Group structure** provides a summary of the Group's controlled entities and includes disclosures in relation to transactions impacting the Group structure.
8. **Other** includes additional disclosures required in order to comply with Australian Accounting Standards.

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures.
- **Disclosures** (both numbers and commentary) provide analysis of balances as required by Australian Accounting Standards.
- **How we account for the numbers** summarises the accounting policies relevant to an understanding of the numbers.
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by QBE in determining the numbers.

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, balance sheet and results of the Group. Information is considered material and relevant if:

- the amount in question is significant because of its size or nature;
- it is important to assist in understanding the results of the Group;
- it helps to explain the impact of significant changes in the Group's business – for example, significant acquisitions or disposals; or
- it relates to an aspect of the Group's operations that is important to its future performance.

1.2.1 Basis of preparation

This Financial Report is a general purpose financial report which:

- has been prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board (AASB), International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the *Corporations Act 2001*;
- has been prepared on a historical cost basis as modified by certain exceptions, the most significant of which are the measurement of investments and derivatives at fair value and the measurement of the net outstanding claims liability at present value;
- is presented in US dollars; and
- is presented with values rounded to the nearest million dollars or, in certain cases, to the nearest thousand dollars in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*.

New and amended Accounting Standards and Interpretations issued by the AASB that are now effective are detailed in note 8.1.

The Group has not adopted any Accounting Standards and Interpretations that have been issued or amended but are not yet effective.

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at 31 December 2019 and the results for the financial year then ended. In preparing the consolidated financial statements, all transactions between controlled entities are eliminated in full. Where control of an entity commences or ceases during a financial year, the results are included for that part of the year during which control existed. A list of entities controlled by the Company at year end is contained in note 7.3.

Lloyd's syndicates are accounted for on a proportional basis. The nature of Lloyd's syndicates is such that, even when one party provides the majority of capital, the syndicate as a whole is not controlled for accounting purposes.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2019

1. OVERVIEW

1.2.2 Critical accounting judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements and estimates that affect reported amounts. The diversity and complexity of the Group is evidenced by its international operations and the broad product range as shown in the class of business analysis in note 4.2.

In view of its geographic and product diversity, the Group has developed a centralised risk management and policy framework designed to ensure consistency of approach across a number of operational activities, subject to the specific requirements of local markets, legislation and regulation. Such operational activities include underwriting, claims management, actuarial assessment of the outstanding claims liability and investment management.

Given the centralised approach to many activities and the diversity of products and geographies, sensitivity analyses in respect of critical accounting estimates and judgements are presented at the consolidated Group level in order to provide information and analysis which is meaningful, relevant, reliable and comparable year on year. Sensitivity disclosure at business segment or product level would not provide a meaningful overview given the complex interrelationships between the variables underpinning the Group's operations.

The key areas in which critical estimates and judgements are applied are as follows:

- net outstanding claims liability (note 2.3);
- liability adequacy test (note 2.5.1);
- recoverability of deferred tax assets (note 6.2.3); and
- impairment testing of intangible assets (note 7.2.1).

1.2.3 Foreign currency

Translation of foreign currency transactions and balances

Transactions included in the financial statements of controlled entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). Foreign currency transactions are translated into functional currencies at the spot rates of exchange applicable at the dates of the transactions. At the balance date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at that date. Resulting exchange gains and losses are included in profit or loss.

Translation of foreign operations

The results and balance sheets of all foreign operations that have a functional currency different from the Group's presentation currency of US dollars are translated into US dollars as follows:

- income, expenses and other current period movements in comprehensive income are translated at average rates of exchange; and
- balance sheet items are translated at the closing balance date rates of exchange.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity and recognised in other comprehensive income. When a foreign operation is sold in whole or part and capital is repatriated, exchange differences on translation from the entity's functional currency to the ultimate parent entity's functional currency of Australian dollars are reclassified out of other comprehensive income and recognised in profit or loss as part of the gain or loss on sale.

Hedging of foreign exchange risk

The Group manages its foreign exchange exposures as part of its foreign currency risk management processes, further information on which is provided in note 4.4.

QBE uses borrowings in mitigating currency risk on translation of net investments in foreign operations to the ultimate parent's functional currency of Australian dollars. QBE does not ordinarily use derivatives to mitigate such risks; however, in periods of extraordinary volatility that are expected to persist for an extended period of time, QBE may elect to utilise derivatives to mitigate currency translation risk to preserve capital. The volatility created by the UK referendum decision to leave the European Union (Brexit) is an example of such volatility. Since July 2016, the Group has elected on occasions to employ derivatives to hedge its sterling net investments in foreign operations.

QBE also uses derivatives in mitigating risk associated with foreign currency transactions and balances.

The Group ordinarily designates hedge relationships which meet the specified criteria in AASB 9 *Financial Instruments* as either cash flow hedges or hedges of a net investment in a foreign operation. Further information on the accounting for derivatives and for designated hedge relationships is provided in note 5.6.

Exchange rates

The principal exchange rates used in the preparation of the financial statements were:

	2019		2018	
	PROFIT OR LOSS	BALANCE SHEET	PROFIT OR LOSS	BALANCE SHEET
A$/US$	**0.695**	**0.702**	0.747	0.704
£/US$	**1.276**	**1.325**	1.334	1.275
€/US$	**1.119**	**1.122**	1.180	1.146

1.3 Segment information

Overview

Information is provided by operating segment to assist the understanding of the Group's performance. The operating segments are consistent with the basis on which information is provided to the Group Executive Committee for measuring performance and determining the allocation of capital, being the basis upon which the Group's underwriting products and services are managed within the various markets in which QBE operates.

This note presents the results of continuing operations only. The results of discontinued operations are presented in note 7.1.3.

Operating segments

Consistent with information provided to the Group Executive Committee for the current period, the following changes have been made to the Group's reportable segments, with comparatives restated accordingly:

- entities in Asia have been combined with European Operations to form the new International segment;
- entities in the Pacific have been combined with Australian & New Zealand Operations to form the Australia Pacific segment; and
- the results of the Group's captive reinsurer, Equator Re, have been incorporated into the results of other segments.

The Group's operating segments are now as follows:

- North America writes general insurance and reinsurance business in the US.
- International writes general insurance business principally in the UK, Canada and throughout mainland Europe; both general insurance and reinsurance business through Lloyd's of London; worldwide reinsurance business through offices in the UK, Ireland, Bermuda and mainland Europe; and provides personal and commercial insurance covers in Hong Kong, Singapore, Malaysia and Vietnam.
- Australia Pacific primarily underwrites general insurance risks throughout Australia, New Zealand and the Pacific region, providing all major lines of insurance for personal and commercial risks.

Corporate & Other includes non-operating holding companies that do not form part of the Group's insurance operations; gains or losses on disposals except those relating to discontinued operations (refer note 7.1.3); and financing costs and amortisation of any intangibles which are not allocated to a specific operating segment. It also includes consolidation adjustments and internal reinsurance eliminations. Intersegment transactions are priced on an arm's length basis and are eliminated on consolidation.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2019

1. OVERVIEW

2019	NORTH AMERICA US$M	INTERNATIONAL US$M	AUSTRALIA PACIFIC US$M	TOTAL REPORTABLE SEGMENTS US$M	CORPORATE & OTHER US$M	TOTAL US$M
Gross written premium	4,637	4,924	3,920	13,481	(39)	13,442
Gross earned premium revenue – external	4,646	4,728	3,883	13,257	–	13,257
Gross earned premium revenue – internal	–	11	2	13	(13)	–
Outward reinsurance premium expense	(704)	(650)	(317)	(1,671)	23	(1,648)
Net earned premium	3,942	4,089	3,568	11,599	10	11,609
Net claims expense	(3,168)	(2,740)	(2,223)	(8,131)	29	(8,102)
Net commission	(599)	(689)	(526)	(1,814)	(5)	(1,819)
Underwriting and other expenses	(506)	(634)	(519)	(1,659)	(31)	(1,690)
Underwriting result	(331)	26	300	(5)	3	(2)
Net investment income on policyholders' funds	144	304	187	635	14	649
Insurance (loss) profit	(187)	330	487	630	17	647
Net investment income on shareholders' funds	171	115	109	395	(8)	387
Financing and other costs	(3)	(2)	(5)	(10)	(247)	(257)
Losses on sale of entities and businesses	–	–	–	–	(8)	(8)
Share of net loss of associates	–	–	–	–	(3)	(3)
Restructuring and related expenses	(4)	(6)	(30)	(40)	(3)	(43)
Amortisation and impairment of intangibles	–	–	(31)	(31)	(20)	(51)
(Loss) profit before income tax from continuing operations	(23)	437	530	944	(272)	672
Income tax credit (expense)	5	(92)	(164)	(251)	147	(104)
(Loss) profit after income tax from continuing operations	(18)	345	366	693	(125)	568
Net loss from continuing operations attributable to non-controlling interests	–	–	–	–	3	3
Net (loss) profit after income tax from continuing operations	(18)	345	366	693	(122)	571

2018	NORTH AMERICA US$M	INTERNATIONAL US$M	AUSTRALIA PACIFIC US$M	TOTAL REPORTABLE SEGMENTS US$M	CORPORATE & OTHER US$M	TOTAL US$M
Gross written premium	4,711	4,876	4,104	13,691	(34)	13,657
Gross earned premium revenue – external	4,612	4,854	4,103	13,569	32	13,601
Gross earned premium revenue – internal	–	35	–	35	(35)	–
Outward reinsurance premium expense	(816)	(855)	(345)	(2,016)	55	(1,961)
Net earned premium	3,796	4,034	3,758	11,588	52	11,640
Net claims expense	(2,575)	(2,467)	(2,310)	(7,352)	(53)	(7,405)
Net commission	(592)	(789)	(561)	(1,942)	(15)	(1,957)
Underwriting and other expenses	(547)	(643)	(542)	(1,732)	(66)	(1,798)
Underwriting result	82	135	345	562	(82)	480
Net investment income on policyholders' funds	64	114	153	331	15	346
Insurance profit (loss)	146	249	498	893	(67)	826
Net investment income on shareholders' funds	66	38	90	194	7	201
Financing and other costs	–	–	–	–	(305)	(305)
Gains on sale of entities and businesses	–	–	–	–	12	12
Unrealised losses on assets held for sale	–	–	–	–	(25)	(25)
Share of net loss of associates	–	–	–	–	(2)	(2)
Amortisation and impairment of intangibles	–	–	(25)	(25)	(55)	(80)
Profit (loss) before income tax from continuing operations	212	287	563	1,062	(435)	627
Income tax (expense) credit	(45)	(53)	(167)	(265)	193	(72)
Profit (loss) after income tax from continuing operations	167	234	396	797	(242)	555
Net loss from continuing operations attributable to non-controlling interests	–	–	–	–	12	12
Net profit (loss) after income tax from continuing operations	167	234	396	797	(230)	567

Geographical analysis

North America is defined by reference to its geographical location and, as such, satisfies the requirements of a geographical analysis as well as an operating segment analysis.

Gross earned premium revenue – external for Australia, the parent entity's country of domicile, was $3,487 million (2018 $3,675 million). No other country within International or Australia Pacific is individually material in this respect.

Product analysis

QBE does not collect Group-wide revenue information by product and the cost to develop this information would be excessive. Gross earned premium revenue by class of business is disclosed in note 4.2.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2019

2. UNDERWRITING ACTIVITIES

Overview

This section provides analysis and commentary on the Group's underwriting activities. Underwriting, in simple terms, is the agreement by the insurer to assume insurance risk in return for a premium paid by the insured. The underwriter assesses the quality of the risk and prices it accordingly.

2.1 Revenue

Overview

Revenue mainly comprises premiums charged for providing insurance coverage. Premiums are classified as either:

- direct, being those paid by the policyholder to the insurer;
- facultative, being reinsurance of an individual (usually significant) risk by a ceding insurer or reinsurer; or
- inward reinsurance premiums, being coverage provided to an insurer or reinsurer in relation to a specified grouping of policies or risks.

Other sources of revenue include amounts recovered from reinsurers under the terms of reinsurance contracts, commission income from reinsurers and salvage or third party recoveries.

	NOTE	2019 US$M	2018 US$M
Gross earned premium revenue			
Direct and facultative		**12,146**	12,531
Inward reinsurance		**1,111**	1,070
		13,257	13,601
Other revenue			
Reinsurance and other recoveries revenue	2.2	**1,574**	1,526
Reinsurance commission revenue		**359**	265
		15,190	15,392

How we account for the numbers

Premium revenue

Premium written comprises amounts charged to policyholders, excluding taxes collected on behalf of third parties. Premium is recognised as revenue in profit or loss based on the incidence of the pattern of risk associated with the insurance policy. The earned portion of premium on unclosed business, being business that is written at the balance date but for which detailed policy information is not yet booked, is also included in premium revenue.

Reinsurance and other recoveries

Reinsurance and other recoveries on paid claims, reported claims not yet paid, claims incurred but not reported (IBNR) and claims incurred but not enough reported (IBNER) are recognised as revenue. Recoveries are measured as the present value of the expected future receipts.

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2.2 Net claims expense

Overview

The largest expense for an insurance company is net claims expense, which is the difference between the net outstanding claims liability (as described in note 2.3 below) at the beginning and the end of the financial year plus any claims payments made net of reinsurance and other recoveries received during the financial year.

	NOTE	2019 US$M	2018 US$M
Gross claims and related expenses			
Direct and facultative		**8,881**	8,197
Inward reinsurance		**795**	734
		9,676	8,931
Reinsurance and other recoveries revenue			
Direct and facultative		**1,517**	1,372
Inward reinsurance		**57**	154
	2.1	**1,574**	1,526
Net claims expense		**8,102**	7,405
Analysed as follows:			
Movement in net discounted central estimate	2.4.2	**8,125**	7,393
Movement in risk margin	2.3.3	**(23)**	12
Net claims expense		**8,102**	7,405

2.3 Net outstanding claims liability

Overview

The net outstanding claims liability comprises the elements described below.

- The gross central estimate (note 2.3.1). This is the provision for expected future claims payments and includes claims reported but not yet paid, IBNR, IBNER and estimated claims handling costs.
- Less reinsurance and other recoveries (note 2.3.2). Insurance companies may elect to purchase reinsurance cover to manage their exposure to any one claim or series of claims. When an insurance company incurs a claim as a result of an insured loss, it may be able to recover some of that claim from reinsurance. An insurer may also be entitled to non-reinsurance recoveries under the insurance contract such as salvage, subrogation and sharing arrangements with other insurers.
- Less an amount to reflect the discount to present value using risk-free rates of return. The net central estimate is discounted to present value recognising that the claim and/or recovery may not be settled for some time. The weighted average risk-free rate for each operating segment and for the consolidated Group are summarised in note 2.3.4.
- Plus a risk margin (note 2.3.3). A risk margin is added to reflect the inherent uncertainty in the net discounted central estimate of outstanding claims.

	NOTE	2019 US$M	2018 US$M
Gross discounted central estimate	2.3.1	**18,779**	18,421
Risk margin	2.3.3	**1,136**	1,158
Gross outstanding claims liability		**19,915**	19,579
Reinsurance and other recoveries on outstanding claims	2.3.2	**(5,104)**	(5,551)
Net outstanding claims liability		**14,811**	14,028

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2019

2. UNDERWRITING ACTIVITIES

The table below analyses the movement in the net outstanding claims liability, showing separately the movement in gross claims liability and the impact of reinsurance.

		2019			2018		
	NOTE	GROSS US\$M	REINSURANCE US\$M	NET US\$M	GROSS US\$M	REINSURANCE US\$M	NET US\$M
At 1 January		**19,579**	**(5,551)**	**14,028**	21,579	(6,311)	15,268
Claims expense – current accident year	2.4.2	**8,698**	**(973)**	**7,725**	8,829	(1,356)	7,473
Claims expense – prior accident year	2.4.2	**1,001**	**(601)**	**400**	90	(170)	(80)
Movement in risk margin	2.3.3	**(23)**	**–**	**(23)**	12	–	12
Incurred claims recognised in profit or loss from continuing operations	2.2	**9,676**	**(1,574)**	**8,102**	8,931	(1,526)	7,405
Incurred claims recognised in profit or loss from discontinued operations[1]		**–**	**–**	**–**	64	(5)	59
Transfers to liabilities held for sale/disposals		**–**	**–**	**–**	(465)	96	(369)
Claims payments		**(9,290)**	**1,824**	**(7,466)**	(9,397)	2,077	(7,320)
Foreign exchange		**(50)**	**197**	**147**	(1,133)	118	(1,015)
At 31 December		**19,915**	**(5,104)**	**14,811**	19,579	(5,551)	14,028

1 2018 reflects the movement from the beginning of the period to the dates that the related balances were transferred to liabilities held for sale. Note 7.1.3 provides information on profit or loss from discontinued operations to the dates of disposal.

2.3.1 Gross discounted central estimate

	NOTE	2019 US\$M	2018 US\$M
Gross undiscounted central estimate excluding claims settlement costs		**19,202**	19,304
Claims settlement costs		**369**	350
Gross undiscounted central estimate		**19,571**	19,654
Discount to present value		**(792)**	(1,233)
Gross discounted central estimate	2.3	**18,779**	18,421
Payable within 12 months		**6,609**	6,606
Payable in greater than 12 months		**12,170**	11,815
Gross discounted central estimate	2.3	**18,779**	18,421

How we account for the numbers

The gross discounted central estimate is the present value of the expected future payments for claims incurred and includes reported but unpaid claims, IBNR, IBNER and claims handling costs. The central estimate is determined by the Group Chief Actuary, supported by a team of actuaries in each of the Group's divisions. The valuation process is performed quarterly and, on at least a semi-annual basis, includes extensive consultation with claims and underwriting staff as well as senior management. The central estimate of outstanding claims is also subject to annual comprehensive independent actuarial review. The risk management procedures related to the actuarial function are explained in note 4.2.

Critical accounting judgements and estimates

The determination of the amounts that the Group will ultimately pay for claims arising under insurance and inward reinsurance contracts involves a number of critical assumptions. Some of the uncertainties impacting these assumptions are as follows:

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs for long-tail insurance classes due to the longer period of time that can elapse before a claim is paid in full;
- the existence of complex underlying exposures;
- the incidence of catastrophic events close to the balance date;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages; and
- changing social, political and economic trends, for example price and wage inflation.

The estimation of IBNR and IBNER is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims that have been reported to the Group but not yet paid, for which more information about the claims is generally available. The notification and settlement of claims relating to liability and other long-tail classes of business may not happen for many years after the event giving rise to the claim. As a consequence, liability and other long-tail classes typically display greater variability between initial estimates and final settlement due to delays in reporting claims and uncertainty in respect of court awards and future claims inflation. Claims in respect of property and other short-tail classes are typically reported and settled soon after the claim event, giving rise to more certainty.

Central estimates for each class of business are determined using a variety of estimation techniques, generally based on an analysis of historical experience and with reference to external benchmarks where relevant. The gross central estimate is discounted to present value using appropriate risk-free rates.

Central estimates are calculated gross of any reinsurance and other recoveries. A separate estimate is made of the amounts recoverable based on the gross central estimate (note 2.3.2).

2.3.2 Reinsurance and other recoveries on outstanding claims

	NOTE	2019 US$M	2018 US$M
Reinsurance and other recoveries on outstanding claims – undiscounted[1]		**5,342**	5,931
Discount to present value		**(238)**	(380)
Reinsurance and other recoveries on outstanding claims	2.3	**5,104**	5,551
Receivable within 12 months		**1,902**	2,153
Receivable in greater than 12 months		**3,202**	3,398
Reinsurance and other recoveries on outstanding claims	2.3	**5,104**	5,551

1 Net of a provision for impairment of $23 million (2018 $25 million).

How we account for the numbers

The recoverability of amounts due from reinsurers is assessed at each balance date to ensure that the balances properly reflect the amounts ultimately expected to be received, taking into account counterparty credit risk and the contractual terms of the reinsurance contract. Counterparty credit risk in relation to reinsurance assets is considered in note 4.3. Recoveries are discounted to present value using appropriate risk-free rates.

2. UNDERWRITING ACTIVITIES

2.3.3 Risk margin

Overview

A risk margin is determined by the Group Board to reflect the inherent uncertainty in the net discounted central estimate.

The risk margin and the net discounted central estimate are key inputs in the determination of the probability of adequacy, which is a statistical measure of the relative adequacy of the outstanding claims liability to ultimately be able to pay claims. For example, a 90% probability of adequacy indicates that the outstanding claims liability is expected to be adequate nine years in 10.

		2019	2018
Risk margin	US$M	**1,136**	1,158
Risk margin as a percentage of the net discounted central estimate	%	**8.3**	9.0
Probability of adequacy	%	**90.0**	90.1

Excluding the impact of foreign exchange which increased the risk margin by $1 million (2018 $63 million decrease), the net movement in profit or loss was a release of $23 million (2018 $12 million charge). The resulting probability of adequacy was 90.0% compared with 90.1% last year. Net profit after tax would have decreased by $5 million if the probability of adequacy was maintained at 90.1%.

How we account for the numbers

AASB 1023 *General Insurance Contracts* requires an entity to adopt an appropriate risk margin. The resulting probability of adequacy is not of itself an accounting policy as defined by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

QBE reviews a number of factors when determining the appropriate risk margin, including any changes in the level of uncertainty in the net discounted central estimate, the resulting probability of adequacy and the risk margin as a percentage of the net discounted central estimate. The Group aims to maintain a probability of adequacy in the range of 87.5% to 92.5%.

Critical accounting judgements and estimates

The risk margin is determined by the Group Board and is held to mitigate the potential for uncertainty in the net discounted central estimate. The determination of the appropriate level of risk margin takes into account similar factors to those used to determine the central estimate, such as:

- mix of business, in particular the mix of short-tail and long-tail business and the overall weighted average term to settlement; and
- the level of uncertainty in the central estimate due to estimation error, data quality, variability of key inflation assumptions and possible economic and legislative changes.

The variability by class of business is measured using techniques that determine a range of possible outcomes of ultimate payments and assign a likelihood to outcomes at different levels. These techniques generally use standard statistical distributions, and the measure of variability is referred to as the coefficient of variation.

The appropriate risk margin for two or more classes of business or for two or more geographic locations combined is likely to be less than the sum of the risk margins for the individual classes, reflecting the benefit of diversification in general insurance, but is not determined by reference to a fixed probability of adequacy. The statistical measure used to determine diversification is called the correlation; the higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class. For example, higher correlation exists between classes of business affected by court cases involving bodily injury claims such as motor third party liability, workers' compensation and public liability, particularly in the same jurisdiction.

The probability of adequacy for the Group is determined by analysing the variability of each class of business and the correlation between classes of business and divisions. Correlations are determined for aggregations of classes of business, where appropriate, at the divisional level. The correlations adopted by the Group are generally derived from industry analysis, the Group's historical experience and the judgement of experienced and qualified actuaries.

2.3.4 Discount rate used to determine the outstanding claims liability

Overview

Claims in relation to long-tail classes of business (e.g. professional indemnity and workers' compensation) typically may not settle for many years. As such, the liability is discounted to reflect the time value of money. The table below summarises the weighted average discount rate for each operating segment and for the consolidated Group. Comparative information has been restated to reflect the changes in operating segments described in note 1.3.

	2019 %	2018 %
North America	**1.97**	2.76
International	**0.72**	1.17
Australia Pacific	**1.01**	1.93
Group	**1.05**	1.66

How we account for the numbers

AASB 1023 *General Insurance Contracts* requires that the net central estimate is discounted to reflect the time value of money using risk-free rates that are based on current observable, objective rates that reflect the nature, structure and terms of the future obligations.

2.3.5 Weighted average term to settlement

Overview

The weighted average term to settlement refers to the period from the balance date to the expected date of claims settlement. All other factors being equal, a longer weighted average term to settlement generally results in a larger impact on the central estimate from discounting. The table below summarises the weighted average term to settlement for each operating segment and for the consolidated Group. Comparative information has been restated to reflect the changes in operating segments described in note 1.3.

	2019 YEARS						2018 YEARS					
	US$	£	A$	€	OTHER	TOTAL	US$	£	A$	€	OTHER	TOTAL
North America	**3.4**	**–**	**–**	**–**	**–**	**3.4**	3.4	–	–	–	–	3.4
International	**3.7**	**4.0**	**3.2**	**5.9**	**2.3**	**4.4**	3.4	3.4	3.4	5.2	2.4	4.0
Australia Pacific	**–**	**–**	**2.4**	**–**	**1.7**	**2.3**	–	–	2.3	–	1.8	2.2
Group	**3.5**	**4.0**	**2.4**	**5.9**	**2.2**	**3.6**	3.4	3.4	2.5	5.2	2.2	3.3

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2. UNDERWRITING ACTIVITIES

2.3.6 Net discounted central estimate maturity profile

Overview

The maturity profile is the Group's expectation of the period over which the net central estimate will be settled. The Group uses this information to ensure that it has adequate liquidity to pay claims as they are due to be settled and to inform the Group's investment strategy. The table below summarises the expected maturity profile of the Group's net discounted central estimate for each operating segment. Comparative information has been restated to reflect the changes in operating segments described in note 1.3.

2019	LESS THAN 1 YEAR US$M	13 TO 24 MONTHS US$M	25 TO 36 MONTHS US$M	37 TO 48 MONTHS US$M	49 TO 60 MONTHS US$M	OVER 5 YEARS US$M	TOTAL US$M
North America	**1,370**	**448**	**324**	**236**	**165**	**586**	**3,129**
International	**2,091**	**1,101**	**920**	**740**	**542**	**1,948**	**7,342**
Australia Pacific	**1,246**	**684**	**466**	**314**	**181**	**313**	**3,204**
	4,707	**2,233**	**1,710**	**1,290**	**888**	**2,847**	**13,675**

2018	LESS THAN 1 YEAR US$M	13 TO 24 MONTHS US$M	25 TO 36 MONTHS US$M	37 TO 48 MONTHS US$M	49 TO 60 MONTHS US$M	OVER 5 YEARS US$M	TOTAL US$M
North America	1,231	522	265	142	114	522	2,796
International	1,976	1,289	887	600	495	1,763	7,010
Australia Pacific	1,246	667	440	252	164	295	3,064
	4,453	2,478	1,592	994	773	2,580	12,870

2.3.7 Impact of changes in key variables on the net outstanding claims liability

Overview

The impact of changes in key variables used in the calculation of the outstanding claims liability is summarised in the table below. Each change has been calculated in isolation from the other changes and shows the after tax impact on profit or loss assuming that there is no change to any of the other variables. In practice, this is considered unlikely to occur as, for example, an increase in interest rates is normally associated with an increase in the rate of inflation. Over the medium to longer term, the impact of a change in discount rates is expected to be largely offset by the impact of a change in the rate of inflation.

The sensitivities below assume that all changes directly impact profit after tax. In practice, however, if the central estimate was to increase, it is possible that part of the increase may result in an offsetting change in the level of risk margin required rather than in a change to profit after tax, depending on the nature of the change in the central estimate and risk outlook. Likewise, if the coefficient of variation were to increase, it is possible that the probability of adequacy would reduce from its current level rather than result in a change to net profit after income tax.

		PROFIT (LOSS)[1]	
	SENSITIVITY %	2019 US$M	2018 US$M
Net discounted central estimate	+5	**(479)**	(450)
	-5	**479**	450
Risk margin	+5	**(40)**	(41)
	-5	**40**	41
Inflation rate	+0.5	**(177)**	(155)
	-0.5	**168**	147
Discount rate	+0.5	**168**	147
	-0.5	**(177)**	(155)
Coefficient of variation	+1	**(126)**	(119)
	-1	**125**	119
Probability of adequacy	+1	**(39)**	(40)
	-1	**36**	37
Weighted average term to settlement	+10	**39**	56
	-10	**(39)**	(56)

1 Impact on continuing operations net of tax at the Group's prima facie income tax rate of 30%.

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FOR THE YEAR ENDED 31 DECEMBER 2019

2. UNDERWRITING ACTIVITIES

2.4 Claims development – net undiscounted central estimate

Overview

The claims development table demonstrates the extent to which the original estimate of net ultimate claims payments in any one accident year (item (a) in the table below) has subsequently developed favourably (i.e. claims cost estimates have reduced) or unfavourably (i.e. further claims expense has been recognised in subsequent years). This table therefore illustrates the variability and inherent uncertainty in estimating the central estimate each year. The ultimate claims cost for any particular accident year is not known until all claims payments have been made which, for some long-tail classes of business, could be many years into the future. The estimate of net ultimate claims payments at the end of each subsequent accident year demonstrates how the original estimate has been revised over time (b).

Cumulative net claims payments (d) are deducted from the estimate of net ultimate claims payments in each accident year (c) at the current balance date, resulting in the undiscounted central estimate at a fixed rate of exchange (e). This is revalued to the balance date rate of exchange (f) to report the net undiscounted central estimate (g), which is reconciled to the discounted net outstanding claims liability (h). The treatment of foreign exchange in the claims development table is explained on the following page.

The net increase (decrease) in estimated net ultimate claims payments (i) reflects the estimated ultimate net claims payments at the end of the current financial year (c) less the equivalent at the end of the previous financial year (b). This is further summarised in note 2.4.1.

The claims development table is presented net of reinsurance. With insurance operations in 27 countries, hundreds of products, various reinsurance arrangements and with the Group's risk tolerance managed on a consolidated basis, it is considered neither meaningful nor practicable to provide this information other than on a consolidated Group basis.

		2009 & PRIOR US$M	2010 US$M	2011 US$M	2012 US$M	2013 US$M	2014 US$M	2015 US$M	2016 US$M	2017 US$M	2018 US$M	2019 US$M	TOTAL US$M
Net ultimate claims payments[1]													
(a)	Original estimate of net ultimate claims payments		6,513	8,529	7,532	7,119	6,948	6,225	6,607	7,902	7,090	7,487	
(b)	One year later		6,566	8,737	7,587	7,037	6,953	6,243	6,385	7,640	7,255		
	Two years later		6,600	8,767	7,483	6,987	6,811	6,022	6,427	7,597			
	Three years later		6,599	8,613	7,479	6,967	6,719	5,909	6,438				
	Four years later		6,593	8,602	7,472	6,885	6,782	5,821					
	Five years later		6,596	8,551	7,426	6,989	6,783						
	Six years later		6,514	8,524	7,449	6,952							
	Seven years later		6,453	8,558	7,414								
	Eight years later		6,484	8,527									
	Nine years later		6,456										
(c)	Current estimate of net ultimate claims payments		6,456	8,527	7,414	6,952	6,783	5,821	6,438	7,597	7,255	7,487	70,730
(d)	Cumulative net payments to date		(6,057)	(8,350)	(7,347)	(6,451)	(6,666)	(5,075)	(5,326)	(5,789)	(4,493)	(2,442)	(57,996)
(e)	Net undiscounted central estimate at fixed rate of exchange[2]	755	399	177	67	501	117	746	1,112	1,808	2,762	5,045	13,489
(f)	Foreign exchange impact												348
	Provision for impairment												23
(g)	Net undiscounted central estimate at 31 Dec 2019												13,860
	Discount to present value												(554)
	Claims settlement costs												369
	Risk margin												1,136
(h)	Net outstanding claims liability at 31 Dec 2019 (note 2.3)												14,811
(i)	Movement in estimated net ultimate claims payments (note 2.4.1)	45	(28)	(31)	(35)	(37)	1	(88)	11	(43)	165	7,487	7,447

1 Excludes discontinued operations, consistent with other profit or loss disclosures.

2 Excludes claims settlement costs.

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How we account for the numbers

The estimate of net ultimate claims payments attributable to business acquired is generally included in the claims development table in the accident year in which the acquisition was made. The exception is increased participation in Lloyd's syndicates where the estimate of net ultimate claims payments is allocated to the original accident year(s) in which the underlying claim was incurred.

The Group writes business in currencies other than the US dollar. The translation of ultimate claims estimates denominated in foreign currencies gives rise to foreign exchange movements which have no direct bearing on the development of the underlying claims. To eliminate this distortion, amounts have been translated to the functional currencies of our controlled entities at constant rates of exchange. All estimates of ultimate claims payments for the 10 most recent accident years reported in functional currencies other than US dollars have been translated to US dollars using the 2019 average rates of exchange.

2.4.1 Reconciliation of claims development table to profit or loss

Overview

The table below reconciles the net increase or decrease in estimated net ultimate claims payments in the current financial year from the claims development table (item (i) in note 2.4) to the analysis of current and prior accident year central estimate development recognised in profit or loss (note 2.4.2).

	2019			2018		
	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M
Movement in estimated net ultimate claims payments (note 2.4)[1,2,3]	**7,487**	**(40)**	**7,447**	7,337	(262)	7,075
Movement in claims settlement costs	**386**	**(5)**	**381**	389	5	394
Movement in discount	**(143)**	**452**	**309**	(236)	175	(61)
Other movements	**(5)**	**(7)**	**(12)**	(17)	2	(15)
Movement in net discounted central estimate (note 2.4.2)	**7,725**	**400**	**8,125**	7,473	(80)	7,393

1 Excludes claims settlement costs.

2 2019 prior accident years includes an undiscounted $56 million adverse impact as a result of the Ogden rate change in the UK. Excluding this, the underlying prior accident year release of $96 million from continuing operations comprised positive development in Australia Pacific and International, partly offset by adverse development in North America.

3 2018 prior accident years includes a benefit of $149 million from the reinsurance of Hong Kong construction workers' compensation liabilities. Excluding this recovery, the underlying prior accident year release of $113 million from continuing operations comprised positive development in North America and Australia Pacific, partly offset by adverse development in International.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2019

2. UNDERWRITING ACTIVITIES

2.4.2 Net central estimate development

Overview

The table below further analyses the current and prior accident year movement in the net discounted central estimate, separately identifying the gross and reinsurance components. Prior accident year claims are those claims that occurred in a previous year but for which a reassessment of the claims cost has impacted the result in the current period.

	2019			2018		
	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M
Gross central estimate development						
Undiscounted	**8,878**	**377**	**9,255**	9,148	(146)	9,002
Discount	**(180)**	**624**	**444**	(319)	236	(83)
	8,698	**1,001**	**9,699**	8,829	90	8,919
Reinsurance and other recoveries						
Undiscounted	**1,010**	**429**	**1,439**	1,439	109	1,548
Discount	**(37)**	**172**	**135**	(83)	61	(22)
	973	**601**	**1,574**	1,356	170	1,526
Net central estimate development						
Undiscounted	**7,868**	**(52)**	**7,816**	7,709	(255)	7,454
Discount	**(143)**	**452**	**309**	(236)	175	(61)
Net discounted central estimate development (note 2.4.1)	**7,725**	**400**	**8,125**	7,473	(80)	7,393

2.5 Unearned premium and deferred insurance costs

Overview

Unearned premium

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk of the related business. The unearned premium liability is that portion of gross written premium that QBE has not yet earned in profit or loss as it represents insurance coverage to be provided by QBE after the balance date.

Deferred insurance costs

Premium ceded to reinsurers by QBE in exchange for reinsurance protection is expensed in profit or loss in accordance with the reinsurance contract's expected pattern of incidence of risk. The deferred reinsurance premium asset is that portion of the reinsurance premium that QBE has not yet expensed in profit or loss as it represents reinsurance coverage to be received by QBE after the balance date.

Acquisition costs are the costs associated with obtaining and recording insurance business. Acquisition costs are similarly capitalised and amortised, consistent with the earning of the related premium for that business. Commissions are a type of acquisition cost and are disclosed separately.

Summary of unearned premium and deferred insurance costs balances

	2019 US$M	2018 US$M
Unearned premium (a)	**6,460**	6,212
To be earned within 12 months	**5,912**	5,712
To be earned in greater than 12 months	**548**	500
Unearned premium	**6,460**	6,212
Deferred reinsurance premium[1]	**523**	357
Deferred net commission	**1,008**	951
Deferred acquisition costs	**376**	354
Deferred insurance costs (b)	**1,907**	1,662
To be expensed within 12 months	**1,744**	1,545
To be expensed in greater than 12 months	**163**	117
Deferred insurance costs	**1,907**	1,662
Net premium liabilities (a) – (b)	**4,553**	4,550

1 Deferred reinsurance premium relating to future business not yet written was $71 million (2018 nil).

Unearned premium movements

	2019 US$M	2018 US$M
At 1 January	**6,212**	6,887
Deferral of unearned premium on contracts written in the financial year	**5,162**	6,007
Earning of premium written in previous financial years	**(4,977)**	(5,951)
Net profit or loss movement relating to continuing operations	**185**	56
Net profit or loss movement relating to discontinued operations[1]	**–**	(4)
Transfers from (to) liabilities held for sale/disposals	**17**	(327)
Foreign exchange	**46**	(400)
At 31 December	**6,460**	6,212

1 2018 reflects the movement from the beginning of the period to the dates that the related balances were transferred to liabilities held for sale. Note 7.1.3 provides information on profit or loss from discontinued operations to the dates of disposal.

Deferred insurance costs movement

	DEFERRED REINSURANCE PREMIUM		DEFERRED NET COMMISSION		DEFERRED ACQUISITION COSTS	
	2019 US$M	2018 US$M	2019 US$M	2018 US$M	2019 US$M	2018 US$M
At 1 January	**357**	811	**951**	1,072	**354**	374
Costs deferred in financial year	**399**	363	**754**	815	**299**	304
Amortisation of costs deferred in previous financial years	**(222)**	(762)	**(713)**	(801)	**(271)**	(284)
Impairment	**–**	–	**–**	–	**–**	(2)
Net profit or loss movement relating to continuing operations	**177**	(399)	**41**	14	**28**	18
Net profit or loss movement relating to discontinued operations[1]	**–**	2	**–**	(2)	**–**	(1)
Transfers from (to) assets held for sale/disposals	**1**	(42)	**4**	(66)	**(3)**	(16)
Foreign exchange	**(12)**	(15)	**12**	(67)	**(3)**	(21)
At 31 December	**523**	357	**1,008**	951	**376**	354

1 2018 reflects the movement from the beginning of the period to the dates that the related balances were transferred to assets and liabilities held for sale. Note 7.1.3 provides information on profit or loss from discontinued operations to the dates of disposal.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2019

2. UNDERWRITING ACTIVITIES

How we account for the numbers

Unearned premium

Unearned premium is calculated based on the coverage period of the insurance or reinsurance contract and in accordance with the expected pattern of the incidence of risk, using either the daily pro-rate method or the 24ths method, adjusted where appropriate to reflect different risk patterns.

Deferred insurance costs

Deferred reinsurance premium is calculated based on the period of indemnity provided to QBE by the reinsurance contract and in accordance with the related pattern of the incidence of risk.

Acquisition costs are capitalised when they relate to new business or the renewal of existing business and are amortised on the same basis as the earning pattern for that business. At the balance date, deferred acquisition costs represent the capitalised acquisition costs that relate to unearned premium and are carried forward to a subsequent accounting period in recognition of their future benefit. The carrying value of deferred acquisition costs is subject to impairment testing in the form of the liability adequacy test (note 2.5.1).

2.5.1 Liability adequacy test

Overview

At each balance date, the Group is required to assess net premium liabilities (being unearned premium less deferred insurance costs) to determine whether the amount provided is sufficient to pay future claims net of reinsurance recoveries.

If the present value of expected future net claims including a risk margin exceeds the net premium liabilities, adjusted for deferred reinsurance premium relating to future business not yet written, the net premium liability is deemed deficient. This deficiency is immediately recognised in profit or loss. In recognising the deficiency, an insurer must first write down any related intangible assets and then deferred acquisition costs before recognising an unexpired risk liability.

Expected present value of future cash flows for future claims including risk margin

	2019 US$M	2018 US$M
Undiscounted net central estimate	**4,227**	4,291
Discount to present value	**(104)**	(159)
	4,123	4,132
Risk margin at the 75th percentile of insurance liabilities	**169**	177
Expected present value of future cash flows for future claims including risk margin	**4,292**	4,309

The application of liability adequacy at 31 December 2019 did not identify a deficiency (2018 nil).

How we account for the numbers

At each balance date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future claims cash flows in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate. The assessment is carried out at the operating segment level excluding Europe, Asia, and the Group's captive reinsurer, Equator Re, which are assessed separately, each being a portfolio of contracts subject to broadly similar risks and which are managed together as a single portfolio.

Critical accounting judgements and estimates

In assessing the adequacy of net premium liabilities, AASB 1023 *General Insurance Contracts* requires the inclusion of a risk margin but does not prescribe a minimum level of margin. Whilst there is established practice in the calculation of the probability of adequacy of the outstanding claims liability, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of net premium liabilities.

The liability adequacy test assumes a 75% probability of adequacy. The risk margin (note 2.3.3) is determined on a consistent basis and also reflects the benefit of diversification.

The 75% basis is a recognised industry benchmark in Australia, being the minimum probability of adequacy required for Australian licensed insurers by APRA.

2.6 Trade and other receivables

Overview

Trade and other receivables are principally amounts owed to QBE by policyholders or reinsurance counterparties. Unclosed premium receivables are estimated amounts due to QBE in relation to business for which the Group is on risk but where the policy is not billed to the counterparty at the balance date.

	2019 US$M	2018 US$M
Trade debtors		
Premium receivable[1]	**1,991**	1,903
Reinsurance and other recoveries[2]	**1,095**	1,675
Unclosed premium	**1,054**	1,146
Other trade debtors	**148**	93
	4,288	4,817
Other receivables	**333**	368
Trade and other receivables	**4,621**	5,185
Receivable within 12 months	**4,405**	4,903
Receivable in greater than 12 months	**216**	282
Trade and other receivables	**4,621**	5,185

1 Net of a provision for impairment of $65 million (2018 $69 million).
2 Net of a provision for impairment of $12 million (2018 $22 million).

Due to the predominantly short-term nature of these receivables, the carrying value is assumed to approximate the fair value.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables. No receivables are pledged by the Group as collateral for liabilities or contingent liabilities. Information on the ageing and credit rating of these balances is included in note 4.3.

How we account for the numbers

Receivables are recognised at fair value and are subsequently measured at amortised cost less any impairment.

The vast majority of the Group's receivables arise from general insurance contracts. These include premium receivable, reinsurance and other recoveries, and unclosed premium. For these receivables, a provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. The remainder of the Group's receivables are assessed for impairment based on expected credit losses, the impacts of which are not material. Any increase or decrease in the provision for impairment is recognised in profit or loss within underwriting expenses.

2. UNDERWRITING ACTIVITIES

2.7 Trade and other payables

Overview

Trade payables primarily comprise amounts owed to reinsurance counterparties and cedants. Treasury and investment payables are amounts due to counterparties in settlement of treasury and investment transactions.

	2019 US$M	2018 US$M
Trade payables	**893**	664
Other payables and accrued expenses	**591**	603
Treasury payables	**21**	21
Investment payables	**170**	39
Trade and other payables	**1,675**	1,327
Payable within 12 months	**1,500**	1,140
Payable in greater than 12 months	**175**	187
Trade and other payables	**1,675**	1,327

How we account for the numbers

Trade payables are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest method.

3. INVESTMENT ACTIVITIES

Overview

Premiums collected from policyholders are invested to meet the Group's cash flow needs to pay claims and other expenses, as well as generating a return that contributes to the Group's profitability. A sound investment strategy is therefore integral to the success of the Group's operations.

The Group invests across a diversified range of instruments to achieve an appropriate balance between risk and return. Decisions on where to invest are dependent on expected returns, cash flow requirements of the Group, liquidity of the instrument, credit quality of the instrument and the overall risk appetite of the Group. Further details on the management of risk associated with investment assets can be found in note 4.

3.1 Investment income

	2019 US$M	2018 US$M
Income on fixed interest securities, short-term money and cash	**753**	387
Income on growth assets	**341**	171
Gross investment income[1]	**1,094**	558
Investment expenses	**(17)**	(17)
Net investment income	**1,077**	541
Foreign exchange movement	**(23)**	1
Other income	**1**	5
Other expenses	**(19)**	–
Total investment income	**1,036**	547
Investment and other income – policyholders' funds	**660**	357
Investment expenses – policyholders' funds	**(11)**	(11)
Investment and other income – shareholders' funds	**393**	207
Investment expenses – shareholders' funds	**(6)**	(6)
Total investment income	**1,036**	547

1 Includes net fair value gains of $492 million (2018 losses of $143 million), interest income of $479 million (2018 $487 million) and dividend income of $123 million (2018 $214 million).

How we account for the numbers

Interest income is recognised in the period in which it is earned. Dividends are recognised when the right to receive payment is established. Investment income includes realised and unrealised gains or losses on financial assets which are reported on a combined basis as fair value gains or losses on financial assets.

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3. INVESTMENT ACTIVITIES

3.2 Investment assets

	2019 US$M	2018 US$M
Fixed income		
Short-term money	**1,066**	1,283
Government bonds	**5,813**	4,975
Corporate bonds	**13,268**	12,144
Infrastructure debt	**386**	495
	20,533	18,897
Growth assets		
Developed market equity	**281**	565
Emerging market equity	**108**	289
Emerging market debt	**554**	234
High yield debt	**401**	81
Unlisted property trusts	**716**	913
Infrastructure assets	**903**	851
Private equity	**203**	159
Alternatives	**91**	–
	3,257	3,092
Total investments	**23,790**	21,989
Amounts maturing within 12 months	**4,794**	3,034
Amounts maturing in greater than 12 months	**18,996**	18,955
Total investments	**23,790**	21,989

How we account for the numbers

The Group's investments are required to be measured at fair value through profit or loss, with all investments managed and assessed on a fair value basis to maximise returns within risk appetites and investment strategy parameters and limits. They are therefore initially recognised at fair value, determined as the cost of acquisition excluding transaction costs, and are remeasured to fair value through profit or loss at each reporting date. The fair value hierarchy and the Group’s approach to measuring the fair value of each category of investment instrument is disclosed in note 3.2.1.

All purchases and sales of investments that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the Group commits to buy or sell the asset. Investments are derecognised when the right to receive future cash flows from the asset has expired or has been transferred and the Group has transferred substantially all the risks and rewards of ownership.

3.2.1 Fair value hierarchy

Overview

The Group Valuation Committee is responsible for the governance and oversight of the valuation process. The fair value of investments is determined in accordance with the Group's investment valuation policy.

The investments of the Group are disclosed in the table below using a fair value hierarchy which reflects the significance of inputs into the determination of fair value as follows:

Level 1: Valuation is based on quoted prices in active markets for the same instruments.

Level 2: Valuation is based on quoted prices for identical instruments in markets which are not active, quoted prices for similar instruments, or valuation techniques for which all significant inputs are based on observable market data, for example, consensus pricing using broker quotes or valuation models with observable inputs.

Level 3: Valuation techniques are applied in which one or more significant inputs are not based on observable market data.

	2019				2018			
	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M
Fixed income								
Short-term money	**173**	**893**	**–**	**1,066**	114	1,169	–	1,283
Government bonds	**4,086**	**1,727**	**–**	**5,813**	3,609	1,366	–	4,975
Corporate bonds	**–**	**13,262**	**6**	**13,268**	–	12,140	4	12,144
Infrastructure debt	**–**	**122**	**264**	**386**	–	137	358	495
	4,259	**16,004**	**270**	**20,533**	3,723	14,812	362	18,897
Growth assets								
Developed market equity	**278**	**–**	**3**	**281**	563	–	2	565
Emerging market equity	**108**	**–**	**–**	**108**	289	–	–	289
Emerging market debt	**554**	**–**	**–**	**554**	234	–	–	234
High yield debt	**401**	**–**	**–**	**401**	81	–	–	81
Unlisted property trusts	**–**	**716**	**–**	**716**	–	913	–	913
Infrastructure assets	**–**	**–**	**903**	**903**	–	–	851	851
Private equity	**–**	**–**	**203**	**203**	–	–	159	159
Alternatives	**91**	**–**	**–**	**91**	–	–	–	–
	1,432	**716**	**1,109**	**3,257**	1,167	913	1,012	3,092
Total investments	**5,691**	**16,720**	**1,379**	**23,790**	4,890	15,725	1,374	21,989

The Group's approach to measuring the fair value of investments is described below:

Short-term money

Cash managed as part of the investment portfolio is categorised as level 1 fair value measurement. Term deposits are valued at par; other short-term money (bank bills, certificates of deposit, treasury bills and other short term instruments) is priced using interest rates and yield curves observable at commonly quoted intervals. Term deposits were previously categorised as level 1 measurements; the prior period has been restated for consistency.

Government bonds and corporate bonds

Bonds which are traded in active markets and have quoted prices from external data providers are categorised as level 1 fair value measurements. Bonds which are not traded in active markets are priced using broker quotes, comparable prices for similar instruments or pricing techniques set by local regulators or exchanges.

Infrastructure debt

Infrastructure debt is priced by external data providers where quoted prices are available or by the investment manager who may use a combination of observable market prices or comparable prices where available and other valuation techniques.

Developed market equity

Listed equities traded in active markets are valued by reference to quoted bid prices. Unlisted equities are priced using QBE's share of the net assets of the entity.

Emerging market equity, emerging market debt, high yield debt, unlisted property trusts and infrastructure assets

These assets are valued using quoted bid prices in active markets or current unit prices as advised by the responsible entity, trustee or equivalent of the investment management scheme.

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3. INVESTMENT ACTIVITIES

Private equity

These assets comprise fund of funds vehicles. Fair value is based on the net asset value of the vehicle, and the responsibility for the valuation of the underlying securities lies with the external manager. In most cases, an independent administrator will be utilised by the external fund manager for pricing and valuation. A combination of observable market prices or comparable market prices (where available) and other valuation techniques may be used in the determination of fair value.

Alternatives

These assets comprise investments in exchange-traded commodity products. They are listed, traded in active markets and valued by reference to quoted bid prices.

Movements in level 3 investments

The following table provides an analysis of investments valued with reference to level 3 inputs.

LEVEL 3	2019 US$M	2018 US$M
At 1 January	**1,374**	1,410
Purchases	**151**	522
Disposals	**(194)**	(463)
Reclassifications to level 2[1]	**–**	(19)
Fair value movement recognised in profit or loss	**46**	(12)
Foreign exchange	**2**	(64)
At 31 December	**1,379**	1,374

1 In 2018, corporate bonds were transferred from level 3 to level 2 due to the use of a more observable external price source.

3.2.2 Charges over investments and restrictions on use

A controlled entity has given fixed and floating charges over certain of its investments and other assets in order to secure the obligations of the Group's corporate members at Lloyd's of London as described in note 8.2.

Included in investments are amounts totalling $2,900 million (2018 $2,530 million) which are held in Lloyd's syndicate trust funds. In order to conduct underwriting business within some territories, Lloyd's syndicates are required to lodge assets in locally regulated trust funds. Under Lloyd's byelaws, these amounts can only be used to pay claims and allowable expenses of the syndicate and cannot be withdrawn from the trust funds until they become distributable as profit once annual solvency requirements are met. Included in this amount is $31 million (2018 $13 million) of short-term money.

3.2.3 Derivatives over investment assets

In accordance with our investment management policies and procedures, derivatives may be used in the investment portfolio as both a hedging tool and to alter the risk profile of the portfolio. All long positions must be cash backed, all short positions must be covered by an underlying physical asset and no net short exposure to an asset class is permitted. Risk management policies over the use of derivatives are set out in note 4.

QBE may also have exposure to derivatives through investments in underlying pooled funds in accordance with the fund mandate. Those derivative exposures are not included in the table below.

The Group's notional exposure to investment derivatives at the balance date is set out in the table below.

NOTIONAL EXPOSURE	2019 US$M	2018 US$M
Equity futures		
SPI 200	**–**	69

How we account for the numbers

Derivatives over investment assets are required to be measured at fair value through profit or loss. They are therefore initially recognised at fair value, determined as the cost of acquisition excluding transaction costs, and are remeasured to fair value through profit or loss at each reporting date. For derivatives traded in an active market, the fair value of derivatives is determined by reference to quoted market prices. The mark-to-market value of futures positions are cash settled on a daily basis resulting in a fair value of nil at the balance date.

4. RISK MANAGEMENT

Overview

QBE is in the business of managing risk. The Group's ability to satisfy customers' risk management needs is central to what we do. QBE aims to generate wealth and maximise returns for its shareholders by pursuing opportunities that involve risk. Our people are responsible for ensuring that QBE's risks are managed and controlled on a day-to-day basis. QBE aims to use its ability to properly manage risk to provide more certainty and improved outcomes for all stakeholders.

QBE applies a consistent and integrated approach to enterprise risk management (ERM). QBE's global risk management framework sets out the approach to managing key risks and meeting strategic objectives whilst taking into account the creation of value for our shareholders. QBE's risk management framework is articulated in the Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS), both of which are approved annually by the Group Board and lodged with APRA.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, reporting, risk assessments, modelling and stress testing, management and monitoring, and risk culture.

Risk management is a continuous process and an integral part of robust business management. QBE's approach is to integrate risk management into the broader management processes of the organisation. It is QBE's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

QBE Group's strategy for managing risk is to:

- achieve competitive advantage by better understanding the risk environments in which we operate;
- give confidence to the business to make objective, risk-based decisions to optimise returns; and
- avoid unwelcome surprises to the achievement of business objectives by reducing uncertainty and volatility through the identification and management of risks.

The framework is supported by a suite of policies that detail QBE's approach to the key risk categories used by QBE to classify risk:

- Strategic risk (note 4.1)
- Insurance risk (note 4.2)
- Credit risk (note 4.3)
- Market risk (note 4.4)
- Liquidity risk (note 4.5)
- Operational risk (note 4.6)
- Compliance risk (note 4.7)
- Group risk (note 4.8)

4. RISK MANAGEMENT

4.1 Strategic risk

Overview

Strategic risk is the current and prospective impact on earnings and/or capital arising from strategic business decisions and responsiveness to external change. QBE classifies strategic risk into five subcategories, as follows:

- business, product, market and distribution approach;
- capital structure, organisational structure, strategic asset planning and management;
- acquisition/disposal decision and negotiation;
- tax planning and decisioning; and
- external environment, including disruption from competitors, economic, social and governance (ESG) risks, reputational impact, and geo-political and regulatory uncertainty.

QBE's approach to managing strategic risk is underpinned by the Group strategic risk appetite statement as set by the Group Board and is summarised below.

Business, product, market and distribution approach

Business: The Group is a geographically diversified international general insurance and reinsurance group, underwriting most major commercial and personal lines classes of business through insurance operations in 27 countries. The Group Board and the board of each division meet at least quarterly to review performance against business plans. Actual results are monitored and analysed regularly at various levels in the Group, including through the cell review process, to identify adverse trends so that remedial action can be taken at an early stage. One of the key tools used to ensure achievement of business plans is to identify our "manage to" likely scenarios impacting the plan year based on events that have occurred or risks identified since plans were set. We assess how these scenarios would impact return on equity (ROE) forecasts and develop and implement bridging actions to drive plan achievability.

Product: QBE reviews the structuring of its insurance products on an ongoing basis in line with market expectations and developments, legislation and claims trends.

Market and distribution approach: QBE makes use of distributed networks of insurance agents and brokers to undertake sales and marketing of its insurance products. The Group also markets and distributes insurance products directly by phone and on the internet.

Capital structure, organisational structure, strategic asset planning and management

The Internal Capital Adequacy Assessment Process (ICAAP) outlines QBE Group's approach for ensuring adequate Group capital is maintained over time and for monitoring compliance with regulatory capital requirements and targets. The ICAAP includes:

- specific capital targets set in the context of QBE Group's risk profile, the Board's risk appetite and regulatory capital requirements;
- plans for how target levels of capital are to be met; and
- potential sources of additional capital, if required.

The ICAAP also sets out QBE Group's actions and procedures for monitoring compliance with its regulatory capital requirements and capital targets. These include:

- the setting of triggers to alert management to potential breaches of these requirements; and
- actions to avert and rectify potential breaches of these requirements.

Achieving capital targets is dependent on an appropriate level and mix of capital, and effective capital management to yield adequate returns. Oversight of the Group's capital management framework is performed by senior management, the Executive Financial Risk & Capital Committee and the Board Risk & Capital Committee.

Management has a particular focus on the following performance indicators:

- The Group actively manages the components of capital in order to maintain a level of eligible regulatory capital that exceeds APRA requirements. Having determined that the current risk appetite remains appropriate, the Board has set the target level of regulatory capital for 2020 at 1.6–1.8 times (2019 1.6–1.8 times) the Group's Prescribed Capital Amount (PCA).
- All regulated wholly-owned entities are required to maintain a minimum level of capital to meet obligations to policyholders. It is the Group's policy that each regulated entity maintains a capital base appropriate to its size, business mix, complexity and risk profile which fully complies with and meets or exceeds local regulatory requirements.
- The Group aims to maintain the ratio of borrowings to shareholders' funds at 25%–35% (2018 25%–35%). As at the balance date, the ratio of borrowings to shareholders' funds was 38.0% (2018 38.0%), reflecting the benefits of further liability management activity offset by the impact of adopting of AASB 9 (refer note 8.1.1).
- Insurer financial strength ratings provided by the major rating agencies which indicate the Group's financial strength and claims paying ability.

Acquisition/disposal decision and negotiation

QBE's growth strategy is based on a combination of organic and inorganic growth. QBE's approach to inorganic growth/acquisitions is based on the principle that QBE will only acquire businesses that are aligned with our strategic intent and direction and which will contribute to the achievement of our corporate ambition. QBE regularly undertakes reviews of the performance and profitability of its business units and periodically will seek to undertake disposals of assets, businesses or portfolios. QBE's approach to managing acquisition and disposal decision and negotiation is underpinned by the Group Acquisition and Disposal Manual.

Tax planning and decisioning

QBE's approach to managing taxation risk is underpinned by the Group Tax Risk Policy, which is approved by the Group Board, and is based on the following guiding principles:

- QBE seeks open, honest and transparent relationships with tax authorities in all relevant jurisdictions.
- QBE will comply with all applicable tax laws, regulations and disclosure requirements and pay the amount of tax that is legally required to be paid in all the jurisdictions in which QBE operates.
- QBE engages in efficient tax planning that supports our business and reflects commercial and economic activity – no transaction will be entered into where obtaining a tax benefit is the primary purpose.
- QBE conducts transactions between Group companies on an arm's length basis in accordance with current Organisation for Economic Cooperation and Development (OECD) principles.

External environment, including disruption from competitors, ESG, reputational impact, and geo-political and regulatory uncertainty

The QBE Strategic Risk Policy governs the management of risks arising from the external environment. Competitor actions, geo-political and regulatory uncertainty are monitored and regularly reported to the Board.

QBE's ESG Risk and Emerging Risk standards operationalise QBE's approach to managing ESG and emerging risks respectively, including climate change. Biannual horizon scans are performed on ESG and emerging risks, including assessment of potential financial and reputational impacts to the Group. Risk treatment plans are developed for material risks, which include development of underwriting and investment policy, monitoring frameworks and stress and scenario analysis. ESG risks and emerging risks are regularly reported to the Executive Non-Financial Risk Committee and the Board Risk & Capital Committee.

Climate change is a material business risk for QBE, potentially impacting our business and customers in the medium to long-term. We have considered potential short-term scenarios that could affect our insurance business written to date and our current investments, and we expect no material impact on the amounts recognised or disclosed in the financial statements. Further detail on QBE's approach to climate change, including our Climate Change Action Plan, is on pages 32 to 39.

4.2 Insurance risk

Overview

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations.

QBE classifies insurance risk into three subcategories, as follows:

- underwriting/pricing;
- insurance concentrations; and
- reserving.

QBE's approach to managing insurance risk is underpinned by the Group insurance risk appetite statement as set by the Group Board and is summarised overleaf.

4. RISK MANAGEMENT

Underwriting/pricing risk

QBE manages underwriting/pricing risk by appropriately setting and adjusting underwriting strategy, risk selection and pricing practices throughout the underwriting cycle.

QBE's underwriting strategy aims to diversify and limit the type of insurance risks accepted and reduce the variability of the expected outcome. The underwriting strategy is implemented through QBE's annual business planning process, supported by minimum underwriting standards and delegated authorities. These authorities reflect the level of risk that the Group is prepared to take with respect to each permitted insurance class.

Pricing of risks is controlled by the use of in-house pricing models relevant to specific portfolios and the markets in which QBE operates. Underwriters and actuaries maintain pricing and claims analysis for each portfolio, combined with a knowledge of current developments in the respective markets and classes of business.

Insurance concentration risk

QBE's exposure to concentrations of insurance risk is mitigated by maintaining a business portfolio that is diversified across countries and classes of business. Product diversification is pursued through a strategy of developing strong underwriting skills in a wide variety of classes of business.

The table below demonstrates the diversity of QBE's operations.

GROSS EARNED PREMIUM	2019 US$M	2018 US$M
Commercial & domestic property	**3,900**	3,968
Motor & motor casualty	**1,953**	2,129
Agriculture	**1,807**	1,734
Public/product liability	**1,505**	1,509
Professional indemnity	**1,105**	1,070
Workers' compensation	**885**	999
Marine, energy & aviation	**880**	898
Accident & health	**716**	702
Financial & credit	**475**	519
Other	**31**	73
	13,257	13,601

Concentration risk includes the risks from natural or man-made events that have the potential to produce claims from many of the Group's policyholders at the same time (e.g. catastrophes). QBE currently uses a variety of methodologies to monitor aggregates and manage catastrophe risk. These include the use of catastrophe models from third party vendors such as RMS and AIR, the Lloyd's realistic disaster scenarios (RDS) and group aggregate methodology. QBE sets the risk appetite relating to catastrophe risk with reference to the insurance concentration risk charge (ICRC). QBE's maximum risk tolerance for an individual natural catastrophe, measured using the ICRC methodology, is determined annually and is linked to a maximum net aggregate allowance of catastrophe and large individual risk claims.

Reserving risk

Reserving risk is managed through the quarterly actuarial valuation of insurance liabilities and monitoring of the probability of adequacy of booked reserves. The valuation of the net central estimate is performed by qualified and experienced actuaries, with reference to historical data and reasoned expectations of future events. The central estimate of outstanding claims is subject to a comprehensive independent review at least annually.

4.3 Credit risk

Overview

Credit risk is the risk of financial loss where a customer, counterparty or issuer fails to meet their financial obligations to QBE in accordance with agreed terms. QBE's exposure to credit risk results from financial transactions with securities issuers, debtors, brokers, policyholders, reinsurers and guarantors.

QBE's approach to managing credit risk is underpinned by the Group credit risk appetite as set by the Group Board and is summarised below.

Reinsurance credit risk

The Group's objective is to maximise placement of reinsurance with highly rated counterparties. Concentration of risk with reinsurance counterparties is monitored strictly and regularly by the Group's Security Committee and is controlled by reference to the following protocols:

- treaty or facultative reinsurance is placed in accordance with the requirements of the Group REMS and Group Security Committee guidelines;
- reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historical claims and potential future claims based on the Group's insurance concentrations; and
- exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

Credit risk exposures are calculated regularly and compared with authorised credit limits. The Group is exposed to material concentrations of credit risk in relation to reinsurance recoveries at the balance date, in particular to large global reinsurers. In certain cases, the Group requires letters of credit or other collateral arrangements to be provided to guarantee the recoverability of the amount involved. Collateral held for the Group in respect of reinsurance arrangements is $1,218 million (2018 $1,444 million). The carrying amount of relevant asset classes on the balance sheet represents the maximum amount of credit exposure. Collateral held may reduce the level of credit risk associated with this exposure but generally does not change its amount. The credit rating analysis below includes the impact of such security arrangements. In some cases, further security has been obtained in the form of trust arrangements, reinsurer default protection and other potential offsets. This additional security has not been included in the credit rating analysis below.

The following table provides information about the quality of the Group's credit risk exposure in respect of reinsurance recoveries at the balance date. The analysis classifies the assets according to Standard & Poor's (S&P) counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as speculative grade.

	CREDIT RATING						
	AAA US$M	AA US$M	A US$M	BBB US$M	SPECULATIVE GRADE US$M	NOT RATED US$M	TOTAL US$M
As at 31 December 2019							
Reinsurance recoveries on outstanding claims[1,2]	**72**	**3,917**	**706**	**–**	**1**	**81**	**4,777**
Reinsurance recoveries on paid claims[1]	**1**	**942**	**152**	**–**	**–**	**–**	**1,095**
As at 31 December 2018							
Reinsurance recoveries on outstanding claims[1,2]	72	4,274	760	1	1	76	5,184
Reinsurance recoveries on paid claims[1]	1	1,561	113	–	–	–	1,675

1 Net of a provision for impairment.
2 Excludes other recoveries of $327 million (2018 $367 million).

The following table provides further information regarding the ageing of reinsurance recoveries on paid claims at the balance date.

			PAST DUE BUT NOT IMPAIRED				
	YEAR	NEITHER PAST DUE NOR IMPAIRED US$M	0 TO 3 MONTHS US$M	4 TO 6 MONTHS US$M	7 MONTHS TO 1 YEAR US$M	GREATER THAN 1 YEAR US$M	TOTAL US$M
Reinsurance recoveries on paid claims[1]	**2019**	**876**	**153**	**–**	**48**	**18**	**1,095**
	2018	1,423	129	45	18	60	1,675

1 Net of a provision for impairment.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2019

4. RISK MANAGEMENT

Investment and treasury credit risk

The Group only transacts with investment counterparties within the limits outlined in the delegated authorities. Investment counterparty exposure limits are applied to individual counterparty exposures and to multiple exposures within a group of related companies in relation to investments, cash deposits and forward foreign exchange exposures. Counterparty exposure limit compliance is monitored daily.

The following table provides information regarding the Group's aggregate credit risk exposure at the balance date in respect of the major classes of financial assets. Trade and other receivables are excluded from this analysis on the basis that they comprise smaller credit risk items which generally cannot be rated and are not individually material. The analysis classifies the assets according to S&P counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as speculative grade.

	CREDIT RATING						
	AAA US$M	AA US$M	A US$M	BBB US$M	SPECULATIVE GRADE US$M	NOT RATED US$M	TOTAL US$M
As at 31 December 2019							
Cash and cash equivalents	**–**	**125**	**218**	**157**	**1**	**46**	**547**
Interest-bearing investments	**2,726**	**7,933**	**6,925**	**2,897**	**12**	**40**	**20,533**
Derivative financial instruments	**–**	**93**	**65**	**36**	**–**	**1**	**195**
As at 31 December 2018							
Cash and cash equivalents	227	147	284	176	1	28	863
Interest-bearing investments	2,536	7,728	6,452	2,125	22	34	18,897
Derivative financial instruments	–	117	52	7	–	–	176

The carrying amount of the relevant asset classes on the balance sheet represents the maximum amount of credit exposure at the balance date. The fair value of derivatives shown on the balance sheet represents the current risk exposure but not the maximum risk exposure that could arise in the future as a result of changing values.

Insurance and other credit risk

The Group transacts with brokers that are reputable, suitable and approved in accordance with local broker policies. The continuous due diligence over brokers involves an assessment of the broker's reputation, regulatory standing and financial strength.

QBE regularly reviews the collectability of receivables and the adequacy of associated provisions for impairment. Concentration risk for large brokers is also monitored. Balances are monitored on the basis of uncollected debt and debt outstanding in excess of six months. Brokers are also subject to regular due diligence to ensure adherence to local broker policies and associated requirements.

The following table provides information regarding the ageing of the Group's financial assets that are past due but not impaired and which are largely unrated at the balance date.

		PAST DUE BUT NOT IMPAIRED				
	NEITHER PAST DUE NOR IMPAIRED US$M	0 TO 3 MONTHS US$M	4 TO 6 MONTHS US$M	7 MONTHS TO 1 YEAR US$M	GREATER THAN 1 YEAR US$M	TOTAL US$M
As at 31 December 2019						
Premium receivable[1]	**1,391**	**372**	**119**	**70**	**39**	**1,991**
Other trade debtors	**120**	**11**	**3**	**5**	**9**	**148**
Other receivables	**322**	**7**	**1**	**2**	**1**	**333**
As at 31 December 2018						
Premium receivable[1]	1,455	301	86	34	27	1,903
Other trade debtors	90	2	–	–	1	93
Other receivables	364	1	1	1	1	368

1 Net of a provision for impairment.

4.4 Market risk

Overview

Market risk is the risk of adverse impacts on earnings resulting from changes in market factors. Market factors include, but are not limited to, interest rates, credit spreads, foreign exchange rates and equity prices.

QBE's approach to managing market risk is underpinned by the Group market risk appetite as set by the Group Board and is summarised below.

QBE's approach to managing investment market movements is underpinned by the Group's investment strategy which outlines QBE's view of the markets and its corresponding investment approach.

Investment market risk is managed through the application of exposure and asset limits. These limits are based on the market risk appetite as determined by the Group Board and apply to:

- losses generated on the investment portfolio under market stress scenarios. The scenarios assume adverse movements in market factors and are designed to reflect a significant market stress event;
- sensitivities to changes in interest rate and credit spread risk, measured in terms of modified duration and spread duration; and
- total combined holdings in equity, investment property and other growth assets as a proportion of the Group's total investment portfolio.

Interest rate risk

QBE is exposed to interest rate risk through its holdings in interest-bearing assets, emerging market debt and high yield debt investments. Financial instruments with a floating interest rate expose the Group to cash flow interest rate risk, whereas fixed interest rate instruments expose the Group to fair value interest rate risk. Interest-bearing borrowings issued by the Group are measured at amortised cost and therefore do not expose the Group result to fair value interest rate risk.

QBE's risk management approach is to minimise interest rate risk by actively managing investment portfolios to achieve a balance between cash flow interest rate risk and fair value interest rate risk. The Group predominantly invests in high quality, liquid interest-bearing securities and cash and may use derivative financial instruments to manage the interest rate risk of the fixed interest portfolio. The risk management processes over these derivative financial instruments include close senior management scrutiny, including appropriate board and other management reporting. Derivatives are used only for approved purposes and are subject to Group Board approved risk appetites and delegated authority levels provided to management. The level of derivative exposure is reviewed on an ongoing basis. Appropriate segregation of duties exists with respect to derivative use, and compliance with policy, limits and other requirements is closely monitored.

The net central estimate of outstanding claims is discounted to present value by reference to risk-free interest rates. The Group is therefore exposed to potential underwriting result volatility as a result of interest rate movements. In practice, over the longer term, an increase or decrease in interest rates is normally offset by a corresponding increase or decrease in inflation. Details are provided in note 2.3.7. At the balance date, the average modified duration of cash and fixed interest securities was 2.6 years (2018 2.1 years). Although QBE maintains a shorter asset duration relative to insurance liabilities, the Group's overall exposure to interest rate risk is not material given the quantum by which the value of fixed income assets exceeds the value of insurance liabilities.

All investments are financial assets measured at fair value through profit or loss. Movements in interest rates impact the fair value of interest-bearing financial assets and therefore impact reported profit after tax. The impact of a 0.5% increase or decrease in interest rates on interest-bearing financial assets owned by the Group at the balance date is shown in the table below.

		PROFIT (LOSS)[1]	
	SENSITIVITY %	2019 US$M	2018 US$M
Interest rate movement – interest-bearing financial assets	+0.5	**(187)**	(145)
	-0.5	**162**	137
Interest rate movement – high yield and emerging market debt	+0.5	**(19)**	(7)
	-0.5	**19**	7

1 Impact on continuing operations net of tax at the Group's prima facie income tax rate of 30%.

4. RISK MANAGEMENT

Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

QBE is exposed to equity price risk on its investment in equities and may use derivative financial instruments to manage this exposure. The risk management processes over these derivative financial instruments are the same as those already explained in respect of interest rate derivative financial instruments. Exposure is also managed by diversification across worldwide markets and currencies.

All equities are measured at fair value through profit or loss. The impact of a 20% increase or decrease in the value of investments owned by the Group at the balance date on consolidated profit after tax from continuing operations is shown in the table below.

		PROFIT (LOSS)[1]	
	SENSITIVITY %	2019 US$M	2018 US$M
ASX 200	+20	**21**	37
	-20	**(21)**	(37)
FTSE 100	+20	**7**	15
	-20	**(7)**	(15)
EURO STOXX	+20	**3**	14
	-20	**(3)**	(14)
S&P 500	+20	**6**	19
	-20	**(6)**	(19)
MSCI Emerging Markets Index	+20	**15**	40
	-20	**(15)**	(40)
Infrastructure assets	+20	**126**	119
	-20	**(126)**	(119)
Private equity	+20	**28**	22
	-20	**(28)**	(22)
Alternatives	+20	**12**	–
	-20	**(12)**	–

1 Impact on continuing operations net of tax at the Group's prima facie income tax rate of 30%.

QBE is also exposed to price risk on its interest-bearing (fixed interest, emerging market and high yield debt) financial assets, as discussed on the previous page in relation to interest rate risk and below in relation to credit spread risk. All securities are measured at fair value through profit or loss.

Credit spread risk

Movements in credit spreads impact the value of corporate interest-bearing securities, emerging market debt and high yield debt and therefore impact reported profit after tax. This risk is managed by investing in high quality, liquid interest-bearing securities and by managing the credit spread duration of the corporate securities portfolio.

The impact of a 0.5% increase or decrease in credit spreads on interest-bearing financial assets held by the Group at the balance date on consolidated profit after tax from continuing operations is shown in the table below.

		PROFIT (LOSS)[1]	
	SENSITIVITY %	2019 US$M	2018 US$M
Credit spread movement – corporate interest-bearing financial assets	+0.5	**(112)**	(105)
	-0.5	**89**	97
Credit spread movement – high yield and emerging market debt	+0.5	**(20)**	(7)
	-0.5	**20**	7

1 Impact on continuing operations net of tax at the Group's prima facie income tax rate of 30%.

QBE is also exposed to price risk on its investment in unlisted property trusts. All unlisted property trust investments are measured at fair value through profit or loss. QBE manages this risk by investing in high quality, diversified unlisted property funds. Movements in unit prices impact the value of unlisted property trusts and therefore impact reported profit after tax. The impact of a 10% increase or decrease in unit prices of unlisted property trust securities owned by the Group at the balance date was $50 million (2018 $64 million) net of tax at the Group's prima facie income tax rate of 30%.

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Foreign exchange

QBE's approach to foreign exchange management is underpinned by the Group's foreign currency strategy. The Group's foreign exchange exposure generally arises as a result of either the translation of foreign currency amounts to the functional currency of a controlled entity (operational currency risk) or due to the translation of the Group's net investment in foreign operations to the functional currency of the parent entity of Australian dollars and to QBE's presentation currency of US dollars (currency translation risk).

Operational currency risk

Operational currency risk is managed as follows:

- Each controlled entity manages the volatility arising from changes in foreign exchange rates by matching liabilities with assets of the same currency, as far as is practicable, thus ensuring that any exposures to foreign currencies are minimised. The Group's aim is to mitigate, where possible, its operational foreign currency exposures at a controlled entity level.
- Forward foreign exchange contracts are used where possible to protect any residual currency positions. Where appropriate, forward foreign exchange contracts may also be used in relation to the Group's borrowings. In either case, these may be designated as hedge relationships for accounting purposes. Further information on forward foreign exchange contracts used to manage operational currency risk is provided in note 5.6.

The risk management process relating to the use of forward foreign exchange contracts involves close senior management scrutiny. All forward foreign exchange contracts are subject to delegated authority levels provided to management and the levels of exposure are reviewed on an ongoing basis.

The analysis below demonstrates the impact on profit after income tax of a 10% strengthening or weakening of the major currencies against the functional currencies of the underlying QBE Group entities for which the Group has a material exposure at the balance date. The exposures below reflect the aggregation of operational currency exposures of multiple entities with different functional currencies. The sensitivity is measured with reference to the Group's residual (or unmatched) operational foreign currency exposures at the balance date. Operational foreign exchange gains or losses are recognised in profit or loss in accordance with the policy set out in note 1.2.3. The sensitivities provided demonstrate the impact of a change in one key variable in isolation whilst other assumptions remain unchanged.

The sensitivities shown in the table below are relevant only at the balance sheet date, as any unmatched exposures are actively monitored by management and the exposure subsequently matched.

	2019			2018		
EXPOSURE CURRENCY	RESIDUAL EXPOSURE US$M	SENSITIVITY %	PROFIT (LOSS)[1] US$M	RESIDUAL EXPOSURE US$M	SENSITIVITY %	PROFIT (LOSS)[1] US$M
Australian dollar	**(90)**	**+10**	**(6)**	6	+10	–
		-10	**6**		-10	–
US dollar	**(23)**	**+10**	**(2)**	117	+10	8
		-10	**2**		-10	(8)
Sterling	**19**	**+10**	**1**	(21)	+10	(1)
		-10	**(1)**		-10	1

1 Impact on continuing operations net of tax at the Group's prima facie income tax rate of 30%.

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FOR THE YEAR ENDED 31 DECEMBER 2019

4. RISK MANAGEMENT

Currency risk in relation to translation of net investments in foreign operations

QBE is exposed to currency risk in relation to:

- the translation of the ultimate parent entity's net investments in foreign operations to its functional currency of Australian dollars; and
- the translation of all non-US operations to the Group's presentation currency of US dollars.

Currency translation risk in relation to QBE's investment in foreign operations is monitored on an ongoing basis and may be mitigated by designation of foreign currency borrowings as a hedge of this risk. Any debt security that qualifies as a hedging instrument may be designated as a hedge of the Australian dollar parent entity's net investment in foreign operations and any residual exposure to foreign operations in tradeable currencies may be hedged up to the limit specified in the Group risk appetite statement. The extent of hedging this exposure is carefully managed to ensure an appropriate balance between currency risk and associated risks such as liquidity risk and stability of capital adequacy levels.

QBE does not ordinarily seek to use derivatives to mitigate currency translation risk on translation to the ultimate parent's functional currency of Australian dollars for the following reasons:

- currency translation gains and losses generally have no cash flow;
- currency translation gains and losses are accounted for in the foreign currency translation reserve (a component of equity) and therefore do not impact profit or loss unless the related foreign operation is disposed of; and
- management of translation risk needs to be balanced against the impact on capital requirements and liquidity risk.

In periods of extraordinary volatility that are expected to persist for an extended period of time, QBE may elect to utilise derivatives to mitigate currency translation risk to preserve capital.

Currency management processes are actively monitored by the Group Treasurer and involve close senior management scrutiny. All hedge transactions are subject to delegated authority levels provided to management, and the levels of exposure are reviewed on an ongoing basis. All instruments that are designated as hedges are tested for effectiveness in accordance with AASB 9.

At the balance date, derivatives with a net exposure of $101 million (2018 $322 million) and borrowings of $547 million (2018 $1,330 million) were designated as hedges of net investments in foreign operations, further information on which is provided in note 5.6.1.

Foreign exchange gains or losses arising on translation of the Group's foreign operations from the parent entity's functional currency of Australian dollars to the Group's US dollar presentation currency are recognised directly in equity in accordance with the policy set out in note 1.2.3. The Group cannot hedge this exposure.

The analysis below demonstrates the impact on equity of a 10% strengthening or weakening against the US dollar of the major currencies to which QBE is exposed through its net investment in foreign operations. The basis for the sensitivity calculation is the Group's actual residual exposure at the balance date.

	2019			2018		
EXPOSURE CURRENCY	RESIDUAL EXPOSURE US$M	SENSITIVITY %	EQUITY INCREASE (DECREASE)[1] US$M	RESIDUAL EXPOSURE US$M	SENSITIVITY %	EQUITY INCREASE (DECREASE)[1] US$M
Australian dollar	**2,554**	**+10**	**255**	4,145	+10	414
		-10	**(255)**		-10	(414)
Sterling	**1,134**	**+10**	**113**	1,354	+10	135
		-10	**(113)**		-10	(135)
Euro	**814**	**+10**	**81**	447	+10	45
		-10	**(81)**		-10	(45)
Hong Kong dollar	**176**	**+10**	**18**	159	+10	16
		-10	**(18)**		-10	(16)
New Zealand dollar	**183**	**+10**	**18**	154	+10	15
		-10	**(18)**		-10	(15)
Singapore dollar	**132**	**+10**	**13**	127	+10	13
		-10	**(13)**		-10	(13)

1 The impact on equity is disclosed, including both continuing and discontinued operations.

4.5 Liquidity risk

Overview

Liquidity risk is the risk of having insufficient liquid assets to meet liabilities as they fall due to policyholders and creditors or only being able to access liquidity at excessive cost.

QBE's approach to managing liquidity risk is underpinned by the Group liquidity risk appetite as set by the Group Board and is summarised below.

QBE manages liquidity risk using a number of tools, as follows:

- cash flow targeting;
- maintaining a minimum level of liquid assets relative to the Group's liabilities;
- cash flow forecasting; and
- stress testing and contingency planning.

Liquidity is managed across the Group using a number of cash flow forecasting and targeting tools and techniques. Cash flow forecasting and targeting is conducted at a legal entity level and involves actively managing operational cash flow requirements.

To supplement the cash flow targeting and to ensure that there are sufficient liquid funds available to meet insurance and investment obligations, a minimum percentage of QBE's liabilities is held, at all times, in cash and liquid securities. QBE also maintains a defined proportion of the funds under management in liquid assets.

QBE actively forecasts cash flow requirements to identify future cash surpluses and shortages to optimise invested cash balances and limit unexpected calls from the investment pool. The Group limits the risk of liquidity shortfalls resulting from mismatches in the timing of claims payments and receipts of claims recoveries by negotiating cash call clauses in reinsurance contracts and seeking accelerated settlements for large reinsurance recoveries.

The following table summarises the maturity profile of the Group's financial liabilities based on the remaining contractual obligations. Borrowings and contractual undiscounted interest payments are disclosed by reference to the first call date of the borrowings, details of which are included in note 5.1.

	LESS THAN 1 YEAR US$M	13 TO 36 MONTHS US$M	37 TO 60 MONTHS US$M	OVER 5 YEARS US$M	NO FIXED TERM US$M	TOTAL US$M
As at 31 December 2019						
Forward foreign exchange contracts	**169**	**–**	**33**	**–**	**–**	**202**
Trade payables	**749**	**85**	**5**	**13**	**41**	**893**
Other payables and accrued expenses	**559**	**29**	**2**	**–**	**1**	**591**
Treasury payables	**21**	**–**	**–**	**–**	**–**	**21**
Investment payables	**170**	**–**	**–**	**–**	**–**	**170**
Lease liabilities	**60**	**102**	**57**	**80**	**–**	**299**
Borrowings[1]	**140**	**632**	**1,106**	**824**	**400**	**3,102**
Contractual undiscounted interest payments	**194**	**337**	**262**	**70**	**–**	**863**
As at 31 December 2018						
Forward foreign exchange contracts	208	–	–	–	–	208
Trade payables	515	135	5	9	–	664
Other payables and accrued expenses	575	24	2	2	–	603
Treasury payables	13	–	–	8	–	21
Investment payables	39	–	–	–	–	39
Borrowings[1]	–	339	989	1,469	400	3,197
Contractual undiscounted interest payments	201	383	307	188	–	1,079

1 Excludes capitalised finance costs of $7 million (2018 $9 million).

The maturity profile of the Group's net discounted central estimate is analysed in note 2.3.6.

Notes to the financial statements continued

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4. RISK MANAGEMENT

The maturity of the Group's directly held interest-bearing financial assets is shown in the table below. Interest-bearing assets held indirectly through collective investment schemes (such as emerging market debt and high yield debt) are excluded from the analysis.

		INTEREST-BEARING FINANCIAL ASSETS MATURING IN						
		LESS THAN 1 YEAR	13 TO 24 MONTHS	25 TO 36 MONTHS	37 TO 48 MONTHS	49 TO 60 MONTHS	OVER 5 YEARS	TOTAL
As at 31 December 2019								
Fixed rate	US$M	**3,986**	**2,865**	**2,741**	**2,436**	**1,622**	**3,600**	**17,250**
Weighted average interest rate	%	**1.7**	**1.5**	**1.2**	**1.5**	**1.3**	**1.5**	**1.5**
Floating rate	US$M	**1,354**	**745**	**520**	**100**	**183**	**928**	**3,830**
Weighted average interest rate	%	**0.9**	**1.4**	**1.5**	**1.0**	**2.0**	**1.8**	**1.4**
As at 31 December 2018								
Fixed rate	US$M	2,523	3,590	2,730	1,918	2,595	2,076	15,432
Weighted average interest rate	%	2.1	2.4	2.4	2.0	2.5	2.1	2.3
Floating rate	US$M	1,373	854	787	164	146	1,004	4,328
Weighted average interest rate	%	0.9	2.2	2.2	2.4	2.6	3.0	2.0

4.6 Operational risk

Overview

Operational risk is the risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk can materialise in a number of forms including fraud perpetrated by employees or by external parties (e.g. claims fraud or cyber attacks), employment practices (losses arising from breaches of employment, health or safety laws), improper business practices (failure to meet professional obligations or issues with the nature or design of an insurance product), business disruption and system failures, or business and transaction processing failures.

QBE manages operational risk through setting policy, minimum standards, and process and system controls, including effective segregation of duties, access controls, authorisations and reconciliation procedures, business continuity management, fraud management, information security and physical security.

QBE identifies, assesses and manages operational risk through:

- The Risk and Control Self-Assessment process, which identifies and assesses the key risks to achieving business objectives and is conducted at the business unit level.
- The Total Risk Assessment process, which creates a single, divisional-level view of risk across all QBE risk categories.
- The Operational Risk Appetite Statement, which sets out the nature and level of risk that the Group Board and Group Executive Committee are willing to take in pursuit of the organisation's objectives. The Operational Risk Appetite Statement is measured through an assessment of the control environment, key risk indicators, issues and incidents.
- The emerging risks process, which identifies and assesses new risks, which are characterised by incomplete but developing knowledge or existing risks that develop in new or surprising ways.
- The scenario analysis process, which assesses the impact of potentially extreme scenarios and the appropriateness of our contingency planning.

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4.7 Compliance risk

Overview

Compliance risk is the risk of legal or regulatory penalties, financial loss or impacts and non-financial loss or impacts (including reputational damage) resulting from a breach of obligations. Obligations refers to those in legislation, regulation, industry codes and standards, internal polices and ethical and business standards.

QBE's approach to managing compliance risk is underpinned by the Group risk appetite as set by the Group Board and is summarised below.

QBE manages compliance risk through its governance, culture, stakeholder management and strategy approach. There are six components for managing compliance risk:

- identify compliance obligations and controls;
- embed compliance obligations across systems and process;
- communicate and train staff on compliance requirements;
- monitor obligations and controls;
- identify and rectify issues, incidents and breaches; and
- report on and assess the state of compliance.

Compliance management is subject to continuous improvement, recognising changes in the regulatory and legal environment and industry, customer and community expectations.

4.8 Group risk

Overview

Group risk is the risk to a division arising specifically from being part of the wider QBE Group, including financial impact and loss of support from the parent company.

QBE's approach to managing Group risk is underpinned by the Group risk appetite as set by the Group Board and is summarised below.

Sources of Group risk may include Group initiatives or strategies with a material impact on one or more divisions, shared global reinsurance programs, intercompany loans and shared use of centralised Group functions (e.g. Group IT). Group risk also includes the potential risk from reputational contagion.

QBE manages Group risk through various systems, controls and processes, including the use of intercompany transactions and balances accounting guidance, transfer pricing guidelines and investment management agreements. In the instance of a reputational event, the Group Crisis Management Plan would be invoked to coordinate and manage the Group's response to such an event.

5. CAPITAL STRUCTURE

Overview

QBE's objective in managing capital is to maintain an optimal balance between debt and equity in order to reduce the overall cost of capital whilst satisfying the capital adequacy requirements of regulators and rating agencies, providing financial security for our policyholders and continuing to provide an adequate return to shareholders.

QBE is listed on the Australian Securities Exchange and its equity is denominated in Australian dollars. The Group also accesses international debt markets to diversify its funding base and maintain an appropriate amount of leverage. Debt is diversified across currencies, tenure and levels of seniority.

Details of the Group's approach to capital risk management are disclosed in note 4.1.

5.1 Borrowings

FINAL MATURITY DATE	PRINCIPAL AMOUNT	2019 US$M	2018 US$M
Senior debt			
21 October 2022	Nil (2018 $195 million)	**–**	195
25 May 2023	$6 million	**6**	6
		6	201
Subordinated debt			
29 September 2040	A$200 million	**140**	141
24 May 2041	$167 million	**167**	167
24 May 2041	£24 million	**32**	31
24 May 2042	£327 million[1]	**433**	387
24 November 2043	$400 million/A$577 million[2]	**400**	400
2 December 2044	$700 million/A$1,009 million[2]	**696**	696
12 November 2045	$300 million	**300**	300
17 June 2046	$524 million[1]	**522**	466
		2,690	2,588
Additional Tier 1 instruments			
No fixed date	$400 million	**399**	399
		399	399
Total borrowings[3]		**3,095**	3,188
Amounts maturing within 12 months		**–**	–
Amounts maturing in greater than 12 months		**3,095**	3,188
Total borrowings		**3,095**	3,188

1 The change in carrying value during the current period is mainly due to the adoption of AASB 9, as disclosed in note 8.1.1.
2 During the current period, these were hedged to fixed A$ amounts which is discussed in note 5.6.1.
3 Nil finance costs (2018 nil) were capitalised during the year.

Senior debt

Senior notes due 2022

On 21 April 2017, the Company issued $300 million of senior notes maturing on 21 October 2022. The notes were unsecured and unsubordinated obligations of the Company and ranked equally among themselves and, subject to certain exceptions in relation to ranking, with all other unsecured existing and future unsubordinated indebtedness of the company. The securities entitled holders to receive interest at a fixed rate of 3.0% per annum payable semi-annually in arrears. The notes were issued under the QBE Green Bond Framework, details of which can be found on QBE's website. During 2018, the Group repurchased $105 million of these notes for cash. During the current period, the Group repurchased the remainder of these notes for cash.

Senior notes due 2023

On 21 September 2017, the Company issued $300 million of senior notes maturing on 25 May 2023. The notes are unsecured and unsubordinated obligations of the Company and will rank equally among themselves and, subject to certain exceptions in relation to ranking, with all other unsecured existing and future unsubordinated indebtedness of the company. The securities entitle holders to receive interest at a fixed rate of 3.0% per annum payable semi-annually in arrears. During 2018, the Group repurchased $294 million of these notes for cash.

Subordinated debt

Subordinated debt due 2040

On 29 September 2015, the Company issued A$200 million of subordinated debt securities with a 25-year maturity. The securities entitle the holders to receive interest at the 90-day average mid-rate bank bill rate plus a margin of 4.0%. Interest is payable quarterly in arrears.

The securities are redeemable at the option of QBE, with the written approval of APRA, on 29 September 2020 and on each subsequent interest payment date during the 12 months following or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares, or written off, if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the volume-weighted average price (VWAP) of the shares in the five trading days before the date of issue of the securities.

Subordinated debt due 2041

On 24 May 2011, QBE issued $1,000 million and £325 million of subordinated debt securities with a 30-year maturity. The securities entitle holders to receive interest at a fixed rate of 7.25% and 7.5% per annum respectively until 24 May 2021, at which time the rate will reset to a 10-year mid-market swap rate plus a margin of 4.05% and 4.0% per annum respectively. The rate will reset again, on the same basis, on 24 May 2031. Interest is payable semi-annually in arrears.

The securities are redeemable at the option of QBE, with the written approval of APRA, on 24 May 2021, 24 May 2031 or in the event of:

- certain tax and US investment company registration events, which allow a redemption at any time; or
- certain regulatory and rating agency equity credit events which allow redemption at any time after 24 May 2016.

During 2016, the Group exchanged $828 million of the $1,000 million and £291 million of the £325 million, details of which are set out below, and repurchased $5 million for cash.

During 2017, the Group repurchased a further £10 million for cash.

Subordinated debt due 2042

On 19 May 2016, QBE exchanged £291 million of subordinated debt securities due 2041 for £327 million of subordinated debt securities due 2042. The securities have a 26-year maturity and entitle holders to receive a fixed rate coupon of 6.115% per annum until 24 May 2022. The rate will reset in 2022, 2027, 2032 and 2037 to a rate calculated by reference to the then five-year mid-market swap rate plus a margin of 5.0%. Interest is payable semi-annually in arrears.

The securities are redeemable at the option of QBE, with the written approval of APRA, on each interest reset date or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares, or written off, if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the VWAP of the shares in the five trading days before the date of issue of the securities.

Subordinated debt due 2043

On 17 November 2016, QBE exchanged $372 million of the subordinated debt securities due 2041 for $372 million of subordinated debt due 2043. On 28 November 2016, QBE issued an additional $28 million of the same subordinated debt. The securities have a 27-year maturity and entitle holders to receive a fixed rate coupon of 7.50% per annum until 24 November 2023. The rate will reset in 2023 and 2033 to a rate calculated by reference to the then 10-year US dollar swap rate plus a margin of 6.03%. Interest is payable semi-annually in arrears. This debt is hedged to a fixed A$ amount, discussed further in note 5.6.1.

QBE has an option to defer payment of interest in certain circumstances and such deferral will not constitute an event of default. The securities are redeemable at the option of QBE, with the written approval of APRA, on each interest reset date or at any time in the event of certain tax and regulatory events.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2019

5. CAPITAL STRUCTURE

The securities must be converted into a variable number of QBE ordinary shares, or written off, if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the VWAP of the shares in the five trading days before the date of issue of the securities.

Subordinated debt due 2044

On 2 December 2014, the Company issued $700 million of subordinated debt securities with a 30-year maturity. The securities entitle holders to receive interest at a fixed rate of 6.75% per annum until 2 December 2024, at which time the rate will reset to a 10-year mid-market swap rate plus a margin of 4.3%. The rate will reset again, on the same basis, on 2 December 2034. Interest is payable semi-annually in arrears. This debt is hedged to a fixed A$ amount, discussed further in note 5.6.1.

The securities are redeemable at the option of QBE, with the written approval of APRA, on 2 December 2024, 2 December 2034 or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares or written off if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the VWAP of the shares in the five trading days before the date of issue of the securities.

Subordinated debt due 2045

On 12 November 2015, the Company issued $300 million of subordinated debt securities with a 30-year maturity. The securities entitle holders to receive interest at a fixed rate of 6.1% per annum until 12 November 2025, at which time the rate will reset to a 10-year mid-market swap rate plus a margin of 3.993%. The rate will reset again, on the same basis, on 12 November 2035. Interest is payable semi-annually in arrears.

The securities are redeemable at the option of QBE, with the written approval of APRA, on 12 November 2025 and 12 November 2035 or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares or written off if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the VWAP of the shares in the five trading days before the date of issue of the securities.

Subordinated debt due 2046

On 17 June 2016, QBE exchanged $456 million of the $1,000 million subordinated debt securities due 2041 for $524 million of subordinated debt due 2046. The subordinated debt securities have a 30-year maturity and entitle holders to receive a fixed rate coupon of 5.875% per annum until 17 June 2026. The rate will reset in 2026 and 2036 to a rate calculated by reference to the then 10-year mid-market swap rate plus a margin of 4.395%. Interest is payable semi-annually in arrears.

The securities are redeemable at the option of QBE, with the written approval of APRA, on each interest reset date or at any time in the event of certain tax and regulatory events.

The securities must be converted into a variable number of QBE ordinary shares, or written off, if APRA determines QBE to be non-viable. The conversion rate is subject to a price floor of 20% of the VWAP of the shares in the five trading days before the date of issue of the securities.

Security arrangements

The claims of bondholders pursuant to the subordinated debt will be subordinated in right of payment to the claims of all senior creditors.

Additional Tier 1 instruments

In November 2017, the Company issued $400 million of perpetual capital notes. These notes entitle holders to receive a fixed rate coupon of 5.25% per annum payable semi-annually in arrears until 16 May 2025. The rate will reset in May 2025 and on every fifth anniversary thereafter by reference to a reset rate to be determined at that time plus a margin of 3.047%. Distributions are discretionary and non-cumulative and the notes have no fixed redemption date.

The notes are redeemable at the option of QBE, with the prior written approval of APRA, on each interest reset date or at any time in the event of certain tax or regulatory events. In the event that APRA was to declare a point of non-viability, the notes must be converted into a variable number of QBE ordinary shares (in accordance with a predetermined formula) and if not converted within five business days then the notes must be written off.

The notes were issued under the QBE Gender Equality Bond Framework, details of which can be found on the QBE website.

How we account for the numbers

Borrowings are initially measured at fair value net of transaction costs directly attributable to the transaction and are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised through profit or loss over the period of the financial liability using the effective interest method.

5.1.1 Fair value of borrowings

	2019 US$M	2018 US$M
Senior debt	**6**	195
Subordinated debt	**2,958**	2,719
Additional Tier 1 instruments	**412**	348
Total fair value of borrowings	**3,376**	3,262

Consistent with other financial instruments, QBE is required to disclose the basis of valuation with reference to the fair value hierarchy which is explained in detail in note 3.2.1. The fair value of the Group's borrowings are categorised as level 2 fair value measurements. Fixed and floating rate securities are priced using broker quotes and comparable prices for similar instruments in active markets. Where no active market exists, floating rate resettable notes are priced using par plus accrued interest.

5.1.2 Financing and other costs

	2019 US$M	2018 US$M
Financing costs[1]	**257**	273
Other costs	**–**	32
Total financing and other costs	**257**	305

1 Includes $200 million (2018 $222 million) of interest expense on borrowings at the effective interest rate. 2018 also included $13 million relating to the amortisation of capitalised amounts that were written off on adoption of AASB 9, as discussed in note 8.1.1.

5.1.3 Movement in borrowings

	2019 US$M	2018 US$M
At 1 January	**3,188**	3,616
Net changes from financing cash flows	**(195)**	(406)
Other non-cash changes	**84**	17
Foreign exchange	**18**	(39)
At 31 December	**3,095**	3,188

Notes to the financial statements continued

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5. CAPITAL STRUCTURE

5.2 Cash and cash equivalents

	2019 US$M	2018 US$M
Fixed interest rate	**13**	45
Floating interest rate	**534**	818
	547	863

Restrictions on use

Included in cash and cash equivalents are amounts totalling $30 million (2018 $96 million) which are held in Lloyd's syndicate trust funds. In order to conduct underwriting business within some territories, Lloyd's syndicates are required to lodge assets in locally regulated trust funds. Under Lloyd's byelaws, these amounts can only be used to pay claims and allowable expenses of the syndicates and cannot be withdrawn from the trust funds until allowed to be distributed as profit once annual solvency requirements are met.

Also included in cash and cash equivalents is $103 million (2018 $93 million) relating to policyholder trust accounts in the UK which can only be accessed by QBE in certain circumstances, such as when QBE is owed a deductible by the policyholder on a claim. The Group recognises a corresponding payable in relation to these until such an event occurs.

QBE has operations in many countries which have foreign exchange controls and regulations. These controls and regulations can vary from simple reporting requirements to outright prohibition of movement of funds without explicit prior central bank or regulator approval. The impact of these controls and regulations may restrict the Group's capacity to repatriate capital and/or profits.

How we account for the numbers

Cash and cash equivalents include cash at bank and on hand and deposits at call which are readily convertible to cash on hand and which are used for operational cash requirements. Amounts in cash and cash equivalents are the same as those included in the statement of cash flows.

The reconciliation of profit after income tax to cash flows from operating activities is included in note 8.3.

5.3 Equity and reserves

Overview

Ordinary shares in the Company rank after all creditors, have no par value and entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

5.3.1 Share capital

	2019		2018	
	NUMBER OF SHARES MILLIONS	US$M	NUMBER OF SHARES MILLIONS	US$M
Issued ordinary shares, fully paid at 1 January	**1,327**	**7,830**	1,358	8,931
Shares issued under the Employee Share and Option Plan	**1**	**1**	–	1
Shares issued under bonus share plan	**1**	**–**	–	–
Shares bought back on-market and cancelled	**(24)**	**(205)**	(31)	(243)
Foreign exchange	**–**	**(32)**	–	(859)
Issued ordinary shares, fully paid at 31 December	**1,305**	**7,594**	1,327	7,830
Shares notified to the Australian Securities Exchange	**1,305**	**7,597**	1,328	7,834
Less: Plan shares subject to non-recourse loans, derecognised under accounting standards	**–**	**(3)**	(1)	(4)
Issued ordinary shares, fully paid at 31 December	**1,305**	**7,594**	1,327	7,830

5.3.2 Reserves

	2019 US$M	2018 US$M
Owner occupied property revaluation reserve[1]		
At 1 January	**4**	7
Reclassification on disposal of owner occupied property	**(3)**	(2)
Foreign exchange	**–**	(1)
At 31 December	**1**	4
Cash flow hedge reserve[2]		
At 1 January	**(1)**	(1)
Hedging amounts recognised in other comprehensive income	**(16)**	–
Hedging amounts reclassified to profit or loss	**12**	–
Taxation	**1**	–
At 31 December	**(4)**	(1)
Cost of hedging reserve[3]		
At 1 January	**–**	–
Amounts recognised in other comprehensive income	**(1)**	–
Amounts reclassified to profit or loss	**(2)**	–
Taxation	**1**	–
At 31 December	**(2)**	–
Foreign currency translation reserve[4]		
At 1 January	**(1,517)**	(1,977)
Net movement on translation	**8**	462
Net movement on hedging transactions	**20**	(187)
Net movement relating to continuing operations	**28**	275
Net movement relating to discontinued operations	**10**	147
Taxation	**–**	38
At 31 December	**(1,479)**	(1,517)
Share-based payment reserve[5]		
At 1 January	**167**	202
Options and conditional rights expense	**38**	34
Transfers from reserve on vesting of options and conditional rights	**(41)**	(53)
Foreign exchange	**–**	(16)
At 31 December	**164**	167
Premium on purchase of non-controlling interests[6]		
At 1 January	**(16)**	(16)
Net changes in non-controlling interests	**(5)**	–
Reclassification to retained profits on disposal	**6**	–
Foreign exchange	**–**	–
At 31 December	**(15)**	(16)
Total reserves at 31 December	**(1,335)**	(1,363)

Each of the above reserves relates to the following:

1 Fair value movements in the carrying value of owner occupied property.

2 Cash flow hedges of foreign exchange risk, the accounting policies for which are disclosed in note 5.6.1.

3 'Cost of hedging' elections as described in note 5.6.1.

4 Exchange gains and losses arising on translation of a foreign controlled entity and related hedging instruments, the accounting policies for which are disclosed in note 5.6.1.

5 Equity-settled share-based payment awards.

6 Movements in ownership interest in subsidiaries that do not result in a loss of control and represents the difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received.

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5. CAPITAL STRUCTURE

5.4 Dividends

Overview

The Group's dividend policy sets the dividend payout ratio in an ordinary year at around 65% of full year adjusted net cash profit.

	2019	2018	
	INTERIM	FINAL	INTERIM
Dividend per share (Australian cents)	**25**	28	22
Franking percentage	**60%**	60%	30%
Franked amount per share (Australian cents)	**15.0**	16.8	6.6
Dividend payout (A$M)	**329**	372	297
Payment date	**4 October 2019**	18 April 2019	5 October 2018

On 17 February 2020, the directors declared a 30% franked final dividend of 27 Australian cents per share payable on 9 April 2020. The final dividend payout is A$352 million (2018 A$372 million).

	2019 US$M	2018 US$M
Previous year final dividend on ordinary shares – 60% franked (2017 30% franked)	**266**	42
Interim dividend on ordinary shares – 60% franked (2018 30% franked)	**222**	210
Bonus Share Plan dividend forgone	**(5)**	(3)
Total dividend paid	**483**	249

Dividend Reinvestment and Bonus Share Plans

The Company operates a Dividend Reinvestment Plan (DRP) and a Bonus Share Plan (BSP) which allow equity holders to receive their dividend entitlement in the form of QBE ordinary shares.

The last date of receipt of election notices to participate in the DRP or the BSP is 9 March 2020.

Bonus Share Plan dividend forgone

The amount paid in dividends during the year has been reduced as a result of certain eligible shareholders participating in the BSP and forgoing all or part of their right to dividends. These shareholders were issued ordinary shares under the BSP. During the year 613,874 (2018 365,838) ordinary shares were issued under the BSP.

Franking credits

The franking account balance on a tax paid basis at 31 December 2019 was a surplus of A$87 million (2018 A$224 million). After taking into account the impact of franking on the final dividend declared by the Board since year end, but not recognised as a liability at year end, as well as franking credits relating to the tax payments for the 2019 financial year, the franking account balance will have a surplus of A$39 million (2018 A$113 million).

The unfranked part of the dividend is declared to be conduit foreign income. For shareholders not resident in Australia, the dividend will not be subject to Australian withholding tax.

5.5 Earnings per share

Overview

Earnings per share (EPS) is the amount of profit or loss after tax attributable to each share. Diluted EPS adjusts the EPS for the impact of shares that are not yet issued but which may be in the future, such as shares potentially issuable from convertible notes, options and employee share-based payments plans.

	2019 US CENTS	2018 US CENTS
For profit after income tax from continuing operations		
Basic earnings per share	**43.4**	42.1
Diluted earnings per share	**43.1**	41.7
For profit after income tax		
Basic earnings per share	**41.8**	29.0
Diluted earnings per share	**41.5**	28.6

5.5.1 Reconciliation of earnings used for earnings per share measures

Earnings per share is based on net profit or loss after income tax attributable to ordinary equity holders of the company, as follows:

	2019 US$M	2018 US$M
Net profit used in calculating basic earnings per share from continuing operations	**571**	567
Add: finance costs of convertible securities	**–**	–
Net profit used in calculating diluted earnings per share from continuing operations	**571**	567
Net loss used in calculating basic and diluted earnings per share from discontinued operations	**(21)**	(177)
Net profit used in calculating basic and diluted earnings per share	**550**	390

5.5.2 Reconciliation of weighted average number of ordinary shares used for earnings per share measures

	2019 NUMBER OF SHARES MILLIONS	2018 NUMBER OF SHARES MILLIONS
Weighted average number of ordinary shares on issue	**1,318**	1,348
Weighted average number of non-recourse loan shares issued under the Employee Share and Option Plan (the Plan)	**(1)**	(1)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,317**	1,347
Weighted average number of dilutive potential ordinary shares issued under the Plan	**9**	14
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**1,326**	1,361

The basic and diluted average numbers of ordinary shares shown above are used for calculating all earnings per share measures including those for profit after tax, profit after tax from continuing operations and profit after tax from discontinued operations (note 7.1.3).

How we account for the numbers

Basic earnings per share is calculated by dividing net profit after income tax attributable to members of the Company, adjusted for the cost of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the earnings figure used in the determination of basic earnings per share to exclude the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and adjusts the weighted average number of shares assumed to have been issued for no consideration. It also adjusts the weighted average number of shares to include dilutive potential ordinary shares and instruments with a mandatory conversion feature.

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5. CAPITAL STRUCTURE

5.6 Derivatives

Overview

Derivatives may be used as a tool to hedge the Group's foreign exchange exposures. Each controlled entity manages operational foreign exchange volatility by matching liabilities with assets of the same currency, as far as practicable. Forward foreign exchange contracts are used to hedge residual currency exposures, with both the foreign exchange gains or losses on translation of the exposure and the mark-to-market of related derivatives reported through profit or loss. Forward foreign exchange contracts and purchased currency options may also be utilised in hedging foreign currency borrowings and/or exposure to net investments in foreign operations (NIFO).

Interest rate swaps are used to hedge exposure to interest rate movements on the Group's borrowings.

Refer to note 4.4 for additional information relating to QBE's approach to managing interest rate risk and currency risk.

The Group's exposure to treasury derivatives at the balance date determined by reference to the functional currency of the relevant controlled entity is set out in the table below:

	2019			2018		
	EXPOSURE US$M	FAIR VALUE ASSET US$M	FAIR VALUE LIABILITY US$M	EXPOSURE US$M	FAIR VALUE ASSET US$M	FAIR VALUE LIABILITY US$M
Forward foreign exchange contracts	**1,915**	**181**	**164**	1,669	175	208
Forward foreign exchange contracts used in cash flow hedges (note 5.6.1)	**(1,437)**	**13**	**33**	–	–	–
Forward foreign exchange contracts used in NIFO hedges	**(97)**	**1**	**3**	–	–	–
Interest rate swaps	**140**	**–**	**2**	141	–	–
Purchased currency options	**–**	**–**	**–**	–	1	–
	521	**195**	**202**	1,810	176	208

The fair value of forward foreign exchange contracts, interest rate swaps and purchased currency options are categorised as level 2 in the fair value hierarchy. They are fair valued using present value techniques utilising observable market data, broker quotes and/or comparable prices for similar instruments in active markets.

How we account for the numbers

Derivatives are initially recognised at fair value, determined as the cost of acquisition excluding transaction costs. They are remeasured to fair value through profit or loss at each reporting date, unless they are designated as part of a qualifying hedge relationship (see note 5.6.1).

5.6.1 Designated hedges

The Group's material designated hedge relationships are analysed below by risk category and are accounted for using the accounting policies set out at the end of this note. Hedging ratios, being the relationship between the quantity of the hedging instrument and the quantity of the hedged item, are 1:1 as the nominal values of hedging instruments match those of the hedged items. Any ineffectiveness arising from factors such as credit risk is not expected to be material. Amounts recognised in equity or reclassified to profit or loss are disclosed in note 5.3.2.

Cash flow hedges of borrowings

At the balance date, forward foreign exchange contracts hedged foreign currency risk associated with highly probable forecast transactions in relation to $400 million of subordinated notes maturing in November 2043 and $700 million of subordinated notes maturing in December 2044. The hedges were put in place to more effectively manage currency exposures and costs of funding. Foreign currency risk on future coupons as well as principal amounts is hedged up to and including the first call dates of the notes, being 2023 and 2024, respectively.

Only the spot components of the forward foreign exchange contracts are designated in hedge relationships. Reclassifications of hedging gains and losses to profit or loss are included in foreign exchange in note 3.1, consistent with the currency movement of the hedged borrowings. A 'cost of hedging' election was made in respect of these hedges, as described on the next page, and amortisation of the forward and currency basis components is included in financing costs in note 5.1.2, consistent with the interest on the hedged borrowings.

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The timing of cash flows relating to the forward foreign exchange contracts and corresponding average forward rates is provided in the following table:

2019		MATURING IN LESS THAN 1 YEAR	13 TO 24 MONTHS	25 TO 36 MONTHS	37 TO 48 MONTHS	49 TO 60 MONTHS	OVER 5 YEARS
Nominal amounts	Buy US$M / Sell A$M	77/105	77/105	77/105	477/682	747/1,073	–
Average forward rate	US$/A$	0.74	0.74	0.74	0.70	0.70	–

Hedges of currency risk relating to translation of net investments in foreign operations

At the balance date, forward foreign exchange contracts and borrowings were designated as hedges of net investments in foreign operations. Only the spot components of the forward foreign exchange contracts are designated as being in hedge relationships. The forward and currency basis components are measured at fair value through profit or loss and included in foreign exchange in note 3.1. Cumulative hedging gains or losses recognised in equity are recycled to profit or loss only on disposal of the foreign operation.

The timing of cash flows relating to the hedging instruments and corresponding average forward rates, if applicable, is provided in the following table, with borrowings being disclosed by reference to their first call dates (refer note 5.1):

2019		MATURING IN LESS THAN 1 YEAR	13 TO 24 MONTHS	25 TO 36 MONTHS	37 TO 48 MONTHS	49 TO 60 MONTHS	OVER 5 YEARS
Debt instruments hedging net investment in US dollar foreign operations							
Subordinated debt	US$M	–	1	–	–	–	73
Senior debt	US$M	–	–	–	6	–	–
Forward foreign exchange contracts hedging net investment in sterling foreign operations							
Amount	Buy A$M / Sell £M	145/76	–	–	–	–	–
Average forward rate	A$/£	0.53	–	–	–	–	–
Debt instruments hedging net investment in sterling foreign operations							
Subordinated debt	£M	–	25	327	–	–	–

How we account for the numbers

When a derivative or other financial instrument is designated in a qualifying hedge relationship, the relevant controlled entity formally documents the relationship between the hedging instrument and hedged item, as well as its risk management objectives and its strategy for undertaking hedging transactions. The relevant entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedge effectiveness requirements are met, including the relevant economic relationship, the effect of credit risk and the hedge ratio.

For qualifying cash flow hedges and hedges of net investments in foreign operations, the gain or loss on the hedging instrument associated with the effective portion of the hedge is initially recognised in equity through other comprehensive income and is subsequently reclassified to profit or loss when the hedged item also affects profit or loss. For cash flow hedges, this is reflected in the cash flow hedge reserve; for hedges of net investments in foreign operations, this is reflected in the foreign currency translation reserve (refer note 5.3.2). The gain or loss on any ineffective portion of the hedging instrument is recognised in profit or loss immediately.

Where the forward and currency basis components of a designated derivative do not form part of the designated hedge relationship, these components are accounted for at fair value through profit or loss unless a 'cost of hedging' election is made. Under this election, the fair value of these components at inception of the hedge are amortised through profit or loss over time periods relevant to the hedge, with changes in their fair values after inception recognised in equity through other comprehensive income. This election can be made on a hedge-by-hedge basis and is reflected in the cost of hedging reserve (refer note 5.3.2).

Hedge accounting is discontinued when the qualifying hedge no longer meets the criteria for hedge accounting, including when the risk management objective is no longer met or is no longer relevant; the hedging instrument expires or is sold, terminated or exercised; the hedged item matures, is sold or repaid; or a hedged forecast transaction is no longer considered highly probable. When a cash flow hedge is discontinued, any cumulative hedging gain or loss in equity at that time remains in equity and is reclassified to profit or loss when the hedged item affects profit or loss. If a hedged forecast transaction is no longer considered highly probable, the cumulative gain or loss is immediately reclassified to profit or loss. When a hedge of a net investment in a foreign operation is discontinued, any cumulative hedging gain or loss at that time remains in equity and is only recycled to profit or loss on disposal of the foreign operation, forming part of the resulting gain or loss.

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6. TAX

Overview

Income tax expense is the accounting tax charge for the period and is calculated as the tax payable on the current period taxable income based on the applicable income tax rate for each jurisdiction, adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses. The relationship between accounting profit and income tax expense is provided in the reconciliation of prima facie tax to income tax expense (refer to note 6.1). Income tax expense does not equate to the amount of tax actually paid to tax authorities around the world, as it is based upon the accrual accounting concept.

Accounting income and expenses do not always have the same recognition pattern as taxable income and expenses, creating a timing difference as to when a tax expense or benefit can be recognised. These differences usually reverse over time but, until they do, a deferred tax asset or liability is recognised on the balance sheet. Note 6.2 details the composition and movements in deferred tax balances and the key management assumptions applied in recognising tax losses.

The Group's approach to managing tax risk is disclosed in note 4.1.

Details of franking credits available to shareholders are disclosed in note 5.4.

6.1 Reconciliation of prima facie tax to income tax expense

	NOTE	2019 US$M	2018 US$M
Profit before income tax from continuing operations		**672**	627
Prima facie tax expense at 30%		**202**	188
Tax effect of non-temporary differences:			
Untaxed dividends		**(8)**	(8)
Differences in tax rates		**(13)**	(96)
Other, including non-allowable expenses and non-taxable income		**18**	18
Prima facie tax adjusted for non-temporary differences		**199**	102
Deferred tax assets re-recognised		**(64)**	(28)
Overprovision in prior years		**(31)**	(2)
Income tax expense		**104**	72
Analysed as follows:			
Current tax		**164**	37
Deferred tax		**(29)**	37
Overprovision in prior years		**(31)**	(2)
		104	72
Deferred tax expense comprises:			
Deferred tax assets recognised in profit or loss relating to continuing operations	6.2.1	**(58)**	(98)
Deferred tax liabilities recognised in profit or loss relating to continuing operations	6.2.2	**29**	135
		(29)	37

How we account for the numbers

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries in which controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, as appropriate.

6.2 Deferred income tax

	NOTE	2019 US$M	2018 US$M
Deferred tax assets	6.2.1	**479**	442
Deferred tax liabilities	6.2.2	**15**	21

6.2.1 Deferred tax assets

	NOTE	2019 US$M	2018 US$M
Amounts recognised in profit or loss			
Financial assets – fair value movements		**9**	9
Provision for impairment		**12**	17
Employee benefits		**58**	64
Intangible assets		**148**	154
Insurance provisions		**525**	537
Tax losses recognised		**271**	163
Other		**91**	96
		1,114	1,040
Amounts recognised in other comprehensive income and equity			
Defined benefit plans		**34**	32
Other		**2**	2
		36	34
Deferred tax assets before set-off		**1,150**	1,074
Set-off of deferred tax liabilities	6.2.2	**(671)**	(632)
	6.2	**479**	442
Deferred tax assets before set-off analysed as follows:			
Recoverable within 12 months		**40**	52
Recoverable in greater than 12 months		**1,110**	1,022
		1,150	1,074

Movements:

	NOTE	2019 US$M	2018 US$M
At 1 January		**1,074**	1,016
Adjustment on adoption of AASB 16 *Leases*		**5**	–
Amounts recognised in profit or loss from continuing operations	6.1	**58**	98
Amounts recognised in profit or loss from discontinued operations[1]		**–**	17
Amounts recognised in other comprehensive income		**2**	(4)
Transfer from (to) assets held for sale		**9**	(23)
Foreign exchange		**2**	(30)
At 31 December		**1,150**	1,074

1 2018 reflects the movement from the beginning of the period to the dates that the related balances were transferred to assets held for sale. Note 7.1.3 provides information on profit or loss from discontinued operations to the dates of disposal.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2019

6. TAX

6.2.2 Deferred tax liabilities

	NOTE	2019 US$M	2018 US$M
Amounts recognised in profit or loss			
Intangible assets		**142**	119
Insurance provisions		**441**	449
Financial assets – fair value movements		**13**	14
Other provisions		**12**	8
Other		**74**	59
		682	649
Amounts recognised in other comprehensive income and equity			
Defined benefit plans		**4**	4
		4	4
Deferred tax liabilities before set-off		**686**	653
Set-off of deferred tax assets	6.2.1	**(671)**	(632)
	6.2	**15**	21
Deferred tax liabilities before set-off analysed as follows:			
Payable within 12 months		**47**	57
Payable in greater than 12 months		**639**	596
		686	653

Movements:

	NOTE	2019 US$M	2018 US$M
At 1 January		**653**	558
Amounts recognised in profit or loss from continuing operations	6.1	**29**	135
Amounts recognised in profit or loss from discontinued operations[1]		**–**	(16)
Amounts recognised in other comprehensive income		**2**	–
Transfer to liabilities held for sale		**–**	(3)
Foreign exchange		**2**	(21)
At 31 December		**686**	653

1 2018 reflects the movement from the beginning of the period to the dates that the related balances were transferred to liabilities held for sale. Note 7.1.3 provides information on profit or loss from discontinued operations to the dates of disposal.

How we account for the numbers

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill or if they arise from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset in the consolidated financial statements when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

6.2.3 Tax losses

The Group has not brought to account $149 million (2018 $295 million) of tax losses, which includes the benefit arising from tax losses in overseas countries. $62 million of tax losses not brought to account have an indefinite life and the remaining $87 million expire in three to 20 years. The benefits of unused tax losses will only be brought to account when it is probable that they will be realised.

This benefit of tax losses will only be obtained if:

- the Group derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- the Group continues to comply with the conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

Critical accounting judgements and estimates

Recoverability of deferred tax assets

QBE assesses the recoverability of deferred tax assets at each balance date. In making this assessment, QBE considers in particular the controlled entity's future business plans, history of generating taxable profits, whether the unused tax losses resulted from identifiable causes which are unlikely to recur and if any tax planning opportunities exist in the period in which the taxable losses can be utilised.

The recognised US deferred tax asset of $415 million (2018 $370 million) comprises $254 million (2018 $151 million) of carry forward tax losses and $161 million (2018 $219 million) of deductible temporary differences, net of applicable offsetting deferred tax liabilities, as a result of insurance technical reserves and the tax deductibility of goodwill and other intangibles.

Uncertainty continues to exist in relation to the utilisation of this asset, which is subject to there being continued future taxable profits over the period of time in which the losses can be utilised. QBE has made a judgement that the US tax group will be able to generate sufficient taxable profits over the foreseeable future, based upon its future business plans. Key assumptions include a continuation of taxable profit driven by no material deterioration in the prior accident year central estimate, a sustained return to underwriting profitability, benefits flowing from initiatives to reduce the cost base of the division and future increases in investment yields. Losses expire over the next 20 years, with the majority expiring between 2031 and 2034. The uncertainty around the recognition of the deferred tax asset will be resolved in future years if taxable profits are generated. Recovery of the asset continues to be sensitive to changes in the combined operating ratio, premium growth and investment yield assumptions as these items are the key drivers of future taxable income.

6.2.4 Tax consolidation legislation

On adoption of the tax consolidation legislation, the Company and its wholly-owned Australian controlled entities entered into a tax sharing and tax funding agreement that requires the Australian entities to fully compensate the company for current tax liabilities and to be fully compensated by the company for any current tax or deferred tax assets in respect of tax losses arising from external transactions occurring after the date of implementation of the tax consolidation legislation. The contributions are allocated by reference to the notional taxable income of each Australian entity. The head entity is QBE Insurance Group Limited.

Notes to the financial statements continued

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7. GROUP STRUCTURE

Overview

This section provides information to help users understand the QBE Group structure, including the impact of changes in the financial year. This includes acquisitions and disposals of businesses, intangible assets acquired or developed and the results of impairment reviews.

7.1 Disposals and assets held for sale

7.1.1 Disposals during the period

During the period, the Group disposed of its remaining Latin American operations in Colombia and Puerto Rico, following the prior period disposal of operations in Argentina, Brazil, Ecuador and Mexico. Together, these completed the disposal of the Group's discontinued operation in Latin America. Information on these disposals is set out in table below.

	2019 US$M	2018 US$M
Assets		
Cash, investments and other financial assets	**169**	382
Insurance assets	**187**	394
Current and deferred tax assets	**17**	16
Property, plant and equipment	**4**	24
Intangible assets	**–**	27
Other assets	**–**	3
Total assets	**377**	846
Liabilities		
Insurance liabilities	**304**	600
Current and deferred tax liabilities	**1**	15
Other liabilities	**5**	5
Total liabilities	**310**	620
Net assets at the dates of disposal	**67**	226
Proceeds received on disposal	**54**	350
Net (loss) gain on disposal before reclassification of foreign currency translation reserve	**(13)**	124
Reclassification of foreign currency translation reserve	**(10)**	(217)
Net loss on disposal after reclassification of foreign currency translation reserve included in the results of discontinued operations	**(23)**	(93)

The prior period disposals above also resulted in an income tax expense of $27 million which is included in the results of discontinued operations disclosed in note 7.1.3.

During the current period, the Group also disposed of its insurance operations in Indonesia and the Philippines, the travel business and wool and livestock-in-transit businesses in Australia, and the Unigard Indemnity entity and remaining personal lines business in North America. These disposals resulted in an aggregate pre-tax loss of $8 million which is presented as part of continuing operations.

During 2018, the Group disposed of QBE Insurance (Thailand) Public Company Limited and its North American personal lines independent agent business for an aggregate gain of $12 million which is presented as part of continuing operations.

All disposals remain subject to closing adjustments.

7.1.2 Assets and liabilities held for sale at the balance date

There were no assets or liabilities held for sale at 31 December 2019.

Assets and liabilities held for sale at 31 December 2018 are summarised in the table below and materially included the remaining personal lines business in North American Operations, the travel business in Australian & New Zealand Operations, and the Group's operations in Colombia, Puerto Rico, Indonesia and the Philippines.

	2018 US$M
Assets held for sale	
Cash and cash equivalents	22
Investments and other financial assets	402
Insurance assets	71
Current and deferred tax assets	27
Property, plant and equipment	9
Intangible assets	2
Total assets held for sale	533
Liabilities held for sale	
Financial liabilities	19
Insurance liabilities	426
Current and deferred tax liabilities	3
Other liabilities	5
Total liabilities held for sale	453
Net assets held for sale	80

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2019

7. GROUP STRUCTURE

7.1.3 Discontinued operations

The Group's Latin American Operations constitutes a discontinued operation.

Profit or loss from discontinued operations

	NOTE	2019 US$M	2018 US$M
Gross earned premium revenue		**33**	447
Outward reinsurance expense		**(15)**	(112)
Net earned premium		**18**	335
Net claims expense		**(8)**	(207)
Net commission		**(3)**	(79)
Underwriting and other expenses		**(10)**	(134)
Underwriting result		**(3)**	(85)
Net investment income on policyholders' funds		**4**	35
Insurance profit (loss)		**1**	(50)
Net investment income on shareholders' funds		**2**	9
Financing and other costs		**(1)**	(4)
Amortisation and impairment of intangibles		**–**	(1)
Gain (loss) before income tax from discontinued operations		**2**	(46)
Income tax expense		**–**	(11)
Gain (loss) after income tax from discontinued operations		**2**	(57)
Net loss on disposals after income tax	7.1.1	**(23)**	(120)
Net loss after income tax from discontinued operations attributable to ordinary equity holders of the parent		**(21)**	(177)

LOSS PER SHARE FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	2019 US CENTS	2018 US CENTS
Basic loss per share	**(1.6)**	(13.1)
Diluted loss per share	**(1.6)**	(13.1)

Cash flows from discontinued operations

	2019 US$M	2018 US$M
Net cash flows from operating activities	**(13)**	23
Net cash flows from investing activities[1]	**–**	(8)
Net cash flows from financing activities	**–**	(7)
Net movement in cash and cash equivalents from discontinued operations	**(13)**	8

1 Excludes proceeds and cash disposed as disclosed in 7.1.1.

7.2 Intangible assets

Overview

Intangible assets are assets with no physical substance. The most significant classes of intangible assets are detailed below:

Lloyd's syndicate capacity

The Lloyd's syndicate capacity intangible asset relates to the syndicate capacity acquired as part of the acquisition of QBE Underwriting Limited (formerly trading as Limit) in 2000 and costs incurred as a result of increasing capacity since that date. Syndicate capacity is the aggregate of the premium limits of each member of that syndicate at a point in time. An existing capital provider has the first right to participate on the next year of account, giving the indefinite right to participate on all future years of account. The Group has demonstrated a long-term commitment to developing its operations at Lloyd's. The value of this asset is in the access it gives to future underwriting profits at Lloyd's. For these reasons, Lloyd's syndicate capacity is deemed to have an indefinite useful life.

Customer relationships

Customer relationships comprise the capitalisation of future profits relating to insurance contracts acquired and the expected renewal of those contracts. It also includes the value of distribution networks and agency relationships. Customer relationships are amortised over remaining lives of up to five years depending on the classes of business to which the assets relate.

Brand names

These assets reflect the revenue generating ability of acquired brands. In some circumstances, brand names are considered to have an indefinite useful life due to the long-term nature of the asset.

Insurance licenses

These assets give the Group the right to operate in certain geographic locations and to write certain classes of business with a potential to generate additional revenue. In some cases, these are considered to have an indefinite useful life due to their long-term nature; however, where there is a finite useful life, the asset is amortised over the remaining period, being up to 16 years.

Software

This includes both acquired and internally developed software which is not integral or closely related to an item of hardware such as an underwriting system. Capitalised software is amortised over periods of up to 10 years, reflecting the period during which the Group is expected to benefit from the use of the software.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets acquired. Goodwill has an indefinite useful life and therefore is not subject to amortisation but is tested for impairment annually, or more often if there is an indication of impairment.

7. GROUP STRUCTURE

2019	IDENTIFIABLE INTANGIBLES: LLOYD'S SYNDICATE CAPACITY US$M	CUSTOMER RELATION-SHIPS US$M	BRAND NAMES US$M	INSURANCE LICENSES US$M	SOFTWARE US$M	OTHER US$M	GOODWILL US$M	TOTAL US$M
Cost								
At 1 January	**81**	**564**	**26**	**41**	**292**	**16**	**2,333**	**3,353**
Additions/reclassifications	**–**	**(111)**	**–**	**111**	**83**	**1**	**–**	**84**
Impairment reversal – continuing operations	**–**	**–**	**–**	**–**	**6**	**–**	**–**	**6**
Impairment – continuing operations	**–**	**–**	**–**	**–**	**(2)**	**–**	**–**	**(2)**
Disposals/transfer to assets held for sale	**–**	**–**	**–**	**(2)**	**(4)**	**–**	**(2)**	**(8)**
Foreign exchange	**3**	**1**	**–**	**2**	**3**	**2**	**(1)**	**10**
At 31 December	**84**	**454**	**26**	**152**	**378**	**19**	**2,330**	**3,443**
Amortisation								
At 1 January	**–**	**(403)**	**(19)**	**–**	**(115)**	**(16)**	**–**	**(553)**
Reclassifications	**–**	**72**	**–**	**(72)**	**–**	**–**	**–**	**–**
Amortisation – continuing operations[1]	**–**	**(53)**	**–**	**–**	**(43)**	**(2)**	**–**	**(98)**
Disposals/transfers to assets held for sale	**–**	**–**	**–**	**3**	**3**	**–**	**–**	**6**
Foreign exchange	**–**	**(4)**	**(2)**	**(1)**	**–**	**–**	**–**	**(7)**
At 31 December	**–**	**(388)**	**(21)**	**(70)**	**(155)**	**(18)**	**–**	**(652)**
Carrying amount								
At 31 December	**84**	**66**	**5**	**82**	**223**	**1**	**2,330**	**2,791**

1 Amortisation of $43 million is included in underwriting expenses as it relates to intangible assets integral to the Group's underwriting activities.

2018	IDENTIFIABLE INTANGIBLES: LLOYD'S SYNDICATE CAPACITY US$M	CUSTOMER RELATION-SHIPS US$M	BRAND NAMES US$M	INSURANCE LICENSES US$M	SOFTWARE US$M	OTHER US$M	GOODWILL US$M	TOTAL US$M
Cost								
At 1 January	86	646	30	48	290	18	2,507	3,625
Additions/reclassifications	–	–	–	–	70	–	–	70
Impairment – continuing operations	–	–	–	–	(29)	–	–	(29)
Disposals/transfer to assets held for sale	–	(56)	(2)	(7)	(11)	–	(26)	(102)
Foreign exchange	(5)	(26)	(2)	–	(28)	(2)	(148)	(211)
At 31 December	81	564	26	41	292	16	2,333	3,353
Amortisation								
At 1 January	–	(411)	(21)	–	(99)	(15)	–	(546)
Amortisation – continuing operations[1]	–	(49)	–	–	(33)	(2)	–	(84)
Amortisation – discontinued operations[2]	–	–	–	–	(2)	–	–	(2)
Disposals/transfers to assets held for sale	–	44	–	–	7	–	–	51
Foreign exchange	–	13	2	–	12	1	–	28
At 31 December	–	(403)	(19)	–	(115)	(16)	–	(553)
Carrying amount								
At 31 December	81	161	7	41	177	–	2,333	2,800

1 Amortisation of $33 million is included in underwriting expenses as it relates to intangible assets integral to the Group's underwriting activities.
2 Reflects the movement from the beginning of the period to the dates that the related balances were transferred to assets held for sale. Note 7.1.3 provides information on profit or loss from discontinued operations to the dates of disposal.

How we account for the numbers

Intangible assets are measured at cost less accumulated amortisation and impairment. Those with a finite useful life are amortised over their estimated useful life in accordance with the pattern of expected consumption of economic benefits, with amortisation expense reported in underwriting and other expenses or in amortisation and impairment of intangibles depending on the use of the asset. Intangible assets with an indefinite useful life are not subject to amortisation but are tested for impairment annually or more frequently if there are indicators of impairment. Intangible assets with a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

7.2.1 Impairment testing of intangible assets

Overview

An intangible asset's recoverable value is the greater of its value in use and its fair value less cost to sell.

For intangible assets with a finite life, if there are indicators that the intangible asset's recoverable value has fallen below its carrying value (e.g. due to changing market conditions), an impairment test is performed and a loss is recognised for the amount by which the carrying value exceeds the asset's recoverable value.

Intangible assets that have an indefinite useful life, such as goodwill, are tested annually for impairment or more frequently where there is an indication that the carrying amount may not be recoverable.

Goodwill is allocated to cash generating units, or groups of units, expected to benefit from synergies arising from the acquisition giving rise to the goodwill. Cash generating units or groups of cash generating units reflect the level at which goodwill is monitored for impairment by management. As the Group acquires or disposes of operations or reorganises the way that operations are managed, reporting structures may change, giving rise to a reassessment of cash generating units and the allocation of goodwill to those cash generating units. The structural and reporting changes associated with changes to the Group's operating segments described in note 1.3 have resulted in changes to the composition of cash-generating units to which goodwill is allocated.

The goodwill relating to certain acquisitions is denominated in currencies other than the US dollar and so is subject to foreign exchange movements.

Goodwill is analysed by groups of cash generating units as follows:

	2019 US$M	2018 US$M
Australia Pacific (2018 Australian & New Zealand Operations)	**1,081**	1,098
North America (2018 North American Operations)	**832**	832
International (2018 European Operations)	**417**	401
Other	**–**	2
	2,330	2,333

Impairment losses and reversals

During 2019, software assets of $2 million were impaired and $6 million of previous impairment was reversed.

During 2018, software assets of $29 million were impaired following management's review.

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7. GROUP STRUCTURE

How we account for the numbers

Impairment testing of identifiable intangible assets

The recoverable amount of each intangible asset with an indefinite useful life has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

- Cash flow forecasts relevant to the initial valuation of the identifiable intangible asset are reviewed and updated (if appropriate) by management. Cash flow forecasts are based on a combination of actual performance to date and management's expectations of future performance based on prevailing and anticipated market factors.
- Discount rates that include a beta and a market risk premium sourced from observable market information and a specific risk premium appropriate to reflect the nature of the risk associated with the intangible asset or the cash generating unit to which the asset is allocated.

Impairment testing of goodwill

The recoverable amount of each cash generating unit or group of cash generating units has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

- Cash flow forecasts, including investment returns, based on the latest three-year business plan. These forecasts are based on a combination of historical performance and management's expectations of future performance based on prevailing and anticipated market factors and the benefit of committed cost saving measures.
- Terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year five (2018 year three). Growth rates reflect the long-term average of the countries relevant to the cash generating unit or group of cash generating units and are based on observable market information. The terminal growth rates used in management's impairment testing are: North America 2.5% (2018 North American Operations 2.5%), Australia Pacific 2.5% (2018 Australia & New Zealand Operations 2.5%) and International 2.0% (2018 European Operations 2.0%).
- Discount rates that reflect a beta and a market risk premium sourced from observable market information and a specific risk premium appropriate to reflect the nature of the business of each cash generating unit or group of cash generating units. The pre-tax discount rates used were: North America 10.9% (2018 North American Operations 11.5%), Australia Pacific 12.4% (2018 Australian & New Zealand Operations 12.9%) and International 8.9% (2018 European Operations 9.2%). The post-tax discount rates used were: North America 8.9% (2018 North American Operations 9.3%), Australia Pacific 8.8% (2018 Australian & New Zealand Operations 9.4%) and International 7.4% (2018 European Operations 7.5%).

Critical accounting judgements and estimates

Based on the detailed impairment test completed in respect of goodwill in QBE's North American segment, the headroom (being the excess of recoverable value over carrying value) at the balance date increased to $596 million compared with $250 million at 31 December 2018. As previously noted, the structural and reporting changes associated with changes to the Group's operating segments have resulted in changes to the composition of cash-generating units to which North American goodwill is allocated. Excluding this change, headroom in respect of North American goodwill at the balance date would have been $175 million.

The valuation continues to be highly sensitive to a range of assumptions, in particular the forecast combined operating ratio used in the terminal value calculation, discount rate and long-term investment return. The impact of changes in key assumptions is shown in the table below and each change has been calculated in isolation from other changes. In practice, this is considered unlikely to occur due to interrelationships between assumptions.

KEY ASSUMPTION	ASSUMPTION %	SENSITIVITY %	IMPACT OF SENSITIVITY	ASSUMPTION AT WHICH HEADROOM IS NIL %
Terminal value combined operating ratio	95.8	+1	Decrease headroom to $191 million	97.3
	(2018 95.8)	-1	Increase headroom to $1,001 million	
Terminal value long-term investment return	4.17	+1	Increase headroom to $1,125 million	3.04
	(2018 4.40)	-1	Decrease headroom to $66 million	
Post-tax discount rate	8.92	+1	Decrease headroom to $56 million	10.04
	(2018 9.26)	-1	Increase headroom to $1,337 million	

7.3 Controlled entities

Overview

This section lists the Group's controlled entities. The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the company at 31 December 2019 and the results for the financial year then ended, or for the period during which control existed if the entity was acquired or disposed of during the financial year.

7.3.1 Controlled entities

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2019 %	EQUITY HOLDING 2018 %
Ultimate parent entity			
QBE Insurance Group Limited	Australia		
Controlled entities			
Anex Jenni & Partner SA	Switzerland	**100.00**	100.00
Austral Mercantile Collections Pty Limited	Australia	**100.00**	100.00
Australian Aviation Underwriting Pool Pty Limited	Australia	**100.00**	100.00
Burnett & Company, Inc.	US	**100.00**	100.00
Colonial Insurance Agency Inc (sold 6 August 2019) [1]	Puerto Rico	**–**	100.00
Elders Insurance (Underwriting Agency) Pty Limited	Australia	**80.00**	80.00
Equator Reinsurances Limited	Bermuda	**100.00**	100.00
FAI Insurances (Fiji) Limited (liquidated 22 July 2019)	Fiji	**–**	100.00
General Casualty Company of Wisconsin	US	**100.00**	100.00
General Casualty Insurance Company	US	**100.00**	100.00
Greenhill BAIA Underwriting GmbH	Germany	**100.00**	100.00
Greenhill International Insurance Holdings Limited	UK	**100.00**	100.00
Greenhill Sturge Underwriting Limited	UK	**100.00**	100.00
Greenhill Underwriting Espana Limited	UK	**100.00**	100.00
Hoosier Insurance Company	US	**100.00**	100.00
Insurance Box Holdings Pty Limited	Australia	**100.00**	100.00
Insurance Box Pty Limited	Australia	**100.00**	100.00
Lifeco s.r.o.	Czech Republic	**100.00**	100.00
National Farmers Union Property and Casualty Company (sold 1 August 2019) [1]	US	**–**	100.00
NAU Country Insurance Company	US	**100.00**	100.00
New Century Finance Corporation (sold 6 August 2019) [1]	Puerto Rico	**–**	100.00
North Pointe Insurance Company	US	**100.00**	100.00
Praetorian Insurance Company	US	**100.00**	100.00
PT QBE General Insurance Indonesia (sold 2 May 2019) [1]	Indonesia	**–**	100.00
QBE (PNG) Limited	PNG	**100.00**	100.00
QBE Administration Services, Inc.	US	**100.00**	100.00
QBE Americas, Inc.	US	**100.00**	100.00
QBE Asia Pacific Holdings Limited	Hong Kong	**100.00**	100.00
QBE Blue Ocean Re Limited	Bermuda	**100.00**	100.00
QBE Capital Funding III Limited	Jersey	**100.00**	100.00
QBE Capital Funding IV Limited	Jersey	**100.00**	100.00
QBE Corporate Limited	UK	**100.00**	100.00
QBE Emerging Markets Holdings Pty Limited	Australia	**100.00**	100.00
QBE Employee Share Trust [2]	Australia	**–**	–
QBE Europe Intermediary Services SAS	France	**100.00**	–
QBE Europe SA/NV	Belgium	**100.00**	100.00
QBE European Operations plc	UK	**100.00**	100.00
QBE European Services Limited	UK	**100.00**	100.00
QBE European Underwriting Services (Australia) Pty Limited	Australia	**100.00**	100.00
QBE Finance Holdings (EO) Limited	UK	**100.00**	100.00
QBE FIRST Enterprises, LLC	US	**100.00**	100.00
QBE FIRST Property Tax Solutions, LLC	US	**100.00**	100.00
QBE General Insurance (Hong Kong) Limited	Hong Kong	**100.00**	100.00
QBE Group Services Pty Ltd	Australia	**100.00**	100.00
QBE Group Shared Services Limited	UK	**100.00**	100.00

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7. GROUP STRUCTURE

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2019 %	2018 %
QBE Holdings (AAP) Pty Limited	Australia	**100.00**	100.00
QBE Holdings (EO) Limited	UK	**100.00**	100.00
QBE Holdings, Inc.	US	**100.00**	100.00
QBE Hongkong & Shanghai Insurance Limited	Hong Kong	**100.00**	74.47
QBE Insurance (Australia) Limited	Australia	**100.00**	100.00
QBE Insurance (Fiji) Limited	Fiji	**100.00**	100.00
QBE Insurance (International) Pty Limited	Australia	**100.00**	100.00
QBE Insurance (Malaysia) Berhad	Malaysia	**100.00**	100.00
QBE Insurance (PNG) Limited	PNG	**100.00**	100.00
QBE Insurance (Singapore) Pte Ltd	Singapore	**100.00**	100.00
QBE Insurance (Vanuatu) Limited	Vanuatu	**100.00**	100.00
QBE Insurance (Vietnam) Company Limited	Vietnam	**100.00**	100.00
QBE Insurance Corporation	US	**100.00**	100.00
QBE Insurance Group of Puerto Rico Inc (sold 6 August 2019) [1]	Puerto Rico	**–**	100.00
QBE Insurance Holdings Pty Limited	Australia	**100.00**	100.00
QBE Insurance Services (Regional) Limited (dissolved 10 December 2019)	UK	**–**	100.00
QBE International Markets Pte Ltd	Singapore	**100.00**	100.00
QBE Investments (Australia) Pty Limited	Australia	**100.00**	100.00
QBE Investments (North America), Inc.	US	**100.00**	100.00
QBE Irish Share Incentive Plan [2]	Ireland	**–**	–
QBE Latin America Insurance Holdings Pty Ltd	Australia	**100.00**	100.00
QBE Lenders' Mortgage Insurance Limited	Australia	**100.00**	100.00
QBE Management (Ireland) Limited	Ireland	**100.00**	100.00
QBE Management, Inc.	US	**100.00**	100.00
QBE Management Services (Philippines) Pty Limited	Australia	**100.00**	100.00
QBE Management Services (UK) Limited	UK	**100.00**	100.00
QBE Management Services Pty Limited	Australia	**100.00**	100.00
QBE Mortgage Insurance (Asia) Limited	Hong Kong	**100.00**	100.00
QBE Partner Services (Europe) LLP	UK	**100.00**	100.00
QBE Re (Europe) Limited (dissolved 12 April 2019)	UK	**–**	100.00
QBE Re Services Pty Limited	Australia	**100.00**	100.00
QBE Regional Companies (N.A.), Inc.	US	**100.00**	100.00
QBE Reinsurance Corporation	US	**100.00**	100.00
QBE Reinsurance Services (Bermuda) Limited	Bermuda	**100.00**	100.00
QBE Seaboard Insurance Philippines Inc. (sold 31 May 2019) [1]	Philippines	**–**	59.50
QBE Seguros (sold 6 August 2019) [1]	Puerto Rico	**–**	100.00
QBE Seguros SA (sold 1 February 2019) [1]	Colombia	**–**	99.43
QBE Services Inc	Canada	**100.00**	100.00
QBE Services Limited (dissolved 16 July 2019)	UK	**–**	100.00
QBE SK s.r.o. (in the process of liquidation)	Slovakia	**100.00**	100.00
QBE Specialty Insurance Company	US	**100.00**	100.00
QBE s.r.o.	Czech Republic	**100.00**	100.00
QBE Stonington Insurance Holdings Inc	US	**100.00**	100.00
QBE Strategic Capital (Europe) Limited	UK	**100.00**	100.00
QBE Strategic Capital Company Pty Limited	Australia	**100.00**	100.00
QBE UK Finance IV Limited	UK	**100.00**	100.00
QBE UK Limited	UK	**100.00**	100.00
QBE UK Share Incentive Plan [2]	UK	**–**	–
QBE Underwriting Limited	UK	**100.00**	100.00
QBE Underwriting Services (Ireland) Limited	Ireland	**100.00**	100.00
QBE Underwriting Services (UK) Limited	UK	**100.00**	100.00
QBE Workers Compensation (NSW) Limited (dormant)	Australia	**100.00**	100.00
QBE Workers Compensation (VIC) Pty Limited (dormant)	Australia	**100.00**	100.00
Queensland Insurance (Investments) Limited	Fiji	**100.00**	100.00
Regent Insurance Company	US	**100.00**	100.00
Ridgwell Fox & Partners (Underwriting Management) Limited (dormant)	UK	**100.00**	100.00
Sinkaonamahasarn Company Limited [3]	Thailand	**49.00**	49.00
Southern Fire & Casualty Company	US	**100.00**	100.00
Southern National Risk Management Corporation	US	**100.00**	100.00

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING 2019 %	EQUITY HOLDING 2018 %
Southern Pilot Insurance Company	US	**100.00**	100.00
Standfast Corporate Underwriters Limited	UK	**100.00**	100.00
Stonington Insurance Company	US	**100.00**	100.00
Trade Credit Collections Pty Limited	Australia	**100.00**	–
Trade Credit Underwriting Agency NZ Limited	NZ	**100.00**	100.00
Trade Credit Underwriting Agency Pty Limited	Australia	**100.00**	100.00
Unigard Indemnity Company (sold effective 1 January 2019) [1]	US	**–**	100.00
Unigard Insurance Company	US	**100.00**	100.00
Westwood Insurance Agency	US	**100.00**	100.00

1 Disclosures relating to disposals of significant controlled entities are provided in note 7.1.1.
2 QBE Employee Share Trust, QBE Irish Share Incentive Plan and QBE UK Share Incentive Plan have been included in the consolidated financial statements as these entities are special purpose entities that exist for the benefit of the Group.
3 Although QBE has less than a 50% equity interest in Sinkaonamahasarn Company Limited, controlled entities have the right to acquire the remaining share capital.

All equity in controlled entities is held in the form of shares or through contractual arrangements.

How we account for the numbers

Controlled entities

Control exists when the Group is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over it. All transactions between controlled entities are eliminated in full. Non-controlling interests in the results and equity of controlled entities are shown separately in the consolidated statement of comprehensive income, balance sheet and statement of changes in equity.

Where control of an entity commences during a financial year, its results are included in the consolidated statement of comprehensive income from the date on which control is obtained. Where control of an entity ceases during a financial year, its results are included for that part of the year during which the control existed.

A change in ownership of a controlled entity without the gain or loss of control is accounted for as an equity transaction.

8. OTHER

Overview

This section includes other information that must be disclosed to comply with the Australian Accounting Standards or the *Corporations Act 2001*.

8.1 Other accounting policies

8.1.1 New and amended standards adopted by the Group

The Group adopted the following new or revised accounting standards from 1 January 2019:

TITLE	
AASB 9	*Financial Instruments*
AASB 16	*Leases*
AASB 2017-7	*Long-term interests in Associates and Joint Ventures*
AASB 2018-1	*Annual improvements 2015-2017 Cycle*
AASB 2018-2	*Plan Amendment, Curtailment or Settlement*
AASB Interpretation 23	*Uncertainty over Income Tax Treatments*

With the exception of AASB 9, the impacts of which are detailed below, the adoption of these new or revised standards did not significantly impact the Group's accounting policies or financial statements. Information on the impact of AASB 16 is also provided below for clarity.

AASB 9 *Financial Instruments*

AASB 9 establishes new accounting requirements for financial instruments, but does not impact financial instruments arising from the Group's insurance contracts as they are within the scope of AASB 1023 *General Insurance Contracts*. The new standard was adopted in accordance with its transitional provisions which do not require restatement of comparative periods. Information relating to adoption is set out below, the material impacts of which were limited to the Group's borrowings and related financing costs.

- **Impact on financial assets**

  Under previous requirements, the Group's investments were designated as at fair value through profit or loss on initial recognition and subsequently remeasured to fair value at each reporting date, reflecting QBE's business model for managing and evaluating the investment portfolio. Adoption of AASB 9 did not result in any changes to the measurement of the Group's investments, which continue to be measured at fair value through profit or loss.

  Financial assets within the scope of AASB 1023 such as premiums receivable and reinsurance and other recoveries on paid claims, which together form the majority of the Group's trade and other receivables, and reinsurance and other recoveries on outstanding claims are outside the scope of AASB 9 and are unaffected by the new requirements.

  In addition to insurance balances, trade and other receivables also includes other financial assets which are within the scope of AASB 9. Under AASB 9, these assets continue to be recognised at fair value and are subsequently measured at amortised cost less impairment, with the measurement of impairment reflecting expected credit losses. For assets with low credit risk or where credit risk has not significantly increased, expected credit losses are limited to those expected within the next 12 months. For assets where credit risk has significantly increased, expected credit losses are those across the asset's lifetime. For assets where there is evidence of current impairment, incurred credit losses are also recognised in addition to the expected credit losses previously described. At 31 December 2018, the balance of these assets was $329 million, the majority of which were due within 12 months and $7 million of which were past due. Application of the new requirements did not have a material impact.

- **Impact on financial liabilities**

  During 2016, QBE executed three debt exchanges, details of which are included in note 5.1. These were accounted for as modifications to financial liabilities, resulting in the capitalisation of $117 million of premium which was being amortised to the first call dates of the respective borrowings. Under AASB 9, this premium would have been expensed immediately; therefore, on adoption of AASB 9, opening retained earnings was reduced by the remaining unamortised premium of $83 million, as shown in the statement of changes in equity, and borrowings increased by the same amount. The impact will be offset by reduced interest expense over the remaining period to the first call dates, which for the year ended 31 December 2019 resulted in a reduction in financing costs of $13 million. Accounting for the Group's borrowings is otherwise unchanged.

  Financial liabilities within the scope of AASB 1023, such as reinsurance premiums payable and outstanding claims, are outside the scope of AASB 9 and are unaffected by the new requirements. In addition to insurance balances, trade and other payables also includes other financial liabilities measured at amortised cost, the accounting for which is unchanged by AASB 9.

Other than as described above, changes to the Group's accounting policies resulting from AASB 9 did not result in any material impacts to the Group's statement of comprehensive income, balance sheet, statement of changes in equity or statement of cash flows.

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AASB 16 *Leases*

AASB 16 establishes new accounting requirements for leases. The new standard was adopted in accordance with its transitional provisions which do not require restatement of comparative periods. Permitted practical expedients in relation to determining whether leases are onerous and the use of hindsight to assess lease terms were also utilised on initial application. Information relating to the Group's leases is not considered material to the financial statements; however, a summary of changes to the Group's accounting policies resulting from adoption is as follows:

- In the balance sheet, right-of-use lease assets and lease liabilities were recognised on 1 January 2019, increasing the Group's total assets and total liabilities by $276 million and $282 million, respectively. These were measured as the present value of future lease payments, discounted using the Group's incremental borrowing rate and other factors specific to each lease where relevant. Including consequential impacts on tax balances, which were not material, the difference between all amounts recognised and derecognised on initial application of AASB 16 was nil. This amount, being the cumulative retrospective effect of adoption, was recognised as an adjustment to the opening balance of retained earnings as shown in the statement of changes in equity.
- In the statement of comprehensive income:
  - costs of leases of low value assets and leases with a term of 12 months or less (which do not give rise to right-of-use lease assets or lease liabilities on the balance sheet) are recognised in underwriting and other expenses;
  - depreciation charge associated with right-of-use lease assets is also recognised in underwriting and other expenses; and
  - interest expense associated with lease liabilities is recognised in financing and other costs.

These replace operating lease costs which were previously recognised entirely in underwriting and other expenses. The impact of these changes on the current period was not material.

- In the statement of cash flows:
  - payments relating to leases of low value assets and leases with a term of 12 months or less are recognised in acquisition and other underwriting costs paid;
  - payments of interest relating to lease liabilities are recognised in interest paid; and
  - payments of principal relating to lease liabilities are recognised in lease payments.

These replace operating lease payments which were previously recognised entirely in acquisition and other underwriting costs paid. The impacts of these changes on the current period was not material.

8.1.2 New accounting standards and amendments issued but not yet effective

TITLE		OPERATIVE DATE
Revised Conceptual Framework for Financial Reporting		1 January 2020
AASB 2018-6	*Definition of a Business*	1 January 2020
AASB 2018-7	*Definition of Material*	1 January 2020
AASB 17	*Insurance Contracts*	1 January 2021
AASB 2014-10	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	1 January 2022

The Australian Accounting Standards and amendments detailed in the table above are not mandatory for the Group until the operative dates stated; however, early adoption is often permitted.

The Group currently plans to adopt the standards and amendments detailed above in the reporting periods beginning on their respective operative dates. An assessment of the financial impact of the standards and amendments has been undertaken and they are not expected to have a material impact on the Group's financial statements, except where noted overleaf.

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8. OTHER

AASB 17 *Insurance Contracts*

AASB 17, a new accounting standard for insurance contracts, was adopted by the Australian Accounting Standards Board in July 2017. It is currently effective for reporting periods beginning on or after 1 January 2021, but this is expected to be deferred to 1 January 2022 following a tentative decision of the IASB to delay the mandatory implementation date by one year.

The standard will be applicable to general, life and health insurance business and introduces a new 'general model' for recognition and measurement of insurance contracts. It also permits application of a simplified model (which is similar to the current basis on which general insurance is brought to account under AASB 1023) if the liability for remaining coverage under the simplified model would not materially differ from the general model.

QBE has completed a global impact assessment and additional analysis on key areas of interpretation and has determined that the simplified approach is expected to apply to more than 95% of the Group's business, based on the existing business mix. This analysis also identified requirements of AASB 17 where the technical interpretation remains unclear. The IASB is in the process of considering potential changes to the wording of IFRS 17 to address implementation issues identified and it is expected that these changes will be adopted into AASB 17 during 2020. Given the potential for changes in AASB 17 and the broad scope, complexity and lack of general consensus on the interpretation of key components of the standard, the impact of AASB 17 on the consolidated Group's financial statements is still being determined; however, significant disclosure changes and some impact on reported profit or loss are expected. We continue to monitor market developments in order to assess the impact of changes and evolving interpretations on the Group and to prepare our financial reporting systems for the required changes.

8.2 Contingent liabilities

Overview

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered to be less than probable but more likely than remote. If the expected settlement of the liability becomes probable, a provision is recognised.

QBE is required to support the underwriting activities of the Group's controlled entities which are corporate members at Lloyd's of London. Funds at Lloyd's are those funds of the Group which are subject to the terms of the Lloyd's Deposit Trust Deed and are required to support underwriting for the following year and the open years of account, determined by a formula prescribed by Lloyd's each year. At the balance date, letters of credit and similar forms of support of $1,848 million (2018 $2,054 million) were in place in respect of the Group's participation in Lloyd's, along with cash and investments of $37 million (2018 $65 million). In addition, a controlled entity has entered into various trust and security deeds with Lloyd's in respect of assets lodged to support its underwriting activities. These deeds contain covenants that require the entity to meet financial obligations should they arise in relation to cash calls from syndicate participations. A cash call would be made first on the assets held in syndicate trust funds and would only call on funds at Lloyd's after syndicate resources were exhausted. Only if the level of these trust funds was not sufficient would a cash call result in a draw down on the letters of credit and other assets lodged with Lloyd's.

In the normal course of business, the Group is also exposed to contingent liabilities in relation to claims litigation and regulatory examinations arising out of its insurance and reinsurance activities. The Group may also be exposed to the possibility of contingent liabilities in relation to non-insurance litigation, taxation and compliance matters.

8.3 Reconciliation of profit after income tax to cash flows from operating activities

Overview

AASB 1054 *Australian Additional Disclosures* requires a reconciliation of profit after income tax to cash flows from operating activities.

	2019 US$M	2018 US$M
Profit after income tax from continuing operations	**568**	555
Loss after income tax from discontinued operations	**(21)**	(177)
Profit after income tax	**547**	378
Adjustments for:		
Depreciation/impairment of property, plant and equipment	**37**	44
Amortisation of right-of-use assets	**66**	–
Amortisation and impairment of intangibles	**94**	115
Losses on sale of entities	**8**	108
Share of net loss of associates	**3**	2
Net foreign exchange losses (gains)	**23**	(1)
Fair value (gains) losses on financial assets	**(492)**	131
Unrealised losses on assets held for sale	**–**	25
Share-based payments expense	**38**	34
Balance sheet movements:		
Decrease (increase) in trade debtors	**616**	(487)
Increase in net operating assets	**(119)**	(117)
Increase (decrease) in trade payables	**299**	(1,059)
Increase in net outstanding claims	**637**	109
Increase in unearned premium	**185**	15
(Increase) decrease in deferred insurance costs	**(245)**	391
Increase (decrease) in net defined benefit obligation	**9**	(13)
Decrease (increase) in net tax assets	**73**	(118)
Net cash flows from operating activities	**1,779**	(443)

8. OTHER

8.4 Share-based payments

Overview

Share-based payments are equity-based compensation schemes provided to employees and executives. The Company issues shares from time to time under an Employee Share and Option Plan (the Plan). Any full-time or part-time employee of the Group or any equally-owned joint venture who is offered shares or options is eligible to participate in the Plan.

8.4.1 Share schemes

A summary of deferred equity award plans is set out below.

PLAN	AVAILABLE TO	NATURE OF AWARD	VESTING CONDITIONS
Executive Incentive Plan (EIP) (2017–2019)	Executives and other key senior employees	• 40% delivered in cash (20% in the case of the Group CEO). • 60% deferred as conditional rights to fully paid ordinary QBE shares (80% in the case of the Group CEO).	The conditional rights are deferred in four equal tranches, such that 25% vests on each of the first, second, third and fourth anniversaries of the award. EIP outcomes are subject to the achievement of: • Group COR and cash ROE targets; • individual performance ratings; and • Group strategic priorities for Group staff and divisional strategic priorities and COR targets for divisional staff.
Short-term Incentive (STI) (2014–2019)	Executives and other key senior employees	• 67% delivered in cash (50% in the case of the Group CEO). • 33% deferred as conditional rights to fully paid ordinary QBE shares (50% in the case of the Group CEO).	The conditional rights are deferred in two equal tranches such that 50% vests on the first anniversary of the award and 50% vests on the second anniversary of the award. STI outcomes are subject to the achievement of: • Group COR and cash ROE targets; • individual performance ratings; and • for divisional staff, divisional return on allocated capital targets.
Long-term incentive (LTI) (2019)	Executives	• Conditional rights to fully paid ordinary QBE shares.	On achievement of the performance measures at the end of a three-year performance period, conditional rights vest in three tranches as follows: • 33% at the end of the three year performance period; • 33% on the first anniversary of the end of the performance period; and • 34% on the second anniversary of the end of the performance period. Vesting is subject to performance conditions as follows: • 50% of each tranche is subject to the achievement against a three-year average Group ROE performance target; and • 50% of each tranche is subject to the performance of the Group's relative total shareholder return, compared against two independent peer groups, over a three-year performance period.

Additionally:

- Plan rules provide suitable discretion for the People & Remuneration Committee to adjust any formulaic outcome to ensure that awards made under the EIP, STI and LTI appropriately reflect performance.
- During the period from the grant date to the vesting date, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of the company. These conditional rights are subject to the same vesting conditions as the original grant of conditional rights.
- Recipients must remain in the Group's service throughout the service period in order for the awards to vest, except in cases where good leaver provisions apply. Vesting is also subject to malus provisions.
- Under good leaver provisions (e.g. retirement, redundancy, ill health, injury or mutually agreed separation) a pro-rata amount of conditional rights remains subject to the performance and vesting conditions.
- Once vested, conditional rights can be exercised for no consideration.

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8.4.2 Conditional rights

Details of the number of employee entitlements to conditional rights to ordinary shares granted, vested and transferred to employees during the year are as follows:

	2019 NUMBER OF RIGHTS	2018 NUMBER OF RIGHTS
At 1 January	**12,630,099**	18,833,412
Granted in the year	**7,220,150**	4,429,134
Dividends attaching in the year	**408,101**	305,516
Vested and transferred to employees in the year	**(4,994,517)**	(6,181,530)
Forfeited in the year	**(1,779,026)**	(4,756,433)
At 31 December	**13,484,807**	12,630,099
Weighted average share price at date of vesting of conditional rights during the year	**A$12.45**	A$10.00
Weighted average fair value of conditional rights granted during the year	**A$11.93**	A$10.32

8.4.3 Fair value of conditional rights

The fair value of conditional rights granted during the year was determined using the following significant assumptions:

		2019	2018
Five day volume weighted average price of instrument at grant date	A$	**11.88–12.77**	9.61–11.42
Expected life of instrument	Years	**0.1–5.0**	0.1–5.0

The fair value is determined using appropriate models including Monte Carlo simulations, depending on the vesting conditions. Some of the assumptions used may be based on historical data which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the Group's financial statements.

8.4.4 Employee options

The market value of all shares underlying the options at the balance date is A$0.2 million (2018 A$0.2 million). During 2019, no options were cancelled or forfeited. At 31 December 2019, 17,000 remained (excluding notional dividends). The options were issued to employees in 2004 in lieu of shares under the Plan. The options vested immediately and are exercisable until March 2024.

8.4.5 Share-based payment expense

Total expenses arising from share-based payment awards under the Plan amounted to $38 million (2018 $34 million). These amounts are included in underwriting and other expenses.

8.4.6 Shares purchased on-market

The Group may purchase shares on-market to satisfy entitlements under employee share schemes. The Group acquired four million (2018 two million) such shares during the period at an average price of A$12.14 (2018 A$10.73).

How we account for the numbers

The fair value of the employee services received in exchange for the grant of equity settled instruments is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted, excluding the impact of any non-market vesting conditions. The impacts of non-market vesting conditions are included in assumptions about the number of instruments that are expected to become exercisable.

The fair value of each instrument is recognised evenly over the service period ending at the vesting date; however, at each balance date, the Group revises its estimates of the number of instruments that are expected to become exercisable due to the achievement of non-market vesting conditions. The Group recognises the impact of the revision of original estimates, if any, in profit or loss with a corresponding adjustment to equity.

8. OTHER

8.5 Key management personnel

Overview

AASB 124 *Related Party Disclosures* requires disclosure of the compensation of directors (executive and non-executive) and those persons having authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly. This group is collectively defined as key management personnel. Additional details in respect of key management personnel and their remuneration are shown in the Remuneration Report.

	2019 US$000	2018 US$000
Short-term employee benefits	**15,565**	17,512
Post-employment benefits	**167**	179
Other long-term employment benefits	**122**	46
Share-based payments	**7,617**	5,956
Termination benefits	**1,383**	1,078
	24,854	24,771

How we account for the numbers

Short-term employee benefits – profit sharing and bonus plans

A provision is recognised for profit sharing and bonus plans where there is a contractual obligation or where past practice has created a constructive obligation at the end of each reporting period. Bonus or profit sharing obligations are settled within 12 months from the balance date.

Post-employment benefits – defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays a fixed contribution into a fund during the course of employment and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions to defined contribution plans are expensed as incurred.

Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using high quality corporate bond yields with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the date:

- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

8.6 Defined benefit plans

Overview

Defined benefit plans are post-employment plans which provide benefits to employees on retirement, disability or death. The benefits are based on years of service and an average salary calculation. Contributions are made to cover the current cash outflows from the plans and a liability is recorded to recognise the estimated accrued but not yet funded obligations.

		FAIR VALUE OF PLAN ASSETS		PRESENT VALUE OF PLAN OBLIGATIONS		NET RECOGNISED SURPLUSES (DEFICITS)	
	DATE OF LAST ACTUARIAL ASSESSMENT	2019 US$M	2018 US$M	2019 US$M	2018 US$M	2019 US$M	2018 US$M
Defined benefit plan surpluses							
Iron Trades Insurance staff trust	31 Dec 19	**330**	293	**(285)**	(257)	**45**	36
Defined benefit plan deficits							
Janson Green final salary superannuation scheme[1]	31 Dec 19	**186**	165	**(202)**	(175)	**(16)**	(10)
QBE the Americas plan[1]	31 Dec 19	**248**	235	**(255)**	(235)	**(7)**	–
Other plans[2]	31 Dec 19	**41**	37	**(60)**	(53)	**(19)**	(16)
		475	437	**(517)**	(463)	**(42)**	(26)

1 Defined benefit plan obligations are funded.
2 Other plans includes $12 million (2018 $10 million) of defined benefit post-employment plan obligations that are not funded.

The measurement of assets and liabilities in defined benefit plans makes it necessary to use assumptions about discount rates, expected future salary increases, investment returns, inflation and life expectancy. If actual outcomes differ materially from actuarial assumptions, this could result in a significant change in employee benefit expense recognised in profit or loss or in actuarial remeasurements recognised in other comprehensive income, together with the defined benefit assets and liabilities recognised in the balance sheet.

The Group does not control the investment strategies of defined benefit plans; they are managed by independent trustees. Nonetheless, the Group has agreed, as part of ongoing funding arrangements, that the trustees should manage their strategic asset allocation in order to minimise the risk of material adverse impact. In particular, the Group has agreed with the trustee to reduce the level of investment risk by investing in assets that match, where possible, the profile of the liabilities. This involves holding a mixture of government and corporate bonds. The Group believes that due to the long-term nature of the plan liabilities, a level of continuing equity investment is also appropriate.

The charge recognised in profit or loss in the year of $2 million (2018 $4 million) is included in underwriting expenses. Total employer contributions expected to be paid to the various plans in 2020 amount to $1 million.

How we account for the numbers

The surplus or deficit recognised in the balance sheet in respect of defined benefit superannuation plans is the present value of the defined benefit obligation at the balance date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate or government bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating the term of the related superannuation liability. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, and are recognised in other comprehensive income. Past service costs are recognised immediately in profit or loss.

8. OTHER

8.7 Remuneration of auditors

Overview

QBE may engage the external auditor for non-audit services other than excluded services subject to the general principle that fees for non-audit services should not exceed 50% of all fees paid to the external auditor in any one financial year. The Board believes some non-audit services are appropriate given the external auditor's knowledge of the Group. External tax services are generally provided by an accounting firm other than the external auditor. Consistent with prior periods, the external auditor cannot provide the excluded services of preparing accounting records or financial reports or acting in a management capacity.

	2019 US$000	2018 US$000
PricewaterhouseCoopers (PwC) Australian firm		
Audit or review of financial reports of the ultimate parent entity	**1,694**	1,306
Audit of financial reports of controlled entities	**1,895**	1,886
Audit of statutory returns	**533**	389
Other assurance services	**194**	417
Taxation services	**39**	23
Advisory services	**214**	6,948
	4,569	10,969
Related practices of PwC Australian firm (including overseas PwC firms)		
Audit of financial reports of controlled entities	**8,831**	9,979
Audit of statutory returns	**2,747**	1,934
Other assurance services	**72**	211
Taxation services	**240**	240
Advisory services	**839**	349
	12,729	12,713
	17,298	23,682
Audit and assurance services	**15,966**	16,122
Other services	**1,332**	7,560
	17,298	23,682
Other auditors		
Audit of financial reports of controlled entities	**102**	85
	102	85

8.8 Ultimate parent entity information

Overview

The *Corporations Act 2001* requires the disclosure of summarised financial information relating to the ultimate parent entity, QBE Insurance Group Limited.

8.8.1 Summarised financial data of QBE Insurance Group Limited (the Company)

	2019 US$M	2018 US$M
Profit after income tax for the year	**343**	204
Other comprehensive loss for the year	**(13)**	(318)
Total comprehensive income (loss)	**330**	(114)
Assets due within 12 months[1]	**700**	876
Shares in controlled entities	**12,993**	13,043
Total assets	**13,693**	13,919
Liabilities payable within 12 months[2]	**714**	375
Borrowings	**2,897**	3,079
Total liabilities	**3,611**	3,454
Net assets	**10,082**	10,465
Share capital	**7,594**	7,830
Treasury shares held in trust	**(1)**	(7)
Reserves	**113**	117
Foreign currency translation reserve	**6**	15
Retained profits	**2,370**	2,510
Total equity	**10,082**	10,465

1 Includes amounts due from QBE Group companies of $306 million (2018 $590 million).
2 Includes amounts due to QBE Group companies of $676 million (2018 $337 million).

8.8.2 Guarantees and contingent liabilities

	2019 US$M	2018 US$M
Support of the Group's participation in Lloyd's of London	**1,848**	2,054
Support of other insurance operations of controlled entities	**2,491**	2,201
Guarantees to investors in subordinated debt[1]	**1,429**	1,413

1 Excludes subordinated debt owned by the ultimate parent entity.

8.8.3 Tax consolidation legislation

The accounting in relation to the legislation is set out in note 6.2.4. On adoption of the tax consolidation legislation, the directors of the Company and its wholly-owned Australian controlled entities entered into a tax sharing and tax funding agreement that requires the Australian entities to fully compensate the company for current tax liabilities and to be fully compensated by the Company for any current tax or deferred tax assets in respect of tax losses arising from external transactions occurring after the date of implementation of the tax consolidation legislation. The contributions are allocated by reference to the notional taxable income of each Australian entity.

Details of franking credits available to shareholders are shown in note 5.4.

How we account for the numbers

The financial information of the ultimate parent entity of the Group has been prepared on the same basis as the consolidated financial report except for shares in controlled entities, which are recorded at cost less any provision for impairment.

Directors' declaration

FOR THE YEAR ENDED 31 DECEMBER 2019

In the directors' opinion:

(a) the financial statements and notes set out on pages 84 to 159 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with accounting standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (ii) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1.2.1 confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Group Chief Executive Officer and Group Chief Financial Officer required by section 295A of the *Corporations Act 2001* and as recommended under the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

Signed in SYDNEY this 17th day of February 2020 in accordance with a resolution of the directors.

W. Marston Becker
Director

Patrick Regan
Director

Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

pwc

Report on the audit of the Financial Report

Our opinion

In our opinion:

The accompanying Financial Report of QBE Insurance Group Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group Financial Report comprises:

- the consolidated balance sheet as at 31 December 2019
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155, Parramatta NSW 2124

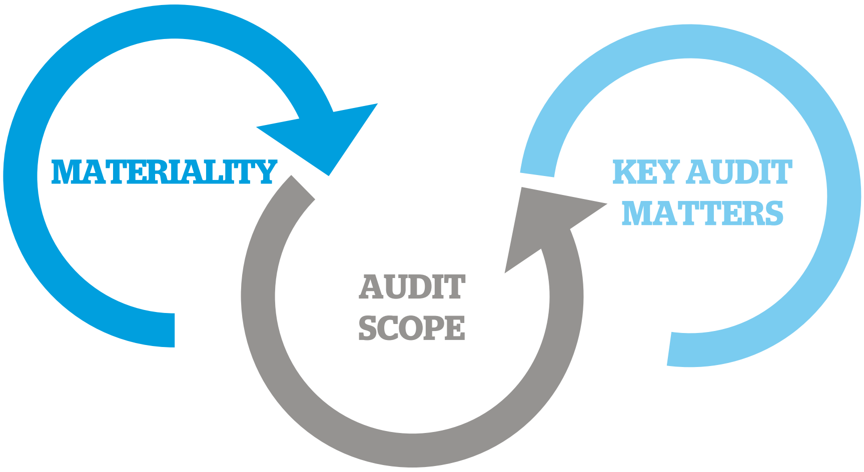
Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Our audit approach

An audit is designed to provide reasonable assurance about whether the Financial Report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the Financial Report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



MATERIALITY

- For the purpose of our audit we used overall Group materiality of $57.5 million, which represents approximately 0.5% of the Group's net earned premium.
- We chose Group net earned premium because, in our view, it is a key financial statement metric used in assessing the performance of the Group and is not as volatile as other profit or loss measures.
- We utilised a 0.5% threshold based on our professional judgment, noting it is within the range of commonly acceptable thresholds.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the Financial Report as a whole.

AUDIT SCOPE

- Our audit focused on where the Group made subjective judgments; for example, critical accounting estimates involving assumptions and inherently uncertain future events.
- We conducted an audit of the most financially significant divisions, being Australia Pacific, International and North America; as well as Equator Re ("components"). In addition, we performed specified risk focused audit procedures on certain account balances for other head office entities within the Group. Further audit procedures were also performed over the consolidation process, including detailed testing and analytical procedures.
- We determined the level of involvement we needed to have in the audit work performed by component auditors to be satisfied that sufficient audit evidence had been obtained for the purposes of our opinion.
- We kept in regular communication with the component auditors throughout the year with conference calls and written instructions. Further, we visited and met with management and component auditors in New York, London and Sydney.
- We also ensured that our team and component auditors across the Group possessed the appropriate skills and competencies needed for the audit of a complex global insurer. This included industry expertise in insurance, as well as specialists and experts in IT, actuarial, tax and valuation.

Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report for the current period. The key audit matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

KEY AUDIT MATTER	How our audit addressed the key audit matter
Valuation of net outstanding claims liability **(Refer to note 2.3) $14,811 million** The liability for outstanding claims relates to claims incurred during the year or prior periods, net of any reinsurance recoveries. The liability for outstanding claims is estimated by the Group as a central estimate but, as is the case with any accounting estimate, there is a risk that the ultimate claims paid will differ from the initial estimates. A risk margin is therefore applied by the Group to reflect the uncertainty in the estimate. The central estimate and risk margin combined, which are estimated based on judgments and actuarial expertise, are intended to achieve an actuarially defined probability of adequacy (PoA) of 87.5%–92.5%, being the estimated overall sufficiency of reserves to pay future claims. We considered this a key audit matter because of the significant judgment required by the Group and the inherent uncertainty in estimating the expected future payments for claims incurred, including those not yet reported. There is also additional uncertainty for catastrophe events, particularly those occurring closer to year end, and for classes of business where there is a greater length of time between the initial claim event and settlement, because of the inherent difficulty in assessing amounts until further evidence is available. As a result, the valuation involves complex and subjective judgments about future events, both internal and external to the business, for which minor changes in assumptions can result in material impacts on the estimate.	Together with PwC actuarial experts, we performed the following procedures, amongst others: **Gross discounted central estimate** • Evaluated the design of the Group's relevant controls over the claims reserving process and assessed whether a sample of these controls operated effectively throughout the year. • Evaluated whether the Group's actuarial methodologies were consistent with recognised practices and with prior periods. • Assessed key actuarial assumptions such as the claims ratios used and expected frequency and severity of claims, focusing on those classes of business which present a higher risk. We considered these assumptions by comparing them with our expectations based on the Group's experience, current trends and benchmarks, and our own industry knowledge. • Tested a sample of case estimates and settlements, a key input into the actuarial estimates, by agreeing to underlying documentation. • Tested the discount assumptions applied through evaluating the yield curves and payment patterns of reserves. This included comparing the rates applied to external market data and the payment patterns to historical information. **Reinsurance and other recoveries** • Evaluated a sample of reinsurance recoveries held to underlying contracts to assess the existence of cover and appropriateness of their recognition. • Assessed the recoverability of the reinsurance recoveries by considering the payment history and credit worthiness of reinsurer counterparties for a sample of reinsurance recoveries. **Risk margin and probability of adequacy** • Assessed the Group's approach to setting the risk margin in accordance with the requirements of Australian Accounting Standards, with a particular focus on the assessed level of uncertainty in the net central estimate leading to a change in the margin year on year. • Considered the Group's key judgments about the variability of each class of business underwritten and the extent of correlation within each division based on the Group's experience and prior periods. • Assessed the Group's actuarial calculation of the probability of adequacy for reasonableness and consistency with previous valuations. This included developing an understanding of and testing the actuarial techniques applied by the Group and comparing the results with industry approach.

KEY AUDIT MATTER	How our audit addressed the key audit matter

Valuation of goodwill in North America

(Refer to note 7.2.1) $832 million

Goodwill has been recognised as a result of the Group's historical acquisitions and is allocated to cash generating units (CGUs) expected to benefit from synergies arising from the acquisition giving rise to the goodwill.

An impairment assessment is performed annually by the Group (and when an impairment trigger is identified), by comparing the carrying value of the CGUs with their recoverable amount, being the amount to be recovered through use or sale of the CGU.

The recoverable amount of the CGU is contingent on future cash flows and other assumptions including planned investment allocations and returns, and terminal growth and discount rates. As such, there is a risk that goodwill will be impaired if cash flows are not in line with the Group's expectations.

We considered goodwill relating to the North America business to be a key audit matter because of the financial significance of the carrying value of the balance and previous impairment charges recorded, and because the impairment assessment is sensitive to reasonably possible changes in assumptions.

Our procedures included:

- Evaluating the impact of the restructure of the Group's operating segments on the determination and composition of the CGUs to which goodwill is allocated.
- Assessing whether the methodology used by the Group for impairment assessment purposes was in line with the requirements of Australian Accounting Standards.
- Developing an understanding of the process by which the projected future cash flow forecasts were developed and comparing the cash flows included in the impairment assessment with the three year business plan presented to the Board.
- Evaluating the key assumptions used to derive the future cash flows, to external analyses where available, and assessing any significant changes from the prior period, as well as taking into consideration the past projections and actual performance of the North America business.
- Together with PwC valuation experts, assessing the consistency of the terminal growth rate and investment returns with available external analyses, and reperforming the calculation of the discount rate applied to future cash flows, comparing key inputs (including risk-free rate, market premium, unlevered beta and company specific risk premium) to industry or other benchmarks.
- Reperforming the Group's sensitivity analysis calculations and considering other reasonably possible changes in key assumptions.

Recoverability of deferred tax assets in the US tax group

(Refer to note 6.2.3) $415 million

The Group holds a US deferred tax asset comprised of carry forward tax losses and deductible temporary differences.

The recoverability of the US deferred tax asset depends largely upon sustained improvement in the profitability of the North America business, the rate at which those profits will be taxed, the period over which tax losses will be available for recovery, and the execution of any future tax planning strategies.

We considered this a key audit matter due to the recoverability assessment being largely underpinned by the forecast profitability of the North America business.

Our procedures included:

- Assessing whether the methodology used by the Group for the deferred tax asset recoverability assessment was in line with the requirements of Australian Accounting Standards.
- Comparing future taxable profits and other assumptions used in the deferred tax asset recoverability assessment to those used for the goodwill impairment assessment for the North America business.
- Evaluating the progress made by the Group in improving the profitability of the North America business in recent periods.

Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

KEY AUDIT MATTER	How our audit addressed the key audit matter
Valuation of investments **(Refer to note 3.2) $23,790 million** The Group holds investments representing approximately 59% of the total assets. The majority of the Group's investments are considered to be non-complex in nature as fair value is based on prices and rates that can be easily observed in the relevant markets. On this basis, the majority of the Group's investments are classified under Australian Accounting Standards as either "Level 1" (i.e. where key inputs to the valuation are based on quoted prices in the market) or "Level 2" (i.e. where key inputs to the valuation are based on observable prices in the market). We considered these Level 1 and Level 2 investments to be a key audit matter due to their financial significance to the Group. The Group also holds a limited number of investments considered to be "Level 3" under Australian Accounting Standards (i.e. where key inputs to the valuation require additional judgment as significant inputs are not based on observable market data) primarily in respect to infrastructure debt, infrastructure assets and private equity investments. While the Group's holdings of such investments are limited relative to total investment holdings, we considered their valuation to be a key audit matter because there is more judgment involved in determining their value.	Our procedures included: • Evaluating the design of the Group's relevant controls over the investments process and assessing whether a sample of these controls operated effectively throughout the year. • Comparing the Group's calculation of fair value for a selection of investments to our own calculation. Together with PwC valuation experts, this included sourcing independent inputs from market data providers and using our own valuation models. • Obtaining independent confirmations from fund managers or equivalent over the existence of a selection of investments. • In addition to the above, for Level 3 investments we evaluated the appropriateness of the methods used to value these investments by comparing to recognised practices and Australian Accounting Standards requirements.

KEY AUDIT MATTER	How our audit addressed the key audit matter

Operation of IT systems and controls

The Group is dependent on complex IT systems for the processing and recording of significant volumes of transactions.

In particular, in common with all large financial services organisations, access rights to technology are important because they are intended to ensure that changes to applications and data are appropriately authorised. Ensuring staff have appropriate access to IT systems and access is monitored are key controls in mitigating the potential for fraud or error as a result of a change to an application or underlying data.

We considered this a key audit matter because a large number of key financial controls we seek to rely on in our audit are related to IT systems and automated controls.

Our procedures included:

- Evaluating the design of the Group's IT system controls that are relevant to the financial reporting process and our audit and assessing whether a sample of these controls operated effectively throughout the year. This involved considering the following aspects of the IT systems:
  - Access to programs and data – The access controls designed to enforce segregation of duties and ensure that data is only changed through authorised means.
  - Change management – The processes and controls used to develop, test and authorise changes to the functionality and configurations within systems.
  - IT operations – The controls over key operations used to ensure that any issues that arise are managed appropriately.

  Where we identified design and operating effectiveness issues with the access and change management controls, a combination of compensating controls and detailed testing provided sufficient evidence for our audit.
- Assessing the operation of key applications to establish the accuracy of selected calculations, the correct generation of certain reports, and to evaluate the correct operation of selected automated controls and technology-dependent manual controls.
- Where technology services were provided by a third party, we considered assurance reports from the third party's auditor on the design and operating effectiveness of controls.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report for the year ended 31 December 2019, but does not include the Financial Report and our auditor's report thereon.

Our opinion on the Financial Report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the Financial Report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf.

This description forms part of our auditor's report.

Report on the Remuneration Report

Our opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 60 to 80 of the Directors' Report for the year ended 31 December 2019.

In our opinion, the Remuneration Report of QBE Insurance Group Limited for the year ended 31 December 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

V. Papageorgiou

Bret M. Griffin

Voula Papageorgiou
Partner

Bret Griffin
Partner

Sydney
17 February 2020

Shareholder information

QBE is incorporated in Australia, is listed on the Australian Securities Exchange (ASX) and trades under the code "QBE".

Registered office

QBE Insurance Group Limited
Level 27, 8 Chifley Square
Sydney NSW 2000 Australia

Telephone: +61 2 9375 4444
Facsimile: +61 2 9231 6104

Website: www.qbe.com

QBE website

QBE's website provides investors with information about QBE including annual reports, corporate governance statements, sustainability reports, half yearly reports and announcements to the ASX. The website also offers regular QBE share price updates, a calendar of events, a history of QBE's dividend and online access to your shareholding details via the share registry.

Shareholder information and enquiries

Enquiries and correspondence regarding shareholdings can be directed to QBE's share registry:

Computershare Investor Services Pty Limited (Computershare)
GPO Box 2975
Melbourne VIC 3001 Australia

452 Johnston Street
Abbotsford VIC 3067 Australia

Telephone: 1300 723 487 (Australia)
Telephone: +61 3 9415 4840 (International)

Web: www.computershare.com.au
Email: qbe.queries@computershare.com.au

For security purposes, you will need to quote your Securityholder Reference Number (SRN) or Holder Identification Number (HIN).

If you are broker (CHESS) sponsored, queries relating to incorrect registrations and changes to name and/or address can only be processed by your stockbroker. Please contact your stockbroker. Computershare cannot assist you with these changes.

Shareholding details online

Manage your shareholding online by visiting QBE's share registry, Computershare. Log onto www.investorcentre.com to view your holding balance and dividend statements, to update your address (if you are registered with an SRN) or direct credit instructions, provide DRP or BSP instructions or change/add your TFN/ABN details.

You may also register to receive shareholder documentation electronically including your dividend statement, notice of meeting and proxy and annual reports.

Privacy legislation

Chapter 2C of the *Corporations Act 2001* requires information about you as a security holder (including your name, address and details of the securities you hold) to be included in QBE's share register. These details must continue to be included in the public register even if you cease to be a security holder. A copy of the privacy policy is available on Computershare's website.

Dividends

QBE pays cash dividends to shareholders resident in Australia and New Zealand by direct credit. Shareholders in the UK and the US also have the option to receive their cash dividends by direct credit, although it is not mandatory. The benefit to shareholders of the direct credit facility is access to cleared funds quickly and securely, reducing the risk of cheques being lost or stolen. Shareholders in other countries will receive cheque payments in Australian dollars if they have not elected to receive their payment by direct credit. Shareholders receive a dividend statement for tax records, either by post or by email depending on the selected communications option.

Eligible shareholders can participate in QBE's Dividend Reinvestment Plan (DRP) and Bonus Share Plan (BSP) when the plans are active. The DRP enables shareholders to subscribe for additional shares. The BSP is a bonus share plan whereby the dividend entitlement is forgone for bonus shares in lieu of the dividend. In order to participate in either the DRP or BSP, shareholders must have a minimum shareholding of 100 shares and have a registered address in Australia or New Zealand.

Participants may change their election to participate in the DRP and BSP at any time. DRP/BSP election cut-off dates and application forms are available from QBE's website.

Tax File Number (TFN), Australian Business Number (ABN) or exemption – Australian residents

You can confirm whether you have lodged your TFN, ABN or exemption by visiting Computershare's Investor Centre. If you choose not to lodge these details, QBE is obliged to deduct tax at the highest marginal rate (plus the Medicare levy) from the unfranked portion of dividends paid. Australian shareholders living abroad should advise Computershare of their resident status.

Shareholder information continued

Conduit foreign income (CFI)

Shareholders will receive CFI credits in respect of the whole unfranked portion of QBE dividends. These credits exempt non-resident shareholders from Australian withholding tax.

Unpresented cheques/unclaimed money

Under the Unclaimed Moneys Act, unclaimed dividends six or more years old must be given to the ACT Public Trustee. It is very important that shareholders bank outstanding dividend cheques promptly and advise Computershare immediately of changes of address or bank account details.

Recent QBE dividends

DATE PAID	TYPE	RECORD DATE	AUSTRALIAN CENTS PER SHARE	FRANKING %
28 March 2013	Final	8 March 2013	10	100
23 September 2013	Interim	2 September 2013	20	100
31 March 2014	Final	13 March 2014	12	100
23 September 2014	Interim	29 August 2014	15	100
13 April 2015	Final	6 March 2015	22	100
2 October 2015	Interim	28 August 2015	20	100
14 April 2016	Final	11 March 2016	30	100
28 September 2016	Interim	26 August 2016	21	50
13 April 2017	Final	10 March 2017	33	50
29 September 2017	Interim	25 August 2017	22	30
20 April 2018	Final	9 March 2018	4	30
5 October 2018	Interim	24 August 2018	22	30
18 April 2019	Final	8 March 2019	28	60
4 October 2019	Interim	23 August 2019	25	60
9 April 2020	Final	6 March 2020	27	30

Annual General Meeting

The Annual General Meeting of QBE Insurance Group Limited will be held at 10.00am on Thursday, 7 May 2020 in the Ballroom 3 and 4, The Fullerton Hotel Sydney (formerly known as The Westin Sydney), No 1 Martin Place, Sydney, NSW 2000. Details of the meeting, including information about how to vote, will be contained in our notice of meeting, which will be mailed to shareholders and available online at www.qbe.com.

Annual Report mailing list

Amendments to the *Corporations Act 2001* have removed the obligation for companies to mail an annual report to shareholders. To improve efficiency, save costs and reduce our impact on the environment by minimising unnecessary use of paper and printing resources, QBE's Annual Report is published on our website at www.qbe.com.

If you wish to receive a hard copy of the Annual Report, please update your communication preferences by logging into your shareholding at www.investorcentre.com.

QBE does not produce a concise financial report.

Top 20 shareholders as at 31 January 2020

NAME	NUMBER OF SHARES	% OF TOTAL
HSBC Custody Nominees (Australia) Limited	480,919,280	36.84
J P Morgan Nominees Australia Pty Limited	299,640,500	22.95
Citicorp Nominees Pty Limited	128,810,050	9.87
National Nominees Limited	100,296,935	7.68
BNP Paribas Nominees Pty Ltd (Agency Lending DRP A/C)	29,813,902	2.28
BNP Paribas Noms Pty Ltd (DRP)	23,024,911	1.76
HSBC Custody Nominees (Australia) Limited (NT-Comnwlth Super Corp A/C)	9,926,353	0.76
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	9,369,629	0.72
Argo Investments Limited	7,512,406	0.58
HSBC Custody Nominees (Australia) Limited - GSCO ECA	6,223,460	0.49
CPU Share Plans Pty Ltd (QBE Ves Control A/C)	4,161,160	0.32
AMP Life Limited	3,405,149	0.26
Netwealth Investments Limited (Wrap Services A/C)	1,724,220	0.13
Mutual Trust Pty Ltd	1,660,413	0.13
Nulis Nominees (Australia) Limited (Navigator Mast Plan Sett A/C)	1,336,596	0.10
Navigator Australia Ltd (MLC Investment Sett A/C)	1,301,896	0.10
BNP Paribas Noms (NZ) LTD (DRP)	1,276,001	0.10
The Senior Master Of The Supreme Court (Common Fund No 3 A/C)	1,228,740	0.09
Warbont Nominees Pty Ltd (Unpaid Entrepot A/C)	977,686	0.07
HSBC Custody Nominees (Australia) Limited - A/C 2	946,018	0.07
	1,113,555,305	85.30

QBE substantial shareholders as at 31 January 2020

NAME	NUMBER OF SHARES	% OF TOTAL	DATE OF NOTICE[1]
Vanguard Group (The Vanguard Group, Inc and its controlled entities)	80,289,148	6.06	17 May 2019
BlackRock Group (and its associated entities)	79,689,478	6.03	6 June 2019

1 Percentage of total at date of notice.

Distribution of shareholders and shareholdings as at 31 January 2020

SIZE OF HOLDING	NUMBER OF SHAREHOLDERS	%	NUMBER OF SHARES	%
1 to 1,000	50,782	56.95	20,768,284	1.59
1,001 to 5,000	31,436	35.25	69,850,129	5.35
5,001 to 10,000	4,422	4.96	31,026,242	2.38
10,001 to 100,000	2,433	2.73	51,056,298	3.91
100,001 and over	103	0.11	1,132,702,734	86.77
Total	89,176	100.00	1,305,403,687	100.00

Shareholdings of less than a marketable parcel as at 31 January 2020

	SHAREHOLDERS		SHARES	
	NUMBER	% OF TOTAL	NUMBER	% OF TOTAL
Holdings of 37 or fewer shares	3,913	4.39%	55,510	0.004

Financial calendar

YEAR	MONTH	DAY	ANNOUNCEMENT
2020	**February**	**17**	Results and dividend announcement for the full year ended 31 December 2019
	March	**2**	Closing date for receipt of nominations for QBE Board
		5	Shares begin trading ex dividend
		6	Record date for determining shareholders' entitlement to the 2019 final dividend
		9	DRP/BSP election close date – last day to nominate participation in the Dividend Reinvestment Plan or the Bonus Share Plan
	April	**9**	Payment date for the 2019 final dividend
	May	**7**	2020 Annual General Meeting
	June	**30**	Half year end
	August	**13**[1]	Results and dividend announcement for the half year ended 30 June 2020
		20[1]	Shares begin trading ex dividend
		21[1]	Record date for determining shareholders' entitlement to the 2020 interim dividend
		24[1]	DRP/BSP election close date – last day to nominate participation in the Dividend Reinvestment Plan or the Bonus Share Plan
	September	**25**[1]	Payment date for the 2020 interim dividend
	December	**31**	Full year end

1 Dates shown may be subject to change.

10-year history

FOR THE YEAR ENDED 31 DECEMBER

		2019[1]	2018[1]	2017[1]	2016[2]	2015[2]	2014[2]	2013[2]	2012[2]	2011[2]	2010[2]
Profit or loss information											
Gross written premium	US$M	**13,442**	13,657	13,328	14,395	15,092	16,332	17,975	18,434	18,291	13,629
Gross earned premium	US$M	**13,257**	13,601	13,611	14,276	14,922	16,521	17,889	18,341	17,840	13,432
Net earned premium	US$M	**11,609**	11,640	11,351	11,066	12,314	14,084	15,396	15,798	15,359	11,362
Claims ratio	%	**69.8**	63.6	71.5	58.2	60.4	63.2	64.5	66.0	68.2	59.9
Commission ratio	%	**15.6**	16.9	17.1	18.4	17.2	16.8	16.8	16.2	14.9	15.5
Expense ratio	%	**14.6**	15.4	15.9	17.4	17.3	16.1	16.5	14.9	13.7	14.3
Combined operating ratio	%	**100.0**	95.9	104.5	94.0	94.9	96.1	97.8	97.1	96.8	89.7
Investment income											
before investment gains/losses	US$M	**555**	690	576	641	541	676	691	723	948	658
after investment gains/losses	US$M	**1,036**	547	758	746	665	814	772	1,227	767	657
Insurance profit (loss)	US$M	**647**	826	(60)	1,075	1,031	1,074	841	1,262	1,085	1,703
Insurance profit (loss) to net earned premium	%	**5.6**	7.1	(0.5)	9.7	8.4	7.6	5.5	8.0	7.1	15.0
Financing and other costs	US$M	**257**	305	302	294	244	297	345	324	275	222
Operating profit (loss)											
before income tax	US$M	**672**	627	(793)	1,072	953	931	(448)	941	868	1,551
after income tax and non-controlling interests	US$M	**571**	567	(1,212)	844	687	742	(254)	761	704	1,278
Balance sheet and share information											
Number of shares on issue [3]	millions	**1,305**	1,327	1,358	1,370	1,370	1,363	1,247	1,194	1,112	1,048
Shareholders' funds	US$M	**8,153**	8,381	8,859	10,284	10,505	11,030	10,356	11,358	10,386	10,311
Total assets	US$M	**40,035**	39,582	43,862	41,583	42,176	45,000	47,271	50,748	46,737	41,386
Net tangible assets per share [3]	US$	**4.11**	4.22	4.29	4.90	5.07	5.32	4.75	4.49	3.93	4.78
Borrowings to shareholders' funds	%	**38.0**	38.0	40.8	33.8	33.6	32.5	44.1	43.4	45.8	31.5
Basic earnings (loss) per share [3]	US cents	**41.8**	29.0	(91.5)	61.6	50.3	57.4	(22.8)	65.1	64.9	123.7
Basic earnings (loss) per share – cash basis [4]	US cents	**48.4**	53.1	(18.9)	65.5	65.3	63.5	62.9	89.1	73.0	127.7
Diluted earnings (loss) per share	US cents	**41.5**	28.6	(91.5)	60.8	49.8	55.8	(22.8)	61.6	61.3	119.6
Return on average shareholders' funds	%	**6.7**	4.5	(13.0)	8.1	6.4	6.9	(2.3)	7.0	6.8	13.1
Dividend per share	Australian cents	**52**	50	26	54	50	37	32	50	87	128
Dividend payout	A$M	**681**	669	356	741	685	492	394	593	956	1,336
Total investments and cash [5]	US$M	**24,374**	22,887	26,141	25,235	26,708	28,583	30,619	31,525	28,024	25,328

1 Profit or loss information for these periods is prepared on a continuing basis and excludes discontinued operations. Profit or loss information for 2017 has been restated on a continuing basis for comparability. Balance sheet and share information for these periods continues to reflect the entire consolidated Group unless otherwise specified.

2 As originally reported for each period.

3 Reflects shares on an accounting basis.

4 Calculated with reference to cash profit, being profit after tax adjusted for amortisation and impairment of intangibles and other non-cash items net of tax.

5 Includes financial assets at fair value through profit or loss, cash and cash equivalents and investment properties; excludes any balances held for sale.

Glossary

Accident year experience	The matching of all claims occurring (regardless of when reported or paid) during a given 12-month period with all premium earned over the same period.
Acquisition cost	The total of net commission and operating expenses incurred in the generation of net earned premium and often expressed as a percentage of net earned premium.
Admitted insurance	Insurance written by an insurer that is admitted (or licensed) to do business in the (US) state in which the policy was sold.
Agent	One who negotiates contracts of insurance or reinsurance as an insurance company's representative i.e. the agent's primary responsibility is to the insurance carrier, not the insurance buyer.
Attritional claims ratio	Total of all claims with a net cost of less than $2.5 million as a percentage of net earned premium.
Broker	One who negotiates contracts of insurance or reinsurance on behalf of an insured party, receiving a commission from the insurer or reinsurer for placement and other services rendered. In contrast with an agent, the broker's primary responsibility is to the insurance buyer not the insurance carrier.
Capacity	In relation to a Lloyd's member, the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate, the aggregate of each member's capacity allocated to that syndicate.
Cash profit	Net profit after tax attributable to QBE shareholders, adjusted for the post-tax effect of amortisation and impairment of intangibles and other non-cash items. This definition is used for the purpose of the Group's dividend policy.
Casualty insurance	Insurance that is primarily concerned with the losses resulting from injuries to third persons or their property (i.e. not the policyholder) and the resulting legal liability imposed on the insured. It includes, but is not limited to, general liability, employers' liability, workers' compensation, professional liability, public liability and motor liability insurance.
Catastrophe reinsurance	A reinsurance contract (often in the form of excess of loss reinsurance) that, subject to specified limits and retention, compensates the ceding insurer for losses related to an accumulation of claims resulting from a catastrophe event or series of events.
Claim	The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.
Claims incurred	The aggregate of all claims paid during an accounting period adjusted by the change in the claims provision for that accounting period.
Claims provision	The estimate of the most likely cost of settling present and future claims and associated claims adjustment expenses plus a risk margin to cover possible fluctuation of the liability.
Claims ratio	Net claims incurred as a percentage of net earned premium.
Coefficient of variation	The measure of variability in the net discounted central estimate used in the determination of the probability of adequacy.
Combined operating ratio	The sum of the net claims ratio, commission ratio and expense ratio. A combined operating ratio below 100% indicates profitable underwriting results. A combined operating ratio over 100% indicates unprofitable underwriting results.
Commercial lines	Refers to insurance for businesses, professionals and commercial establishments.
Commission	Fee paid to an agent or broker as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer and the marketing methods.
Commission ratio	Net commission expense as a percentage of net earned premium.
Credit spread	The difference in yield between a bond and a reference yield (e.g. LIBOR, BBSW or a fixed sovereign bond yield).
Credit spread duration	The weighted average term of cash flows for a corporate bond. It is used to measure the price sensitivity of a corporate bond to changes in credit spreads.
Deductible	The amount or proportion of some or all losses arising under an insurance contract that the insured must bear.
Deferred acquisition costs	Acquisition costs relating to the unexpired period of risk of contracts in force at the balance date which are carried forward from one accounting period to subsequent accounting periods.
Excess of loss reinsurance	A form of reinsurance in which, in return for a premium, the reinsurer accepts liability for claims settled by the original insurer in excess of an agreed amount, generally subject to an upper limit.
Expense ratio	Underwriting and administrative expenses as a percentage of net earned premium.
Facultative reinsurance	The reinsurance of individual risks through a transaction between the reinsurer and the cedant (usually the primary insurer) involving a specified risk.
General insurance	Generally used to describe non-life insurance business including property and casualty insurance.

Gross claims incurred	The amount of claims incurred during an accounting period before deducting reinsurance recoveries.
Gross earned premium (GEP)	The proportion of gross written premium recognised as income in the current financial year, reflecting the pattern of the incidence of risk and the expiry of that risk.
Gross written premium (GWP)	The total premium on insurance underwritten by an insurer or reinsurer during a specified period, before deduction of reinsurance premium.
Incurred but not reported (IBNR)	Claims arising out of events that have occurred before the end of an accounting period but have not been reported to the insurer by that date.
Insurance profit	The sum of the underwriting result and investment income on assets backing policyholders' funds.
Insurance profit margin	The ratio of insurance profit to net earned premium.
Inward reinsurance	See Reinsurance.
Large individual risk and catastrophe claims ratio	The aggregate of claims each with a net cost of $2.5 million or more as a percentage of net earned premium.
Lenders' mortgage insurance (LMI)	A policy that protects the lender (e.g. a bank) against non-payment or default on the part of the borrower on a residential property loan.
Lead/non-lead underwriter	A lead underwriter operates in the subscription market and sets the terms and price of a policy. The follower or non-lead is an underwriter of a syndicate or an insurance company that agrees to accept a proportion of a given risk on terms set by the lead underwriter.
Letters of credit (LoC)	Written undertaking by a financial institution to provide funding if required.
Lloyd's	Insurance and reinsurance market in London. It is not a company but is a society of individuals and corporate underwriting members.
Lloyd's managing agent	An underwriting agent which has permission from Lloyd's to manage one or more syndicates and carry on underwriting and other functions for a member.
Long-tail	Classes of insurance business involving coverage for risks where notice of a claim may not be received for many years and claims may be outstanding for more than one year before they are finally quantifiable and settled by the insurer.
Managing General Agent (MGA)	A wholesale insurance agent with the authority to accept placements from (and often to appoint) retail agents on behalf of an insurer. MGAs generally provide underwriting and administrative services such as policy issuance on behalf of the insurers they represent. Some may handle claims.
Maximum event retention (MER)	An estimate of the largest claim to which an insurer will be exposed (taking into account the probability of that loss event at a return period of one in 250 years) due to a concentration of risk exposures, after netting off any potential reinsurance recoveries and inward and outward reinstatement premiums.
Modified duration	The weighted average term of cash flows in a bond. It is used to measure the price sensitivity of a bond to changes in interest rates.
Multi-peril crop scheme	US federally regulated crop insurance protecting against crop yield losses by allowing participating insurers to insure a certain percentage of historical crop production.
Net claims incurred	The amount of claims incurred during an accounting period after deducting reinsurance recoveries.
Net claims ratio	Net claims incurred as a percentage of net earned premium.
Net earned premium (NEP)	Net written premium adjusted by the change in net unearned premium.
Net investment income	Gross investment income including foreign exchange gains and losses and net of investment expenses.
Net written premium (NWP)	The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.
Outstanding claims liability	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.
Personal lines	Insurance for individuals and families, such as private motor vehicle and homeowners' insurance.
Policyholders' funds	The net insurance liabilities of the Group.
Premium	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.
Premium solvency ratio	Ratio of net tangible assets to net earned premium. This is an important industry indicator in assessing the ability of general insurers to settle their existing liabilities.
Prescribed Capital Amount (PCA)	This comprises the sum of the capital charges for asset risk, asset concentration risk, insurance concentration risk and operational risk as required by APRA. The PCA must be disclosed at least annually.
Probability of adequacy	A statistical measure of the level of confidence that the outstanding claims liability will be sufficient to pay claims as and when they fall due.

Glossary continued

Proportional reinsurance	A type of reinsurance in which the original insurer and the reinsurer share claims in the same proportion as they share premiums.
Prudential Capital Requirement (PCR)	The sum of the Prescribed Capital Account (PCA) plus any supervisory adjustment determined by APRA. The PCR may not be disclosed.
Recoveries	The amount of claims recovered from reinsurance, third parties or salvage.
Reinsurance	An agreement to indemnify a primary insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the primary insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedant or ceding company and is said to place outward reinsurance.
Reinsurance to close	A reinsurance agreement under which members of a syndicate, for a year of account to be closed, are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.
Reinsurer	The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer. The term includes retrocessionaires, being insurers that assume reinsurance from a reinsurer.
Retention	That amount of liability for which an insurance company will remain responsible after it has completed its reinsurance arrangements.
Retrocession	Reinsurance of a reinsurer by another reinsurance carrier.
Return on allocated capital (RoAC)	Divisional management-basis profit as a percentage of allocated capital as determined by the Group's economic capital model.
Return on equity (ROE)	Group statutory net profit after tax as a percentage of average shareholders' funds.
Short-tail	Classes of insurance business involving coverage for risks where claims are usually known and settled within 12 months.
Stop loss reinsurance	A form of excess of loss reinsurance which provides that the reinsurer will pay some or all of the reassured's losses in excess of a stated percentage of the reassured's premium income, subject (usually) to an overall limit of liability.
Surplus (or excess) lines insurers	In contrast to "admitted insurers", every US state also allows non-admitted (or "surplus lines" or "excess lines") carriers to transact business where there is a special need that cannot or will not be met by admitted carriers. The rates and forms of non-admitted carriers generally are not regulated in that state, nor are the policies back-stopped by the state insolvency fund covering admitted insurance. Brokers must inform insurers if their insurance has been placed with a non-admitted insurer.
Syndicate	A member or group of members underwriting insurance business at Lloyd's through the agency of a managing agent.
Survival ratio	A measure of how many years it would take for dust disease claims to exhaust the current level of claims provision. It is calculated on the average level of claims payments in the last three years.
Total shareholder return (TSR)	A measure of performance of a company's shares over time. It includes share price appreciation and dividend performance.
Treaty reinsurance	Reinsurance of risks in which the reinsurer is obliged by agreement with the cedant to accept, within agreed limits, all risks to be underwritten by the cedant within specified classes of business in a given period of time.
Underwriting	The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.
Underwriting expenses	The aggregate of policy acquisition costs, excluding commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
Underwriting result	The amount of profit or loss from insurance activities exclusive of net investment income and capital gains or losses.
Underwriting year	The year in which the contract of insurance commenced or was underwritten.
Unearned premium	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
Volume weighted average price (VWAP)	A methodology used for determining the share price applicable to dividend and other share related transactions.
Written premium	Premiums written, whether or not earned, during a given period.

Designed and produced by ArmstrongQ

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Rules 4.7.3 and 4.10.3[1]

Appendix 4G

Key to Disclosures
Corporate Governance Council Principles and Recommendations

Introduced 01/07/14 Amended 02/11/15

Name of entity

QBE Insurance Group Limited

ABN / ARBN	**Financial year ended:**
28 008 485 014	31 December 2019

Our corporate governance statement[2] for the above period above can be found at:[3]

☒ These pages of our annual report: 48 - 55

☐ This URL on our website:

The Corporate Governance Statement is accurate and up to date as at 17 February 2020 and has been approved by the board.

The annexure includes a key to where our corporate governance disclosures can be located.

Date: 17 February 2020

Name of Director or Secretary authorising lodgement: Carolyn Scobie

[1] Under Listing Rule 4.7.3, an entity must lodge with ASX a completed Appendix 4G at the same time as it lodges its annual report with ASX.

Listing Rule 4.10.3 requires an entity that is included in the official list as an ASX Listing to include in its annual report either a corporate governance statement that meets the requirements of that rule or the URL of the page on its website where such a statement is located. The corporate governance statement must disclose the extent to which the entity has followed the recommendations set by the ASX Corporate Governance Council during the reporting period. If the entity has not followed a recommendation for any part of the reporting period, its corporate governance statement must separately identify that recommendation and the period during which it was not followed and state its reasons for not following the recommendation and what (if any) alternative governance practices it adopted in lieu of the recommendation during that period.

Under Listing Rule 4.7.4, if an entity chooses to include its corporate governance statement on its website rather than in its annual report, it must lodge a copy of the corporate governance statement with ASX at the same time as it lodges its annual report with ASX. The corporate governance statement must be current as at the effective date specified in that statement for the purposes of rule 4.10.3.

[2] "Corporate governance statement" is defined in Listing Rule 19.12 to mean the statement referred to in Listing Rule 4.10.3 which discloses the extent to which an entity has followed the recommendations set by the ASX Corporate Governance Council during a particular reporting period.

[3] Mark whichever option is correct and then complete the page number(s) of the annual report, or the URL of the web page, where the entity's corporate governance statement can be found. You can, if you wish, delete the option which is not applicable.

Throughout this form, where you are given two or more options to select, you can, if you wish, delete any option which is not applicable and just retain the option that is applicable. If you select an option that includes "OR" at the end of the selection and you delete the other options, you can also, if you wish, delete the "OR" at the end of the selection.

ANNEXURE – KEY TO CORPORATE GOVERNANCE DISCLOSURES

	Corporate Governance Council recommendation	We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …[4]
PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT			
1.1	A listed entity should disclose: (a) the respective roles and responsibilities of its board and management; and (b) those matters expressly reserved to the board and those delegated to management.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*] … and information about the respective roles and responsibilities of our board and management (including those matters expressly reserved to the board and those delegated to management): ☒ in our Corporate Governance Statement and in the Board Charter available at https://www.qbe.com/investor-relations/corporate-governance/qbe-charters-and-constitution	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
1.2	A listed entity should: (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable

[4] If you have followed all of the Council's recommendations in full for the whole of the period above, you can, if you wish, delete this column from the form and re-format it.

	Corporate Governance Council recommendation	We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …[4]
1.5	A listed entity should: (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; (b) disclose that policy or a summary of it; and (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either: (1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	… the fact that we have a diversity policy that complies with paragraph (a): ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*] … and a copy of our diversity policy or a summary of it: ☒ at https://www.qbe.com/investor-relations/corporate-governance/global-policies … and the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with our diversity policy and our progress towards achieving them: ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*] … and the information referred to in paragraphs (c)(1) or (2): ☐ in our Corporate Governance Statement **OR** ☒ in our Corporate Governance Statement and in the Workplace Gender Equality Agency Report 2018-2019 available at https://www.qbe.com/investor-relations/corporate-governance/global-policies	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
1.6	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	… the evaluation process referred to in paragraph (a): ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*] … and the information referred to in paragraph (b): ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable

	Corporate Governance Council recommendation	We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …[4]
1.7	A listed entity should: (a) have and disclose a process for periodically evaluating the performance of its senior executives; and (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	… the evaluation process referred to in paragraph (a): ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*] … and the information referred to in paragraph (b): ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …[4]
PRINCIPLE 2 - STRUCTURE THE BOARD TO ADD VALUE			
2.1	The board of a listed entity should: (a) have a nomination committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	[If the entity complies with paragraph (a):] … the fact that we have a nomination committee that complies with paragraphs (1) and (2): ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*] … and a copy of the charter of the committee: ☒ at https://www.qbe.com/investor-relations/corporate-governance/qbe-charters-and-constitution … and the information referred to in paragraphs (4) and (5): ☐ in our Corporate Governance Statement **OR** ☒ in the 2019 Annual Report [If the entity complies with paragraph (b):] … the fact that we do not have a nomination committee and the processes we employ to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively: ☐ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	… our board skills matrix: ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …[4]
2.3	A listed entity should disclose: (a) the names of the directors considered by the board to be independent directors; (b) if a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and (c) the length of service of each director.	… the names of the directors considered by the board to be independent directors: ☐ in our Corporate Governance Statement **OR** ☒ in the 2019 Annual Report … and, where applicable, the information referred to in paragraph (b): ☐ in our Corporate Governance Statement **OR** ☐ at *[insert location]* … and the length of service of each director: ☐ in our Corporate Governance Statement **OR** ☒ in the 2019 Annual Report	☐ an explanation why that is so in our Corporate Governance Statement
2.4	A majority of the board of a listed entity should be independent directors.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement **OR** ☐ at *[insert location]*	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement **OR** ☐ at *[insert location]*	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement **OR** ☐ at *[insert location]*	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY			
3.1	A listed entity should: (a) have a code of conduct for its directors, senior executives and employees; and (b) disclose that code or a summary of it.	… our code of conduct or a summary of it: ☐ in our Corporate Governance Statement **OR** ☒ at https://www.qbe.com/investor-relations/corporate-governance/global-policies/group-code-ethics-and-conduct	☐ an explanation why that is so in our Corporate Governance Statement

	Corporate Governance Council recommendation	We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …[4]
PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING			
4.1	The board of a listed entity should: (a) have an audit committee which: (1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (2) is chaired by an independent director, who is not the chair of the board, and disclose: (3) the charter of the committee; (4) the relevant qualifications and experience of the members of the committee; and (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	[If the entity complies with paragraph (a):] … the fact that we have an audit committee that complies with paragraphs (1) and (2): ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*] … and a copy of the charter of the committee: ☒ at https://www.qbe.com/investor-relations/corporate-governance/qbe-charters-and-constitution … and the information referred to in paragraphs (4) and (5): ☐ in our Corporate Governance Statement **OR** ☒ in the 2019 Annual Report [If the entity complies with paragraph (b):] … the fact that we do not have an audit committee and the processes we employ that independently verify and safeguard the integrity of our corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner: ☐ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement
4.2	The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …[4]
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity that does not hold an annual general meeting and this recommendation is therefore not applicable
PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE			
5.1	A listed entity should: (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and (b) disclose that policy or a summary of it.	… our continuous disclosure compliance policy or a summary of it: ☐ in our Corporate Governance Statement **OR** ☒ at https://www.qbe.com/investor-relations/corporate-governance/global-policies	☐ an explanation why that is so in our Corporate Governance Statement
PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS			
6.1	A listed entity should provide information about itself and its governance to investors via its website.	… information about us and our governance on our website: ☒ at www.qbe.com/investor-relations	☐ an explanation why that is so in our Corporate Governance Statement
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	… our policies and processes for facilitating and encouraging participation at meetings of security holders: ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity that does not hold periodic meetings of security holders and this recommendation is therefore not applicable
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	… the fact that we follow this recommendation: ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …[4]
PRINCIPLE 7 – RECOGNISE AND MANAGE RISK			
7.1	The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	[If the entity complies with paragraph (a):] … the fact that we have a committee or committees to oversee risk that comply with paragraphs (1) and (2): ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*] … and a copy of the charter of the committee: ☒ at https://www.qbe.com/investor-relations/corporate-governance/qbe-charters-and-constitution … and the information referred to in paragraphs (4) and (5): ☐ in our Corporate Governance Statement **OR** ☒ in the 2019 Annual Report [If the entity complies with paragraph (b):] … the fact that we do not have a risk committee or committees that satisfy (a) and the processes we employ for overseeing our risk management framework: ☐ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement
7.2	The board or a committee of the board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place.	… the fact that board or a committee of the board reviews the entity's risk management framework at least annually to satisfy itself that it continues to be sound: ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*] … and that such a review has taken place in the reporting period covered by this Appendix 4G: ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement

Corporate Governance Council recommendation		We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …[4]
7.3	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	[If the entity complies with paragraph (a):] … how our internal audit function is structured and what role it performs: ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*] [If the entity complies with paragraph (b):] … the fact that we do not have an internal audit function and the processes we employ for evaluating and continually improving the effectiveness of our risk management and internal control processes: ☐ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	… whether we have any material exposure to economic, environmental and social sustainability risks and, if we do, how we manage or intend to manage those risks: ☐ in our Corporate Governance Statement **OR** ☒ in the 2019 Sustainability Report	☐ an explanation why that is so in our Corporate Governance Statement

	Corporate Governance Council recommendation	We have followed the recommendation in full for the whole of the period above. We have disclosed …	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed …[4]
PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY			
8.1	The board of a listed entity should: (a) have a remuneration committee which: (1) has at least three members, a majority of whom are independent directors; and (2) is chaired by an independent director, and disclose: (3) the charter of the committee; (4) the members of the committee; and (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	[If the entity complies with paragraph (a):] … the fact that we have a remuneration committee that complies with paragraphs (1) and (2): ☒ in our Corporate Governance Statement **OR** ☐ at [*insert location*] … and a copy of the charter of the committee: ☒ at https://www.qbe.com/investor-relations/corporate-governance/qbe-charters-and-constitution … and the information referred to in paragraphs (4) and (5): ☐ in our Corporate Governance Statement **OR** ☒ in the 2019 Annual Report [If the entity complies with paragraph (b):] … the fact that we do not have a remuneration committee and the processes we employ for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive: ☐ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	… separately our remuneration policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives: ☐ in our Corporate Governance Statement **OR** ☒ in the 2019 Annual Report	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable
8.3	A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and (b) disclose that policy or a summary of it.	… our policy on this issue or a summary of it: ☐ in our Corporate Governance Statement **OR** ☒ at https://www.qbe.com/investor-relations/corporate-governance/global-policies	☐ an explanation why that is so in our Corporate Governance Statement **OR** ☐ we do not have an equity-based remuneration scheme and this recommendation is therefore not applicable **OR** ☐ we are an externally managed entity and this recommendation is therefore not applicable

	Corporate Governance Council recommendation	We have followed the recommendation in full for the whole of the period above. We have disclosed ...	We have NOT followed the recommendation in full for the whole of the period above. We have disclosed ...[4]
ADDITIONAL DISCLOSURES APPLICABLE TO EXTERNALLY MANAGED LISTED ENTITIES			
-	*Alternative to Recommendation 1.1 for externally managed listed entities:* The responsible entity of an externally managed listed entity should disclose: (a) the arrangements between the responsible entity and the listed entity for managing the affairs of the listed entity; (b) the role and responsibility of the board of the responsible entity for overseeing those arrangements.	… the information referred to in paragraphs (a) and (b): ☐ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement
-	*Alternative to Recommendations 8.1, 8.2 and 8.3 for externally managed listed entities:* An externally managed listed entity should clearly disclose the terms governing the remuneration of the manager.	… the terms governing our remuneration as manager of the entity: ☐ in our Corporate Governance Statement **OR** ☐ at [*insert location*]	☐ an explanation why that is so in our Corporate Governance Statement

2019 Sustainability Report

QBE INSURANCE GROUP LIMITED

Table of contents

QBE at a glance

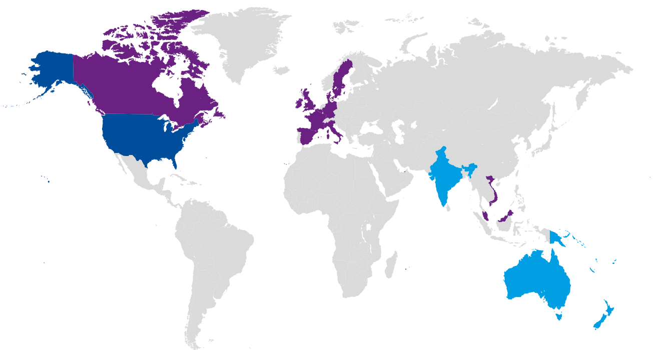
Who we are

QBE is listed on the Australian Securities Exchange (ASX) and headquartered in Sydney. We employ 11,704 people in 27 countries.

QBE is a general insurance and reinsurance company. Across our operations, we offer commercial, personal and specialty products, and risk management solutions to our customers.

Our purpose is to give people the confidence to achieve their ambitions.

Where we are



27[1]

countries of operations

- North America
- International
- Australia Pacific

1 QBE's Group Shared Services Centre is based in the Philippines and is not included in our count of countries of operations. This function provides a comprehensive range of insurance services to QBE's customers and brokers across North America, Australia Pacific and International such as underwriting support, policy servicing, claims, control and customer service. It also provides knowledge processing services such as finance, technology, HR delivery, data analytics and reporting to QBE businesses globally.

About the cover

QBE has been carbon neutral across our global operations since January 2018. Through our partnership with the Qantas Future Planet program, one of the projects we support is the Winds of Change in south east Turkey. This project consists of 54 wind turbines that avoid emissions by introducing clean power to the electricity grid. The project also provides employment and training opportunities during construction and operation, contributing to the local economy.

As a company that helps people and businesses protect themselves from risk, QBE has a focus on sustainability. The identification of current and emerging environmental, social and governance (ESG) trends is an integral part of achieving our purpose, understanding the needs of our customers and ensuring the sustainability of our own business.

About this Report

This Sustainability Report (the Report) covers the activities of QBE across its divisions during the financial year ended 31 December 2019. It provides an overview of initiatives underway across the pillars of our Sustainability Framework. We are guided by the Global Reporting Initiative (GRI) Standards. All financial figures in this Report are in US dollars unless otherwise stated.

The information in this Report is validated by subject matter experts across the business. The Report is submitted to the Board Risk & Capital Committee for review and approval. QBE also uses an independent assurance engagement to confirm that certain data sets have been prepared and presented appropriately in all material aspects.

We engaged Deloitte Touche Tohmatsu (Deloitte) to work with us to enhance the rigour behind our sustainability reporting. Deloitte conducted independent limited assurance over QBE's global greenhouse gas (GHG) emissions data and environmental indicators, workforce-related metrics and the total number of Premiums4Good impact investment projects and associated financial contributions, for the year ended 31 December 2019.

This limited assurance engagement has been undertaken in accordance with the Auditing and Assurance Standards Board's Australian Standards on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information.*

The purpose of this was to provide QBE management with limited assurance over the reported data, calculated in accordance with selected disclosure requirements outlined in the GRI Standards and QBE's Sustainability Reporting Framework, including its GHG Reporting Framework. The full limited assurance statement, which includes a summary of the specific reporting criteria used for each of the selected metrics, is available at the end of this Report.

2019 snapshot[1]

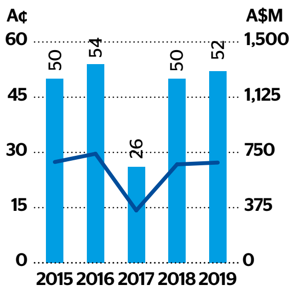
Shareholder highlights

Dividend per share (A¢)

52¢

Dividend payout (A$M)

681



Dividend per share (A¢)
Dividend payout (A$M)

4% from 2018

Earnings per share (US¢)

41.8¢

2018 **29.0¢**

Adjusted cash profit return on average shareholders' funds[2]

8.9%

2018 **8.0%**

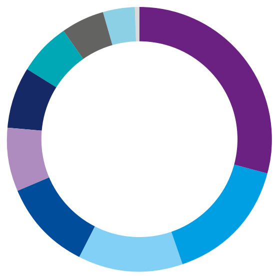
Financial highlights[3]

Combined operating ratio[4] (COR)

97.5%[5]

2018 **95.7%**[6]

Gross written premium by class of business



	2019 %	2018 %
Commercial & domestic property	29.2	29.2
Motor & motor casualty	14.4	15.7
Agriculture	13.7	12.7
Public/product liability	11.9	11.1
Professional indemnity	8.4	7.9
Workers' compensation	7.1	7.3
Marine, energy & aviation	6.6	6.6
Accident & health	5.3	5.2
Financial & credit	3.3	3.8
Other	0.1	0.5

Net earned premium (US$M)

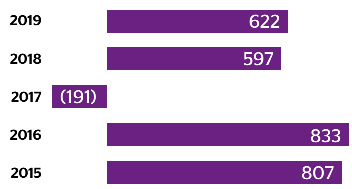
11,609

1% from 2018[7]

Adjusted net profit after tax (US$M)

622[5]

4% from 2018[6]



Insurance profit (US$M)

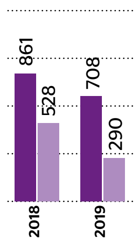
708[5]

$153 from 2018[6]

Underwriting result[4] (US$M)

290[5]

$238 from 2018[6]



Insurance profit
Underwriting result

Net earned premium by type

92% direct and facultative insurance

8% inward reinsurance

1 The information in the tables above is extracted or derived from the Group's audited financial statements included on pages 84 to 159 of the Annual Report. The Group Chief Financial Officer's report sets out further analysis of the results to assist in comparison of the Group's performance against 2019 targets provided to the market.

2 2019 adjusted cash profit ROE excludes non-cash and material non-recurring items such as restructuring costs, gains (losses) on disposals, the impact of the Ogden decision in the UK and discontinued operations. 2018 adjusted cash profit ROE excludes the transaction to reinsure Hong Kong construction workers' compensation liabilities.

3 2018 and 2019 figures reflect results for continuing operations only.

Operational highlights

Average renewal rate increase

Group-wide[8]

6.3%

2018 **5.0%**

Segment

Retention

78%

2018 **81%**

Gross written premium growth[7]

2%

2018 **3%**

Net investment return[4]

3.6%

2018 **2.3%**

Fixed income duration

2.6 years

2018 **2.1 years**

Cash and investments at 31 December 2019 (US$M)

24,374

	2019 %	2018 %
Corporate bonds	54.4	53.1
Government bonds	23.8	21.7
Short-term money	4.4	5.6
Infrastructure assets	3.7	3.7
Property trusts	3.1	4.1
Emerging market debt	2.3	1.0
Cash and cash equivalents	2.2	3.8
Infrastructure debt	1.6	2.2
High yield debt	1.6	0.4
Developed Market Equities	1.2	2.5
Other – growth assets	0.9	1.2
Private equity	0.8	0.7

Sustainability highlights

Renewable electricity use (%)

Target by 2025

100%

Currently **63%**

Climate change disclosure

CDP DISCLOSURE INSIGHT ACTION

Score: **B**

Employment engagement (%)

70%

4% from 2018

Fostering a culture of innovation

Ran a global challenge for employees to identify sustainable solutions

155

projects identified

Financial inclusion

FIAP Financial Inclusion Action Plan

QBE joined the program in Australia

Impact investments

Ethical Corporation Awards

Premiums4Good: Ethical Corporation's global Responsible Business Awards – Finalist, 2019

Global disaster relief partnerships

Partnering to build resilient communities and futures

Australian Red Cross – the power of humanity

Save the Children

4 Excludes the impact of changes in risk-free rates used to discount net outstanding claims.
5 Excludes one-off impact of the Ogden decision in the UK.
6 Excludes transaction to reinsure Hong Kong construction workers' compensation liabilities.
7 Constant currency basis.
8 Excludes premium rate changes relating to Australian compulsory third party motor (CTP).

Group CEO message

At QBE, we work hard to integrate sustainability into every facet of our operations. As an international insurer and reinsurer that helps people, businesses and communities across the world to manage risk, we believe this is essential to the long-term future success of our business and our ability to give people the confidence to achieve their ambitions.

This Report details the strong progress we have made across the six pillars of our Sustainability Framework, described on the following page, and includes case studies and examples highlighting the active steps we are taking to embed sustainability into our business practices.

Among the highlights for 2019 was the publication of our Group Energy Policy earlier in the year. This important statement provides shareholders, customers and the wider community with a clear explanation of our approach to investing in and underwriting energy projects, now and into the future. This clarifies our support for the objectives of the Paris Agreement and for decisive action on climate change and transitioning to a lower carbon future.

As an international insurer, we are acutely aware of the risks and opportunities that climate change presents for our customers, our business and the wider communities in which we live and work. Our Group Energy Policy confirms our intention to phase out all direct insurance services for thermal coal customers by 2030, at the latest. QBE also maintains zero direct investments in thermal coal.

In addition to maintaining our carbon neutrality, on World Environment Day, we announced our commitment to source 100% renewable electricity for our operations by 2025. We have also joined with some of the world's most influential companies in the RE100 initiative, with the aim of accelerating change towards zero carbon grids, at a global scale.

To further promote resilience and enhance disaster recovery across diverse communities, we have partnered with two of the world's leading humanitarian agencies, Red Cross and Save the Children. Our partnerships support rapid mobilisation of disaster relief in response to catastrophic events, and disaster preparedness and climate resilience initiatives for vulnerable communities.

In response to the recent unprecedented Australian bushfires, QBE pledged A$500,000 to these agencies to support bushfire relief and recovery efforts. Additionally, we waived the policy excess for individual customers making bushfire-related claims for their personal insurance and made free counselling available to all our customers in bushfire affected areas.

Our Premiums4Good program continues to go from strength to strength. I am very pleased to announce that we are doubling our ambition for this unique initiative to $2 billion by 2025. Our intent is for more than half of this amount to be focused on environmentally impactful investments, particularly renewable energy projects.

Premiums4Good is a collaboration between QBE, our customers, partners and shareholders, which sees a portion of customer premiums channelled into investments that have additional social or environmental benefits. $663 million is already invested across 48 securities, including social impact bonds, green bonds and other social investments. The success of Premiums4Good was widely recognised this year with its shortlisting in a range of prestigious awards.

In 2014, we ran an innovation challenge across our business where we asked our employees to imagine how insurance premiums could be used to create shared value. Premiums4Good was the result. This year, we ran another company-wide Global Challenge, asking our people to think creatively and innovatively about the macro issues and challenges facing our customers, and the ways in which we could respond. The response from our people was overwhelming, with suggestions covering topics including workplace mental health and action on climate change. The four finalist submissions from the Global Challenge received seed funding to further explore their potential to become something as impactful as Premiums4Good.

The creativity, diversity and ingenuity of our people is a differentiator for QBE, and an ongoing area of focus. Our people are key to our ability to respond to our customers' current and emerging needs. They are a driver of our future success and the ongoing sustainability of our business.

Pat Regan
Group Chief Executive Officer

Sustainability Framework:
Our approach to sustainability

As an international insurer and reinsurer, we are focused on good corporate governance and the sustainability of our business, being a great employer, and making a positive and impactful contribution to the societies, economies and communities in which we operate. Our approach to sustainability is essential to our ability to deliver on our purpose to give people the confidence to achieve their ambitions.

Managing risk is what we do at QBE. It is important that current and emerging ESG considerations are built into our decision-making processes to help our customers manage risk through our products and services. We take a holistic, long-term view to create value for our stakeholders and ultimately protect our organisation's sustainability.

In 2019, we continued to integrate sustainability considerations across our business. Our Sustainability Framework helps us drive performance, manage risks and identify opportunities across the areas of sustainability that are most important to our business, customers and stakeholders. To support our prioritisation efforts, in 2019, we carried out a comprehensive materiality assessment process, outlined on pages 8 to 11.

This Report outlines our performance for the year, and initiatives that are underway in the focus areas of our Sustainability Framework. It highlights our collaboration with key stakeholders to strengthen our collective impact, and to identify and address ESG risks and opportunities.

Sustainability governance and management

Oversight and accountability of sustainability

The highest governing body for sustainability-related issues is our Group Board of Directors. The Board is supported by the Board Risk & Capital Committee (BRCC) which oversees and guides QBE's sustainability approach, initiatives and reporting requirements. The Group Sustainability team provides an update on sustainability performance and activity to the BRCC at each of its meetings (six meetings were held in 2019).

Our Group Executive Committee (GEC) reviews and approves our sustainability agenda and priorities and receives updates on these throughout the year. An Executive Non-Financial Risk Committee (ENFRC) was formed in 2019 to support the GEC in managing non-financial risks.

Integrating sustainability across our business

Group Sustainability team

The Group Sustainability team, operating under a dedicated Group Head of Sustainability, reports to the Group Executive Corporate Affairs and Sustainability, a GEC member. The team drives sustainability across our business, including development and implementation of our sustainability approach and initiatives, external stakeholder engagement, internal engagement and communications, performance management and reporting.

Group ESG Risk team

The Group ESG Risk team reports to the Group Chief Risk Officer (CRO), a GEC member. The team is responsible for coordinating the identification, analysis and management of ESG risks and integration into our risk management practices and systems. The team supports our climate change working groups on managing our approach to climate risks and opportunities.

Group Impact and Responsible Investments team

QBE has a dedicated Group Impact and Responsible Investments (IRI) team, which reports to the Group Chief Investment Officer (CIO) and the Group Chief Financial Officer, a GEC member. The IRI team aims to integrate ESG considerations into our investment decision-making process. The IRI team's activities are also overseen by the BRCC and, where appropriate, the Board Investment Committee. The Group CIO and/or Head of IRI participate in numerous sustainability-related committees including the ESG Risk Committee and Climate Change Steering Committee.

Sustainability Committee

The Sustainability Committee supports the business in the delivery and effectiveness of our sustainability strategy, initiatives and reporting requirements. It is made up of senior representatives from across the Group who are involved in the day-to-day management of sustainability issues. These representatives come from business units including Risk, Finance, Investments, Investor Relations, People and Culture, Communications, Legal, Company Secretariat and Compliance, Operations and Claims.

The Sustainability Committee is chaired by our Group Executive Corporate Affairs and Sustainability, a member of the GEC. This ensures a close alignment of the Committee's activities with our CEO's agenda.

ESG Risk Committee

The ESG Risk Committee, formerly known as the ESG Business Policy Committee, was established in late 2018 by the Group CRO. The Committee is responsible for managing and overseeing activities to identify and review ESG risks and develop appropriate policy and decision-making frameworks. In addition, the Committee considers and recommends policy positions on ESG risks that impact underwriting, investment and/or operations across the Group to the ENFRC.

Other governance forums

There are a range of other internal governance forums and working groups whose members have the specialist skills needed to understand and address existing and emerging sustainability issues. These include our:

- Global Emerging Risk Forum;
- Climate Change Steering Committee;
- Group Underwriting Committee;
- Conduct Risk Working Group;
- Premiums4Good Global Steering Committee;
- Diversity & Inclusion Council;
- Health & Safety Working Group; and
- QBE Global Foundation Committee.

More information about these committees can be found throughout this Report under the relevant sections.

Sustainability Governance Framework

Highest level of oversight

Group Board of Directors

Board Risk & Capital Committee

Accountability for sustainability

Group Executive Committee

Executive Non-Financial Risk Committee

Integrate sustainability across business

Group Sustainability team	Group ESG Risk team	Group Impact and Responsible Investments team	Sustainability Committee	ESG Risk Committee

Drive strategy in focus areas

Global Emerging Risk Forum	Climate Change Steering Committee	Group Underwriting Committee	Conduct Risk Working Group
Premiums4Good Global Steering Committee	Diversity & Inclusion Council	Health & Safety Working Group	QBE Global Foundation Committee

Materiality

In 2019, we undertook an extensive and comprehensive materiality assessment process to identify the sustainability topics, risks and opportunities that are most significant for QBE and our stakeholders.

The analysis considered how our business creates value for all stakeholders across the short, medium and longer-term horizons. Aligned to the Global Reporting Initiative (GRI) Standards, the assessment also considered our economic, environmental and social impacts across the value chain (including positive, negative, actual and potential) on stakeholders, society at large and on QBE.

We also considered our alignment to the United Nations Sustainable Development Goals (SDGs) as part of the process, assessing the most relevant SDGs and associated targets for each material topic. The results of our materiality assessment inform our sustainability approach, strategic priorities and reporting. We engaged a third party consultant to ensure independence throughout the process.

Identification

Sustainability topics were identified using both internal and external inputs. This involved gathering perspectives from a wide range of sources, with both internal and external stakeholder engagement. The process was aligned to:

- the GRI Reporting Principles for defining report content and report quality including Stakeholder Inclusiveness, Sustainability Context, Materiality and Completeness; and
- AccountAbility's *AA1000 AcountAbility Principles (AA1000AP) 2018* of Inclusivity, Materiality, Responsiveness and Impact.

As part of the process, we engaged with a diverse range of stakeholders including investors, employees, government, community groups, industry associations, commercial partners and think tanks. The process enabled us to understand our stakeholders' unique needs, expectations, perceptions or concerns.

As part of our broader approach to sustainability, we also regularly consult with our stakeholders to help us identify risks and opportunities, and gain the insights we need to ensure our strategy, products and services continue to meet our stakeholders' needs and requirements.

Refer to our website for further information about our stakeholder engagement process, including our major stakeholder groups and how we engage with them.

The following provides an overview of the key aspects of the methodology:

Desktop research

Including media reports, industry standards, principles and benchmarks focusing on megatrends and emerging risks and opportunities for the insurance sector

Peer benchmarking

Considering the key topics being prioritised and reported on by our global peers

Employee workshops

A number of employees participated in focus group sessions to provide their perspectives on the most significant topics for QBE

Stakeholder engagement

In-depth interviews with internal and external stakeholders, including a wide range of investors

Impact workshop

Stakeholders from across the business participated in a workshop to support decisions about the significance of impacts for QBE

The sustainability topics identified were mapped to our Sustainability Framework to ensure coverage of the risks and opportunities relevant to our role in society as an international insurance and reinsurance company.

Prioritisation

Topics raised through the identification process were reviewed, consolidated and prioritised. We were guided by the GRI Standards in assessing the significance of QBE's impact on the economy, environment and society. As part of the process, we considered a range of factors to test the insights from the identification stage.

The results of this review were used to develop a materiality matrix.

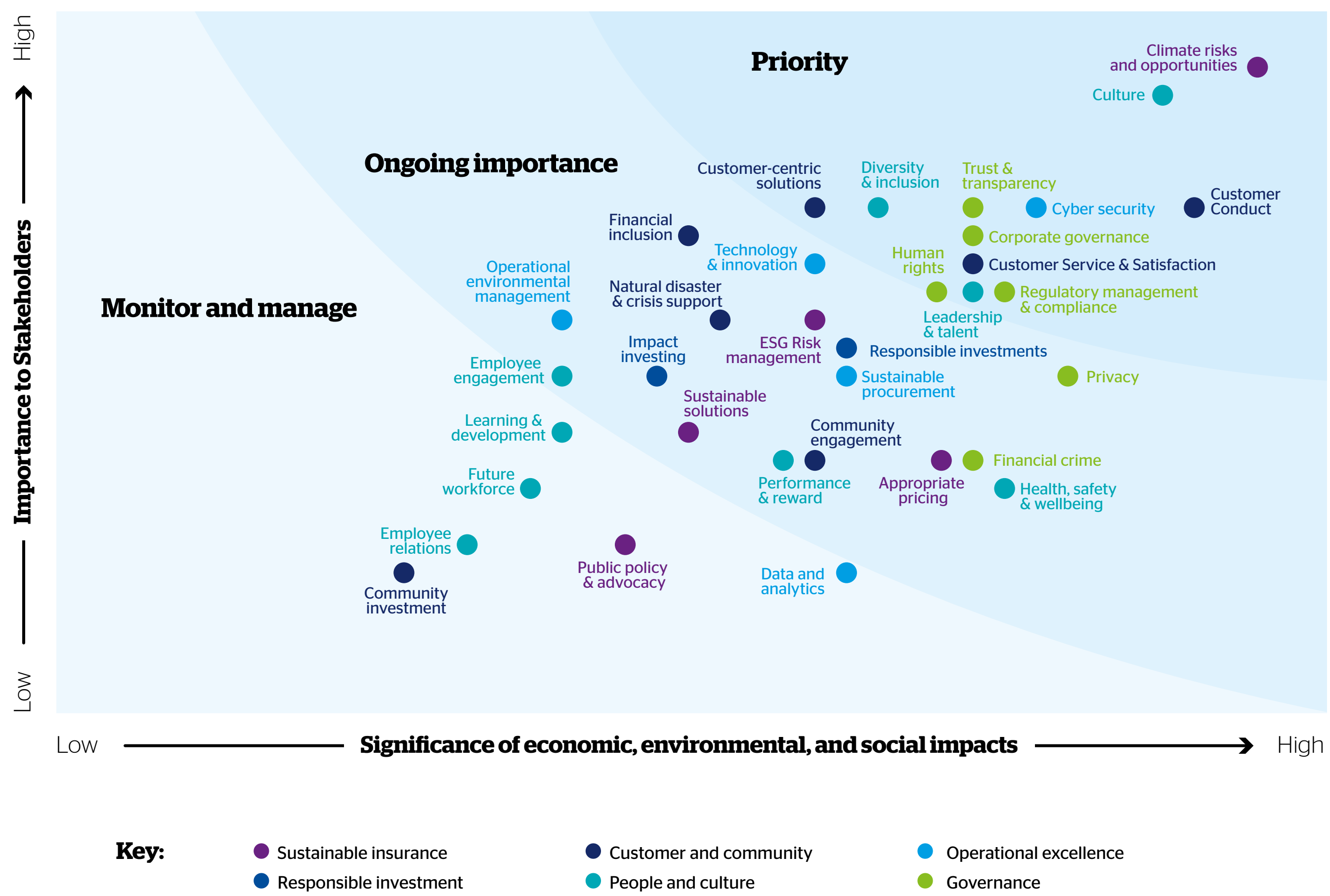
Each topic was then positioned on our materiality matrix taking into account three different stages of relevance and maturity:

- **Prioritise** – Topics with high importance to our stakeholders and with a significant impact on the environment, economy and society. These require significant management and strategic focus.
- **Maintain** – Topics with strategic significance for which we have well-established management processes. Stakeholder interest in these topics may vary.
- **Monitor and Manage** – Topics with increasing relevance to QBE or of significance to particular stakeholder groups. These topics warrant further analysis and management.

Validation

Following the development of the materiality matrix by QBE in conjunction with an independent third party, an internal validation workshop was held with the Sustainability Committee to test and validate the assumptions used, and the outcomes, taking into account the short, medium and long-term potential impacts of each topic.

The final outcomes were then presented to and approved by the BRCC and GEC.



Material topics for 2019

Based on the extensive review process outlined earlier, our prioritised material topics for 2019 included:

Climate risks and opportunities

As a leading international insurance and reinsurance company, we have a significant role to play in understanding and managing the potential risk exposures and opportunities related to climate change across our entire value chain. In addition to the physical impacts of climate change, we are also aware of the potential transition risks (e.g. policy, technology, market) and liability risks. We are well-positioned to use our industry expertise to help customers, partners and communities understand and manage the changing risk landscape, build resilience and navigate the transition to a lower-carbon economy. In 2019, we set three new climate-related targets for our global operations.

Refer to Sustainable insurance, Customer and community, Operational excellence, and our 2019 Annual Report for further information on how we are addressing this topic.

Customer service and satisfaction

We are focused on continuous improvement in customer service, providing appropriate and inclusive services, efficient and effective resolution of customer complaints and ongoing customer education. We continue to focus on delivering a consistent level of outstanding customer service across our divisions.

Refer to Customer and community for further information on how we are addressing this topic.

Corporate governance

We are committed to the highest standards of corporate governance across our global operations. This includes the Board providing guidance and oversight to support ethical behaviour, transparency and accountable decision making.

Refer to the Corporate governance statement in our 2019 Annual Report for further information on how we are addressing this topic.

Culture

Building an organisational culture that supports and enables us to achieve our purpose and strategy in an ethical and responsible manner is a strategic priority for our business. Leadership is key to ensuring that 'how' people go about their work is seen as just as important as 'what' gets achieved. Our QBE DNA and Group Code of Ethics and Conduct underpin our culture and help us deliver on our strategic plan and priorities.

Refer to People and culture for further information on how we are addressing this topic.

Customer conduct

We are committed to maintaining high ethical standards in how we conduct our business. The actions and conduct of our employees, and others acting on QBE's behalf, are key to maintaining these standards. This includes our relationships with customers and how we address the risk of unfair outcomes across the design of products and services, marketing and sales, distribution, claims and complaints.

Refer to Customer and community and Governance for further information on how we are addressing this topic.

Cyber security

Cyber security is one of the biggest threats shaping today's risk landscape. As an escalating business risk, cyber security has the potential to impact our operations, business, customers and other key stakeholders. QBE employs a global approach to effectively manage internal and external threats to the confidentiality, integrity and availability of our customer and corporate data. We proactively monitor and respond to known and emerging threats in all our regions, and assist with innovation and transformation to benefit our customers and shareholders with secure solutions. We manage and mitigate emerging threats, including cyber threats, by adhering to all legislation relevant to our business and our Group Code of Ethics and Conduct.

Refer to Operational excellence for further information on how we are addressing this topic.

Customer-centric solutions

As a customer-centred business, we engage with our customers to understand their current and emerging needs and to continually deliver high-quality products and services that meet their needs and expectations. Across the entire product lifecycle, we put our customers at the heart of our decision making. This is supported by clear, honest and transparent communication.

Refer to Sustainable insurance and Customer and community for further information on how we are addressing this topic.

Trust and transparency

The increased focus on trust in the financial services sector, with greater regulatory scrutiny, has led to the need for enhanced transparency and disclosure around key customer issues, ESG risks and opportunities and tax transparency. We do this through disclosure of our management practices, business performance and plans for continuous improvement in relation to material sustainability topics.

Refer to Sustainable insurance, Customer and community, People and culture, Operational excellence and Governance for further information on how we are addressing this topic.

Diversity and inclusion

Building a diverse, innovative, supportive, inclusive and performance-driven workplace aligned to local and international standards is a core part of our culture agenda. Underpinned by a Global Diversity and Inclusion Policy and strategy aligned to business priorities, this includes fostering diversity in gender, ethnicity, race, thinking and ideas. We also continue to focus on initiatives that contribute to work-life balance for employees and contractors, such as flexible working hours, carer's leave and domestic violence leave.

Refer to People and culture for further information on how we are addressing this topic.

Leadership and talent

Developing and empowering our people to be effective leaders and agents for change, and building a diverse talent pipeline, are core to how we develop and maintain an effective organisational culture. This includes helping our people develop the appropriate skills to deliver our strategic priorities.

Refer to People and culture for further information on how we are addressing this topic.

Regulatory management and compliance

QBE is subject to extensive local and international laws, regulatory requirements and obligations, policy, industry codes and business and ethical standards across our activities, wherever we operate. QBE seeks to take all reasonable steps to minimise compliance risk – not only because it is required, but to continue to do the right thing by our stakeholders. QBE maintains a proactive, open and cooperative relationship with our regulators. We have embedded robust regulatory processes and frameworks to ensure transparency.

Refer to Governance for further information on how we are addressing this topic.

Human rights

Wherever we operate we respect human rights and are committed to avoiding human rights harm through our activities and decisions. This includes our response to various laws and norms regarding human rights, including risks related to modern slavery.

Refer to Governance for further information on how we are addressing this topic.

A summary of our sustainability commitments and targets can be found in the Sustainability scorecard.

Advancing the United Nations Sustainable Development Goals

We believe in, and strongly support, the aims and objectives of the United Nations SDGs which seek to address the world's most pressing economic, environmental and social challenges. As a universal agreement to work towards a better and more sustainable future, the SDGs closely align with our purpose – to give people the confidence to achieve their ambitions.

In 2018, we analysed the 17 SDGs to identify those most closely aligned to our purpose, strategic business priorities, Sustainability Framework, products and services and business initiatives. We also considered the interconnectedness and interdependencies of the SDGs. A detailed outline of the process can be found in the 2018 Sustainability Report, or on our website.

At QBE, we continue to align our sustainability agenda to support advancement of these global goals. All of the SDGs are relevant to our business in some way. However, we contribute to the advancement of some SDGs more directly than to others. We have therefore chosen to prioritise five goals which align most closely to our purpose and strategic business priorities. This is where we feel we can have the greatest impact. In 2019, we continued to align our sustainability agenda to support these five goals.

In addition to the five priority goals, our community engagement strategy also focuses on Goal 3: Good Health and Well-being. We also believe that Goal 17: Partnerships for the Goals – underpins everything that we do and will enable achievement of the wider 2030 Agenda for Sustainable Development. We will continue to leverage our existing partnerships to collaborate on key sustainability topics, and will seek to collaborate with industry, government, community partners and other stakeholders to help advance, and one day achieve, the SDGs.

We continue to engage our senior leaders and employees to raise awareness of the SDGs. In 2019, we invited the Business Council for Sustainable Development Australia to hold workshops across our divisions on 'The Good Life Goals'. These provided our employees with tangible, personal actions they can undertake in their daily lives to support the SDGs. In 2019, we also ran a Global Challenge, providing a platform for our employees to innovate on a range of topics that are important to our customers. Our priority SDGs were considered as part of the innovation process and selection criteria, with several submissions ultimately selected as finalists for further action by QBE.

Refer to Sustainable insurance for further information on the Global Challenge.

Throughout this Report, we have included a range of case studies and examples to demonstrate how we continued to support advancement of the goals this year.

Our five priority SDGs

GOAL 1: No Poverty

End poverty in all its forms everywhere

Building the financial and risk resilience of our customers is core to our purpose. We protect people and businesses against risks – contributing to our customers' long term financial wellbeing. An accident, illness or disaster can quickly plunge customers into financial distress. Providing insurance protection for customers and communities helps them to recover, preventing them from falling into, or deeper into, poverty.

GOAL 5: Gender Equality

Achieve gender equality and empower all women and girls

QBE is committed to gender equality both in terms of our own people, and in how we operate our insurance business. As a signatory to the Women's Empowerment Principles and with our Group CEO continuing to be a Male Champion of Change, we retain a strong strategic focus on diversity and inclusion across our business. We have committed to promoting greater gender equality with a target of 35% women in leadership by 2020. In 2019, we had 34% of women in leadership, and we are well on our way to achieving our goal.

GOAL 8: Decent Work and Economic Growth

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

With operations in key areas and markets internationally, we believe that sustainable economic growth is fundamental to our business and our economic success. Our strategic focus on innovation and building for the future enables us to promote sustained economic growth that is impactful. We provide insurance products that support decent work, such as our workers' compensation and accident and health solutions. A focus on protecting human and labour rights within our business, and across our supply chain, is essential to ensure that we remain a responsible employer and business partner.

GOAL 11: Sustainable Cities and Communities

Make cities and human settlements inclusive, safe, resilient and sustainable

We understand that cities and human settlements are rapidly changing and under pressure due to increasing urbanisation, changing transport and energy systems, building codes and exposure to climate risks. We are committed to building on our existing data, products, services and advice, and collaborating with industry, government and other stakeholders, to identify sustainable solutions to reduce risk and enhance safety and resilience.

GOAL 13: Climate Action

Take urgent action to combat climate change and its impacts

As a general insurer, we are very aware of the risks and opportunities presented by climate change. We are well positioned to use our industry expertise to help customers, partners and communities mitigate these risks, and support the uptake of new opportunities and technologies in the transition to a lower carbon economy, consistent with the 2015 Paris Agreement.

Addressing climate change

Climate change is a significant global economic, social and environmental challenge. From acute physical risks such as severe weather-related events including floods, bushfires, droughts, hurricanes, heat waves and cyclones, to longer term chronic impacts such as increasing global temperatures and rising sea levels, at QBE, we see first-hand the damaging consequences of climate change on people and communities. We also are aware of the transition risks associated with changes in policy, laws, technology and markets.

Our role as an international insurer and reinsurer is to financially protect people and their assets, assist in recovery efforts from natural disasters and other catastrophes and reduce the economic and social impacts of climate change on customers and communities.

We accept the scientific evidence from the Intergovernmental Panel on Climate Change, and support the landmark international agreement forged at the Conference of the Parties to the United Nations Framework Convention on Climate Change in Paris in 2015, which aims to contain global warming and reduce greenhouse gas emissions over the long-term. We understand that reaching these goals will require a rapid reduction in greenhouse gas emissions by the global economy, and are continually doing our part to help achieve this.

QBE is fully committed to implementing the final recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The TCFD recommendations are aimed at helping companies better disclose key climate-related information centred around four core elements: governance, strategy, risk management, and metrics and targets. These four elements establish a strong and consistent framework for improving climate-related risk management and disclosure. Our Climate Change Action Plan outlines how we will implement the TCFD recommendations and describes our progress in meeting them.

Refer to the 2019 Annual Report for further information.

During the year, we further strengthened our climate change governance by establishing three working groups under the Climate Change Steering Committee to focus our work and efforts across the key areas of physical, transition and liability risk.

In 2019, we published our Group Energy Policy, outlining our commitment and continued support of our customers as they transition to a lower carbon global economy. In accordance with the Policy, QBE ceased providing any new direct insurance services for new construction projects for thermal coal mines, coal power stations or coal transport infrastructure in July. We continue to maintain zero direct investment in thermal coal.

Refer to Responsible investments for further information about how we manage climate risk in our investment portfolio.

Additionally, the Policy also commits QBE to phase out all direct insurance services for the thermal coal industry by 2030 at the latest, except for statutory or compulsory insurance such as workers' compensation insurance.

We continue to collaborate with our industry peers and stakeholders to deliver impact at the global level. As part of the United Nations Environment Programme – Finance Initiative's pilot group, we are working with 22 other insurance companies to develop new approaches on risk assessment tools. This will enable the global insurance industry to better understand the impacts of climate change scenarios on their lines of business. The pilot will make use of the latest climate science, including some of the most advanced, forward-looking climate scenarios available.

Refer to Sustainable insurance for further information about our industry collaboration.

We also acknowledge that minimising disaster risk and building resilience requires a collective effort with public, private and community sectors. Where we cannot help our customers directly, we will continue to play an active role both directly, and through our industry associations, in advocating all levels of government for initiatives to reduce the risks and impacts of climate-related disasters.

Our approach to climate change

In 2019, we developed and published 'Our approach to climate change', outlining how we work across governance, risk management and underwriting, investments, people and operations, and through our climate partnerships for impact.

Further information about this can be found here.

Global disaster relief partnerships

To help our customers and communities build resilience, we have committed to two strategic multi-year partnerships with leading global not-for-profit organisations involved in natural disaster preparedness and response – Red Cross and Save the Children. We will support both organisations in their vital work to address the humanitarian crisis caused by climate change and work collaboratively with them on disaster preparedness and climate resilience initiatives for vulnerable communities. We continue to stand alongside our customers to address their emerging, evolving and complex needs into the future.

Refer to Customer and community for further information about how we continue to help our customers and communities tackle the effects of climate change.

Minimising our environmental impacts

We continue to make significant progress in managing the environmental impacts of our global operations.

In 2019, we joined some of the world's most influential companies in the RE100 initiative, committing to target 100% renewable electricity across our global operations by the end of 2025. We are making strong progress towards this target, with 63% of our global electricity usage being sourced from renewable energy.

In addition to maintaining carbon neutrality through 2019, we established three new climate-related targets (measured from 2018 levels). A key target is to reduce our scope 1 and 2 carbon emissions by 30% by 2025, a science-based emissions reduction target calculated in line with the most ambitious 1.5°C decarbonisation scenario.[1]

Refer to Operational excellence for further information about our operational environmental management.

1 Scenario of stabilising a global temperature rise above pre-Industrial levels at 1.5 degrees Celsius.

Sustainable insurance

QBE provides a broad range of insurance products to personal, business, corporate, institutional and multinational customers.

As a proud signatory to the United Nations Environment Programme – Finance Initiative's (UNEP FI) Principles for Sustainable Insurance (PSI), we take an active approach to managing risk, no matter how complex, and listen to our customers' needs to deliver tailored solutions. We also consider ESG issues relevant to our business in our decision making. We continue to strive for accountability and transparency in disclosing our progress in implementing the PSI.

Our risk management processes and systems are robust and aligned to global best practice. Our Group Board seeks to ensure that we maintain an effective Risk Management Strategy (RMS) across our operations, and that the business manages risks effectively in line with our Enterprise Risk Management framework. This framework incorporates our key risk management processes determining risk appetite; governance, risk and control assessments; stress and scenario-testing; reporting, risk modelling and capital management; and monitoring our risk culture.

In line with its charter, the Group Board is responsible for overseeing QBE's social, ethical and environmental responsibilities across the business. Our Board Risk & Capital Committee (BRCC) supports the Group Board and oversees active and appropriate risk management in line with our risk appetite, strategy and business plans. The Group Board reviews the RMS annually, and results are reported to the Group Board Audit Committee and BRCC. Reporting to the BRCC, the Executive Non-Financial Risk Committee (ENFRC) supports the business in managing risks as well as understanding and meeting relevant legal and regulatory requirements relating to non-financial risks.

Refer to Risk – our business in the 2019 Annual Report for further information about our RMS and risk management processes.

Embedding sustainability in our Risk Management Strategy

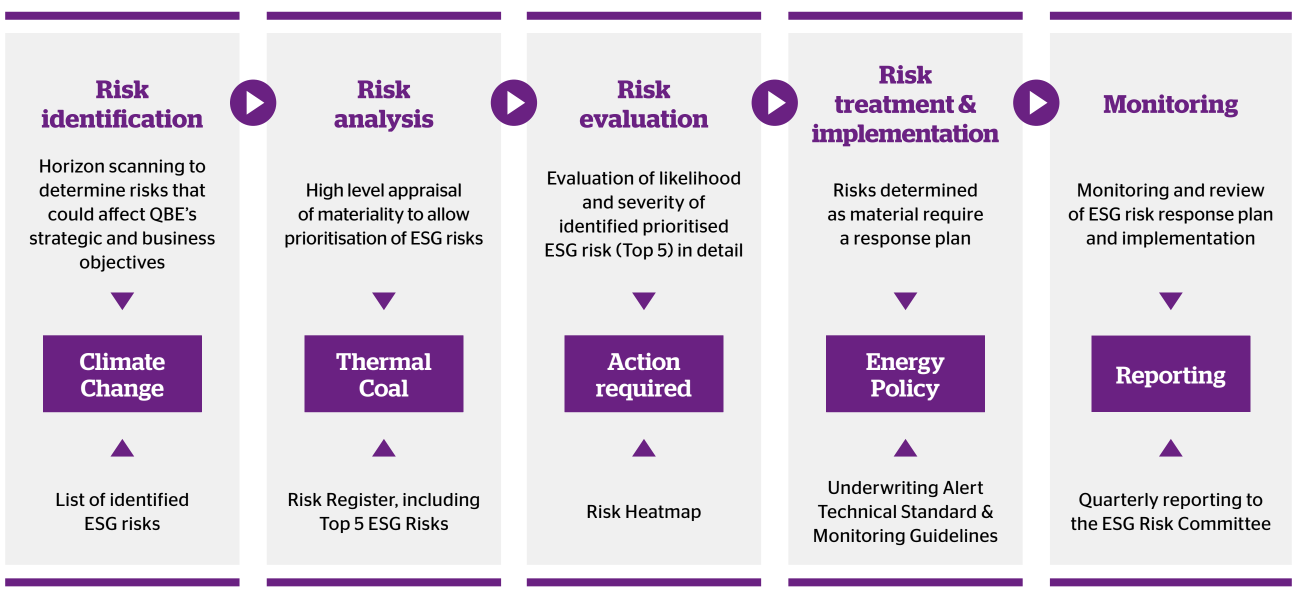
In line with our membership of the UNEP FI, and our PSI signatory status, we continually work to embed sustainability and the consideration of current and emerging ESG risks and opportunities in our decision-making processes.

We use a robust risk identification, measurement and mitigation process. As part of our RMS, we categorise risks into eight classes, with ESG risks across underwriting and investments classified as strategic risks, as well as being integrated into other risk classes.

In 2019, we developed an ESG Risk Standard, as part of our Strategic Risk Policy, outlining the process of identifying and managing ESG risks across the business. Our ESG Risk Standard applies to indirect ESG risks (defined as risks which impact QBE from external sources). Direct ESG risks are addressed and managed by other functions of the business.

Our Standard outlines governance and oversight, associated roles and responsibilities, and minimum requirements for managing ESG risks. ESG risks are reported to the Group Chief Risk Officer (CRO) quarterly, with our ESG Risk Committee focusing on any ESG risks that are deemed to be high risk. The Committee proposes actions to the ENFRC following such discussions.

During 2019, the Group ESG Risk team continued to analyse and manage ESG risks, and engage with teams across the business to raise awareness of these risks. The following diagram illustrates the risk management process for an identified ESG risk.



Our commitment to responsible underwriting

Our Group Underwriting Standards support our commitment to, and reflect our definition of, responsible underwriting. These Standards include:

- strict adherence to compliance and regulatory obligations that underpin global efforts to reduce terrorism, corruption, corporate and organised crime and human rights violations;
- identifying and integrating ESG issues into risk management and underwriting decision-making processes;
- developing products and services with a positive impact on ESG and conduct issues; and
- working with our customers and business partners to raise awareness of ESG issues, manage risk and develop solutions.

In collaboration with global insurers, reinsurers, brokers, academics and other key industry stakeholders, we are part of the core project team developing the first industry standard on integrating sustainability in insurance underwriting. The final version of the guide, *Underwriting environmental, social and governance risks in non-life insurance business*, once released, will outline ESG risks that are most material to different lines of business. We will use the outcomes from developing the guide to continue integrating ESG considerations into our underwriting practices.

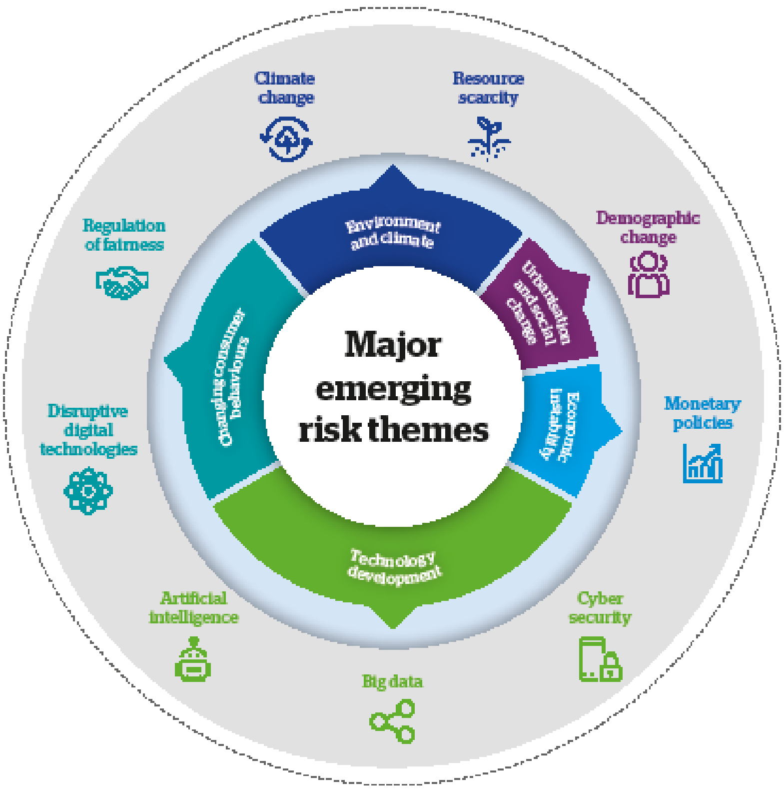
Our emerging risks

We recognise that the risk landscape rapidly changes and evolves over time. Emerging risks are considered as part of our Strategic Risk class. We define emerging risk as new or future risks which are difficult to assess, but may have a significant impact on our business or the markets in which we operate.

Emerging risks can significantly impact on us achieving our strategic or business objectives and may not be adequately captured within other risk classes, or risk sub-classes, within our RMS until appropriately identified. In 2019, to formalise and standardise our approach to emerging risks across the Group, we developed an Emerging Risk Standard outlining minimum requirements for managing emerging risks across our divisions.

QBE's risk governance, monitoring and reporting is supported by the three lines of defence model, with Group Board oversight. Emerging risks are identified and evaluated by our Divisional Emerging Risk Forums (DERF), with overall coordination by the Global Emerging Risk Forum (GERF) which identifies and analyses the emergence and maturity of each risk. The GERF provides regular recommendations and updates to the ENFRC.

The DERF and GERF periodically perform a horizon scanning exercise to identify, analyse and evaluate potential emerging risks to QBE. The DERF develops and manages treatment plans for emerging risks in conjunction with the business. In 2019, the GERF reviewed a range of emerging risks including cyber security, big data, demographic change, resource scarcity and disruptive digital technologies.



Promoting sustainability with clients, business partners and employees

We work with our clients, business partners and employees to raise awareness of sustainability issues, manage risks and develop solutions. We offer events, seminars, tools and publications that help our clients, brokers and employees build and develop their risk management knowledge and sustainability awareness. We also promote sustainability awareness in the following ways:

Educating our stakeholders

Across our divisions, we continue to publish market leading insights on sustainability-related topics such as cyber security, workplace accidents and extreme weather events. In North America, we launched a blog called 'QBE Conversations' to help educate customers on important topics such as ergonomics, opioid abuse, hurricane safety, supply chain risks and cyber risks. In Europe, our 'Unpredictability Series' features original research and articles on key global trends such as big data and advanced analytics, cyber risks and property risks to help businesses prepare and take advantage of the opportunities these trends can present. The content was viewed over 130,000 times.

We continue to invest in the learning and development requirements of our intermediary partners. In 2019, we launched the newly refreshed Equip broker education program in Australia. The tailored program consists of face-to-face workshops, access to a dedicated Equip Partner (a QBE nominated coach who works directly with the broker to tailor their learning development plans), and product masterclasses. The aim is to provide bespoke and relevant learnings covering topics such as harnessing strengths, resilience and adaptability.

Engaging our people to innovate on sustainability

Offering sustainable solutions is an increasingly important part of how we support our customers and ensure they are at the core of our decision making. We understand that our employees have enormous potential to use their customer relationships, expertise and creativity to better understand and address the sustainability challenges facing our customers, now and into the future.

Leveraging off this belief, the Global Challenge was developed. In 2019, we ran an ideation process encouraging all our employees to identify an existing or emerging sustainability topic and to suggest a new way to support our customers to manage that challenge – through a risk or opportunity lens.

The Global Challenge created a platform for our employees to innovate on a range of topics faced by our customers such as diversity, climate change, health and safety, disruptive technologies, building more resilient cities, liability risks and supporting financial inclusion. We integrated consideration of our five priority Sustainable Development Goals (SDGs), and alignment to our business purpose and strategy, into the innovation process and judging criteria.

We were delighted to receive 155 submissions from 359 employees, representing every division of our business including our Group Shared Services Centre. We had 11 teams shortlisted to develop a more detailed submission and the final round saw four teams present their ideas in front of 170 leaders at our Global Leadership Forum in Singapore. Our winning idea focused on mental health in the workplace. The business also committed to supporting the other three finalists with seed funding, and several other employee-generated ideas are being pursued within the business.

In addition to the Global Challenge, throughout the year, we continued to raise awareness of sustainability across our business by running topic-specific events. We invited external speakers to present at lunch-and-learn sessions on a range of topics including modern slavery, carbon neutrality, climate change and the SDGs. We also continued to run awareness sessions on our approach to sustainability, and how our employees can get involved.

Sustainable solutions and products

Through our products, services and publications, we continue to help our customers address sustainability issues.

Transitioning to a low-carbon economy

We offer a range of solutions to support our customers' transition to a low-carbon economy and manage the risks associated with climate change. In Asia, we continue to grow our renewable energy portfolio across solar, wind, hydro, biomass and biofuels. We work closely with our customers to understand their evolving needs.

In 2019, we attended a site visit with Sunseap, Singapore's largest clean energy provider. This provided us with an understanding of their risk management procedures and how they carry out their work. Our site visit enabled us to further develop our relationship with Sunseap as we continue to share learnings on leading risk management practices.

We also attended a site visit with Ecowise, a specialist biomass power plant builder, manager and operator. Ecowise provides the power supply for Singapore's Gardens by the Bay, using horticultural and other wood wastes as biomass fuel to generate energy. The tri-generation power plant generates electrical power, heating (steam) and cooling services. This circular economy model supplies the facility and provides excess capacity to the grid. We continue to support Ecowise through our specialist services.

We understand that renewable energy generated from solar power plants is exposed to damage from lightning and electrical surges, which can disrupt transmission. To help minimise interruption, we work with companies such as Dehn, based in Germany, to provide specialist advice on protecting and managing solar installations.

Promoting safety in workplaces

We have been successful in developing a program with SafetyCulture, a technology company developing innovative, low-cost, mobile-first apps to empower users to maintain safe and efficient workplaces. iAuditor is an inspection platform used to empower workers in the field, by providing visibility and insights to help raise safety and quality standards. We have been utilising SafetyCulture's iAuditor tool to help our clients dramatically reduce accident frequencies and downtime within their business operations. The impact of iAuditor in reducing claims has led to inspection data being factored into underwriting decisions for some clients. The original pilot has now moved to a strategic partnership and we are promoting iAuditor to all of our customers in the United Kingdom and have recently started working with iAuditor with our Australian client base.

Insuring the future of transport

Autonomous vehicles will play a key role in the future of mobility, and we recognise the importance of insurance as part of this emerging technology. In Australia Pacific, we are working closely with government, regulatory and industry bodies in developing the necessary future policies to enable autonomous vehicles onto Australian roads.

We are a proud partner to several autonomous vehicle trials, including the Armidale Regional Driverless Initiative (ARDi) which is trialling Australia's first driverless vehicle operating in open traffic. QBE provides the Compulsory Third Party insurance required to enable the ARDi trial to operate on public roads. Through our early involvement in these trials, we seek to increase our understanding of the risks associated with this rapidly developing technology to better determine the role insurance will play in future mobility.

Helping farmers 'listen' to their fields

We provide innovative risk management tools that support farmers with managing their field health and harvest timing. Through our North American business, NAU Country Insurance Company, America's foremost crop insurer, we have developed two technology solutions: Field Insights™ and EASYview Weather. Field Insights™ provides farmers with the most relevant and up-to-date data on environmental conditions, supporting better decisionmaking around the ideal times for crop harvesting. Through tailored hail notifications by email, EASYview Weather enables our farming customers to verify and estimate the possibility of hail damage to their fields.

Additional functions allow farmers to overlay their fields with map data from the National Commodity Crop Productivity Index (NCCPI) to show a ranking of soil capability to produce crops without irrigation. This helps farmers assess land rent values and which crop types will be successful when planted. In addition, our soil moisture content maps can be used by farmers to determine when to run their irrigation systems, thereby reducing water use when possible. Field level data, including current, future and historical weather trends, make these tools an invaluable reference for farmers in managing their farming operation's risk of loss. This improves productivity in crop management, as farmers can access accurate, real-time weather metrics.

Innovating with technology

We are working with strategic partners to develop technology-based innovations and pilots using the Internet of Things (IoT) – the interconnectedness of devices and machines through the internet – and other sources of data, to profile risk. We are developing a partnership with Hitachi Consulting to support our customers in improving their business operations and protecting their property assets using new technology and data from various sources.

In 2019, we also piloted a water monitoring technology with various housing associations in the United Kingdom to reduce the number of water leak incidents they experience across an extensive property portfolio.

Hitachi Consulting is also in discussions with our Motor Fleet performance team to introduce a new technology called Xtract that helps customers improve driver safety and behaviour by learning from motor accidents. The aim of Xtract is to reduce accident frequency, improve road safety and reduce fuel use through improved driver behaviour.

In North America, we have partnered with Roost, a technology company based in Sunnyvale, California, to offer our customers industry-leading smart home products that offer innovative ways to monitor their home smoke detector and water systems.

Supporting healthy people and businesses

In Europe, we continue to tailor our insurance solutions to meet our customers' absence management, wellness and rehabilitation needs. We focus on early intervention to assist injured parties, protecting our clients and their claims position. QBE Return+, a holistic bespoke service for rehabilitation services, helps employees return to work faster, delivering reduced absence costs for our corporate customers. For example, our services to a large express delivery company helped employees return to work 13% faster, saving the company £852,000 in associated absence costs. We also provided our Major Injury Rehabilitation service to several customers where a major incident resulted in multiple employee injuries. This service involves setting up a bespoke customer rehabilitation hotline to allow injured employees to call in to assess physiological and psychological rehabilitation needs.

In Australia Pacific, we developed the QBE Active Recovery Clinic in partnership with a healthcare provider to improve recovery for people injured as a result of a motor vehicle accident. Run by a multidisciplinary team, this customised program combines wearable sensors and psychological support to aid recovery from whiplash.

Engaging with governments, regulators and other key stakeholders to promote action on sustainability

QBE continued to engage and work with a range of governments, regulators and other stakeholders on a host of sustainability topics throughout 2019. We regularly consult with leading industry experts, and attend conferences and events, to stay well-informed of emerging sustainability trends and their potential impact on our business, customers and stakeholders.

Contributing to sustainable finance in Australia

QBE is part of a collaboration called the Australian Sustainable Finance Initiative (ASFI), established to set out a roadmap for realigning the finance sector to support improved social, environmental and economic outcomes for the country.

ASFI brings together leaders from Australia's major banks, superannuation funds, insurance companies, financial sector peak bodies and academia to develop a Sustainable Finance Roadmap. The roadmap, to be launched in 2020, will recommend pathways, policies and frameworks to enable the finance sector to contribute more systematically to the transition to a more resilient and sustainable economy, consistent with the SDGs and the Paris Agreement on climate change.

The chair of our Australia Pacific Board is a member of the ASFI Steering Committee and senior leaders from our Finance, Sustainability, Risk and Strategy teams are also involved in each of ASFI's four technical working groups.

Advocating for American farmers

Our President of Crop in North America serves as the Chairman of the Board of Directors for the National Crop Insurance Services (NCIS). The NCIS continues to advocate for adequate coverage on all crops to assist farmers in managing the impacts of catastrophic events. There is also a focus on good farming practices, promoting minorities in farming and providing ongoing education on insurance-related matters.

Collaborating on climate change

In Australia, QBE is participating in the Climate Measurements Standards Initiative to develop standards for measuring the physical risk impacts of climate change on property damage. We are collaborating with a range of stakeholders including other Australian general insurers, reinsurers and banks, and the Earth Sciences and Climate Change Hub (a partnership of Australia's leading climate change research institutions, including the CSIRO and Bureau of Meteorology), Climate-KIC Australia (a 'Knowledge Innovation Community' comprising a range of public and private entities), catastrophe modellers, hazard scientists and financial reporting professionals. The Initiative is expected to complete a draft report in 2020 for wider consultation.

Understanding battery storage

In Singapore, we were invited to participate in the Energy Storage Systems (ESS) working group focused on battery storage as part of the International Machinery Insurers Association. The knowledge gained will help us add value to our customers as ESS technology expands globally.

Tackling resilience in cities and regional communities

In 2019, QBE representatives continued to participate in the Australian Government's National Resilience Taskforce. Key areas of focus included developing a prioritisation framework for disaster risk reduction and a National Disaster Risk Information Services Capability.

The future of smart transport

In Australia, we continue to work with the broader industry and key government entities on the required policy, legislative and regulatory changes that will enable society to benefit from autonomous vehicle technologies.

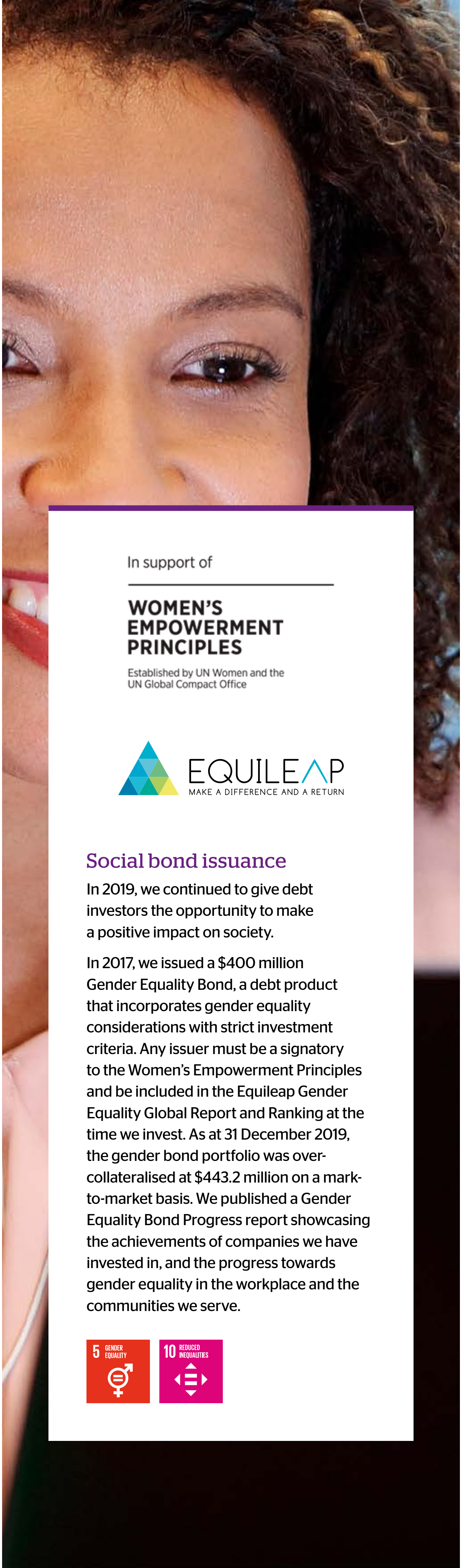
Advancing risk management in the insurance industry

QBE is a member of the 'CRO Forum', a high-level discussion group for the chief risk officers of major European insurers, that aims to identify and benchmark best practice in risk management and share ideas with the wider industry through publications. We are currently participating in a working group focused on carbon foot-printing.

Adding our voice at key events

Throughout the year, QBE representatives have attended and spoken at business roundtables, seminars and events on sustainability. Topics included impact investing, diversity and inclusion, climate change, international carbon markets, modern slavery, sustainable cities and communities, resilience and sustainable finance. Examples of events include:

- Together with other industry representatives and insurance regulators, we participated in a workshop convened by the International Association of Insurance Supervisors and Sustainable Insurance Forum. This focused on implementing the recommendations of the Taskforce on Climate-related Financial Disclosures within the insurance industry.
- In June 2019, we attended the Australian Government's Department of Home Affairs conference on implementing Australia's *Modern Slavery Act 2018* (Cth) and knowing your supply chain.
- In September 2019, we attended several Climate Week events in New York on renewable energy sourcing, sustainable finance and insurance and innovation in built environment technologies designed to support the transition to a low carbon economy.



In support of

WOMEN'S EMPOWERMENT PRINCIPLES

Established by UN Women and the UN Global Compact Office

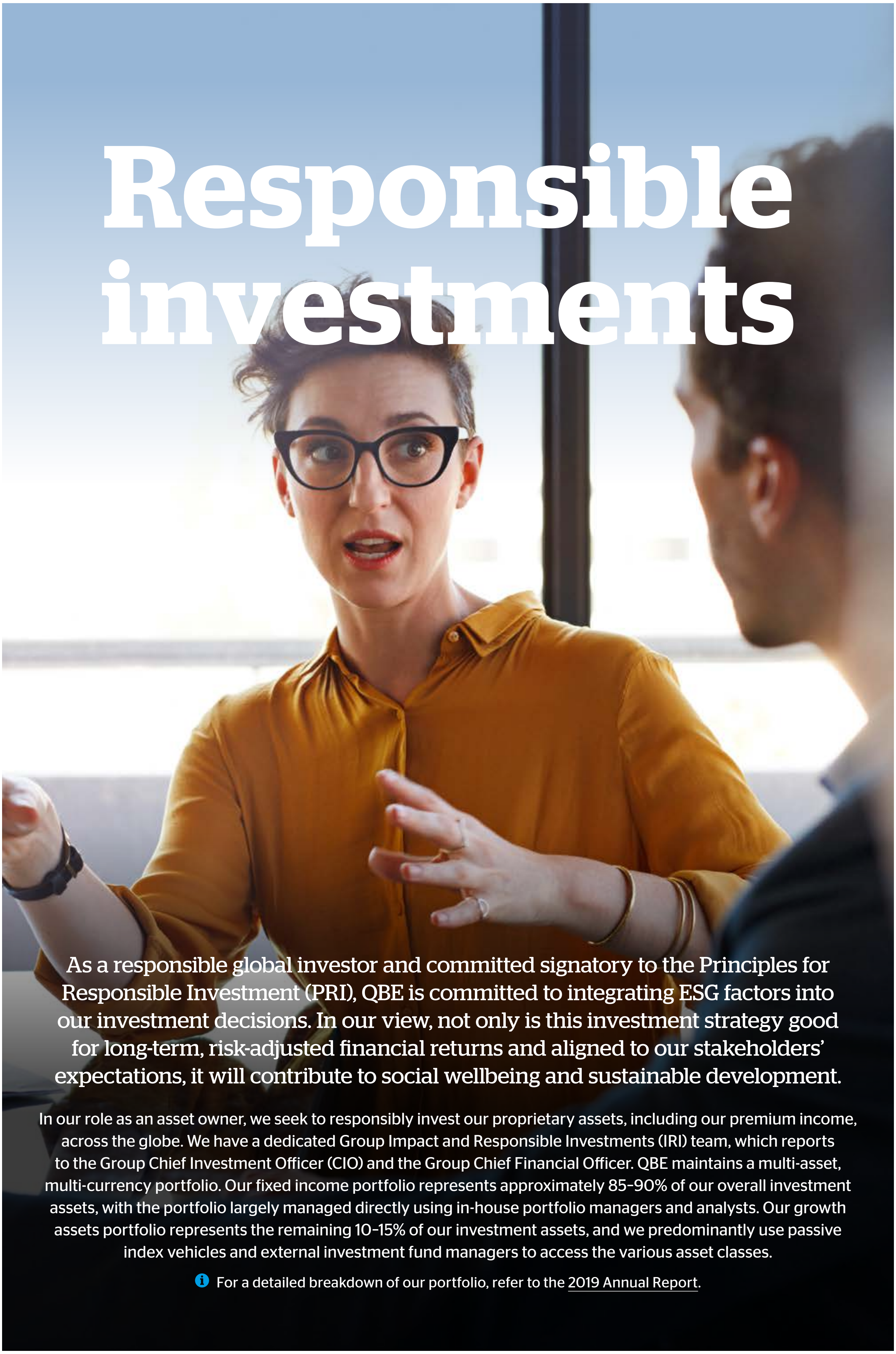
EQUILEAP
MAKE A DIFFERENCE AND A RETURN

Social bond issuance

In 2019, we continued to give debt investors the opportunity to make a positive impact on society.

In 2017, we issued a $400 million Gender Equality Bond, a debt product that incorporates gender equality considerations with strict investment criteria. Any issuer must be a signatory to the Women's Empowerment Principles and be included in the Equileap Gender Equality Global Report and Ranking at the time we invest. As at 31 December 2019, the gender bond portfolio was over-collateralised at $443.2 million on a mark-to-market basis. We published a Gender Equality Bond Progress report showcasing the achievements of companies we have invested in, and the progress towards gender equality in the workplace and the communities we serve.

5 GENDER EQUALITY
10 REDUCED INEQUALITIES



Responsible investments

As a responsible global investor and committed signatory to the Principles for Responsible Investment (PRI), QBE is committed to integrating ESG factors into our investment decisions. In our view, not only is this investment strategy good for long-term, risk-adjusted financial returns and aligned to our stakeholders' expectations, it will contribute to social wellbeing and sustainable development.

In our role as an asset owner, we seek to responsibly invest our proprietary assets, including our premium income, across the globe. We have a dedicated Group Impact and Responsible Investments (IRI) team, which reports to the Group Chief Investment Officer (CIO) and the Group Chief Financial Officer. QBE maintains a multi-asset, multi-currency portfolio. Our fixed income portfolio represents approximately 85–90% of our overall investment assets, with the portfolio largely managed directly using in-house portfolio managers and analysts. Our growth assets portfolio represents the remaining 10–15% of our investment assets, and we predominantly use passive index vehicles and external investment fund managers to access the various asset classes.

For a detailed breakdown of our portfolio, refer to the 2019 Annual Report.

Advancing our responsible investments approach

In 2019, we further advanced our approach to responsible investing, driving continuous improvement in this area of our business. We have been guided by the PRI, developing industry norms and our ESG Risk Standard. QBE's Investment Philosophy is:

"To strike an appropriate balance between the return objectives of the organisation and our appetite for risk, earnings volatility and capital consumption while managing climate-related and other non-traditional financial risks".

This reflects our strong commitment to considering ESG factors when assessing risk and integrating these factors into key investment decisions and across our investment portfolio.

Our Responsible Investment (RI) Guidelines, updated in December 2018, reflect the above philosophy. We believe that incorporating ESG factors into our investment decisions complements our existing investment due diligence processes and strengthens our overall decision making. The guidelines cover all active asset classes in which we invest and all access types including direct investments, pooled vehicles and mandates, and various investment geographies.

Embedding ESG into our fixed income portfolio

As the largest part of our portfolio, we continue to deepen our ESG integration in the corporate credit portfolio. In 2017, we introduced an independent ESG measure to our corporate credit analysis process, which enabled us to understand and monitor a company's approach to managing ESG issues through its policies, practices and other measures. In 2018, we extended our ESG analysis to cover supranational issuers.

We have enhanced the corporate credit issuer selection process with additional ESG analysis in our reviews. This sees us weight issuers that are leaders in ESG efforts compared to peers, and down-weight those with lower scores. The view being that corporations that are proactive are able to better prepare for unknown risks. We work with corporate credit issuers with lower ESG ratings to better understand what drives their scores and, where appropriate, what their plans are for improvement. We continued to engage with these issuers in relation to material ESG risks.

ESG reviews of our external fund managers

In 2018, as part of our investment manager selection and due diligence program, we strengthened our external fund manager review process, extending the annual ESG review to all existing managers. We are pleased to note that over 85% of our external managers are PRI signatories. In 2019, we continued our ESG review and engagement process with our external managers to determine their progress against the framework developed by the Financial Stability Board's Task Force on Climate-related Financial Disclosures.

QBE is an investor member of the Global Real Estate Sustainability Benchmark (GRESB) the leading ESG benchmark for real estate and infrastructure investments across the world, and we review the ESG performance of our real estate portfolio managers. Based on GRESB real estate benchmarks, the weighted average for our property portfolio continues to be GRESB 4 Star, which is top quartile performance.

During the year, we further engaged with external fund managers on material ESG issues at investor meetings, and on an investor-fund manager relationship level. We actively seek improvements in investment-level monitoring and performance, and work with our fund managers to improve organisational performance and culture. This is in line with our commitment to responsible investing.

Our external fund managers and gender diversity

As part of our selection and appointment process for external fund managers, and our ongoing investments through existing managers, QBE preferences companies that demonstrate gender diversity in their Investment Committees and in decision making roles. Our commitment to responsible investing is to engage beyond the representation of women as a percentage of the workforce or in management. We specifically seek representation of women in decision-making roles, to build diversity into the investments process and deliver post-investment value creation.

5 GENDER EQUALITY | 8 DECENT WORK AND ECONOMIC GROWTH | 10 REDUCED INEQUALITIES

Managing climate risk

Our Group Energy Policy outlines our approach to investing in thermal coal projects, now and into the future. We integrated new third party data sources into our investments process to ensure compliance with this policy.

As at 31 December 2019, we continue to be compliant with this Policy by maintaining zero direct investment in thermal coal. We continue to maintain less than 0.5% of total funds under management in the thermal coal industry to allow for exposures through our indirectly managed investments, such as through equity index funds.

In 2019, we conducted an initial carbon foot-printing of our fixed income (corporate credit) portfolio based on weighted average carbon intensity, including a retrospective analysis which considered the carbon intensity of the corporate credit portfolio for the past five years. This baseline process identified that our corporate credit portfolio is well positioned, and helped us to establish processes for ongoing monitoring of our corporate credit investments.

We continued to engage with issuers that are identified as the highest emitters in our fixed income portfolio regarding their progress towards advancing a low-carbon economy.

Collaborating and engaging with industry

We continue to be part of industry and government discussions to share best practice on responsible investing, and regularly contribute to a broad range of submissions, research papers, forums and panels. As a member of the Investor Group on Climate Change, we participate in member meetings and initiatives, including the Low Carbon Working Group.

Through our membership of the Responsible Investment Association Australasia, we are part of the Human Rights Working Group. QBE also co-chairs the Impact Management & Measurement Community of Practice, a group established to facilitate sharing leading practice knowledge and resources for impact management and measurement.

We continue to be an investor member of GRESB, to help us understand the climate resilience of our real assets portfolio. We are also involved in the Australian Sustainable Finance Initiative.

Refer to Sustainable insurance for further information on this initiative.

We are an active participant in the global field of responsible investing and impact investing, with our representatives attending the following events this year:

- *PRI in Person* global conference in Paris;
- *Impact Summit France* conference in Paris;
- *2nd Annual Climate and ESG Asset Owner Summit* presented by the CFA Society New York in New York;
- *Sustainable Investment Forum North America 2019* in New York;
- *Global Impact Investing Network Investor Forum* in Amsterdam;
- *Impact Investment Summit Asia Pacific 2019* in Sydney; and
- *UNEP FI-PRI Australia Conference: Towards a resilient and sustainable economy* in Melbourne in December 2019.

Ongoing employee training and engagement

Our IRI team continues to run training sessions to strengthen the ESG knowledge and skills of our broader Investments team. Topics in 2019 included climate risk, the Impact Management Project, the Sustainable Development Goals (SDGs) and our impact investing framework. With more training and development sessions already scheduled, we continue to educate our people on the importance and relevance of ESG issues to our investment decisions.

Premiums4Good – a unique collaboration

Premiums4Good is a unique and innovative collaboration between QBE, our customers, partners and shareholders through which we invest a portion of everyday premiums to make an extraordinary difference in communities across the globe. Through Premiums4Good, we invest up to 25% of select customers' premiums into investments that have additional social or environmental benefits, at no extra cost to the customer. These investments include social impact bonds (SIBs), social bonds, green bonds and infrastructure, supporting a range of projects and programs that seek to create stakeholder value and positive impacts in communities across Europe, North America, Africa, Asia and the Pacific.

From renewable energy initiatives and sustainable infrastructure, to social services and programs to support vulnerable people and communities – Premiums4Good helps us make a real difference. The program is evidence of our belief that we can deliver attractive risk-adjusted returns and business value, while also seeking to deliver positive social and environmental impact.

In January 2019, we enhanced the program by establishing a globally consistent approach to Premiums4Good contributions. This sees us commit a minimum $100 million, £100 million and A$100 million of premium income to the program from the United States, Europe and Australia Pacific respectively. These contributions will be made in addition to those from our select customers who elect to allocate 25% of their premiums to the initiative.

QBE invests in line with existing investment mandates and thresholds, and we work with the Classification of Social Investments Committee (COSI) to oversee the program's governance. COSI comprises three QBE representatives and three independent impact investing experts. COSI meets quarterly to classify and review our investments in line with our criteria for 'additional social or environmental objective' and positive impact. The Committee continues to support us in improving our approach.

In 2019, we enhanced our investment classification framework by introducing a new 'deep impact' category, along with the existing moderate and high impact classifications. This helps better define the range of impact.

We are on track to achieve our ambition to grow our impact investments to $1 billion by 2021. At the end of 2019, the Premiums4Good pool of assets was 48 securities worth $663 million, up from 32 securities and $440 million at the end of 2018. As part of this growth, we aim to increase our deep impact investing and are extending our ambition in impact investments to $2 billion by 2025.

Premiums4Good

Our ambition is to grow our impact investments to

$2 billion by 2025

Total investment in Premiums4Good

$663 million

Up from $440M in 2018

Securities

48 invested in by QBE as part of Premiums4Good
Up from 32 in 2018

Expanding our ambition

We are on track to achieve our initial ambition to grow our impact investing allocation to $1 billion by 2021. If achieved, this would represent circa 4% of assets under management directed to impact investing, which is leading among our insurance peers. In response to our customers strong support for Premiums4Good, and the momentum we continue to build for this innovative program, we have now expanded our ambition to $2 billion by 2025. The intent is for more than half of this to be environmentally impactful investments, particularly renewable energy projects.

Impact investing across the globe

In 2019, we released our *Premiums4Good Investment Impact Report 2018-2019* showcasing highlights and ground-breaking initiatives delivered. A snapshot of some investments from the program is outlined below.

The Premiums4Good Investment Impact Report 2018-2019 can be downloaded here.

"Through its pioneering Premiums4Good initiative, QBE is showing that blue-chip institutional investors can pursue impact goals alongside their financial goals – which can only encourage other like-minded institutions to follow suit. By supporting the growth of the social outcomes contract market in the United Kingdom, this investment will not only have a direct impact on the lives of some of the most vulnerable people in the country; it will also help to transform our public services by catalysing smarter and more effective delivery models."

Mila Lukic,
Partner, Bridges Social Outcomes Funds

Bridges Social Outcomes Fund II (UK) – supporting social services for the vulnerable

Social services are key to improving the lives of vulnerable people in the United Kingdom. The Bridges Social Outcomes Fund II provides working capital and additional management resources for delivery partners providing vital services in areas including children and families, housing, employment, health and social care.

These outcome-based contracts are structured so that the commissioner pays directly for social improvements achieved by providers. This means the Bridges fund only makes a financial return if valuable outcomes are delivered for communities and the government.

These contracts support projects that are touching thousands of lives, including helping families whose children are at risk of being taken into care to stay together, enabling people to better manage their long-term health conditions, supporting young people at risk of homelessness and supporting disadvantaged children who are struggling at school.

The contracts have already contributed to reduced levels of homelessness and improved education, health and wellbeing and employment outcomes among its target groups, including:

Over	About	Over	Nearly
125,000	**11,000**	**2,500**	**4,000**
days out of care achieved	qualifications achieved	people helped to enter and/or sustain accommodation	wellbeing improvements for people with long-term health conditions

The fund is expected to achieve further successes in these areas over its 12-year term (which includes a six-year investment period). These results will ultimately help to build stronger, more inclusive communities across the United Kingdom.

Housing New Zealand Ltd Sustainability Bond – supporting social housing in New Zealand

Public and social housing is vital to the livelihoods of thousands of vulnerable New Zealanders. The Housing New Zealand (HNZ) Ltd Sustainability Bond provides funds to HNZ's social housing program, addressing growing public housing demand in communities across New Zealand.

Funds invested via the bond will be used to construct new, or retrofit existing, social housing – delivering more homes at an accelerated pace for vulnerable New Zealanders. The housing that will be provided will give access to safe, affordable places to live and will also connect at-risk New Zealanders with wrap-around social services which further support their social and economic participation in the New Zealand community.

Notably, the bond supports environmental outcomes in addition to social ones. By funding energy-efficient housing design and construction, the program is set to mitigate emissions, water use and waste – creating greener, more sustainable communities.

Through delivery of the next phase of Housing New Zealand's program, these socio-economic and environmental outcomes will be amplified.

LeapFrog Emerging Consumer Fund III – providing access to essential financial and health services across developing nations

Rapid developments in Africa and Asia have impacted the dynamics of global markets. Billions of emerging consumers are now joining the global economy, without access to many of the basic services required for success. By investing in companies that provide essential financial and health services across developing countries, LeapFrog Emerging Consumer Fund III is helping to meet these growing needs at scale. LeapFrog's companies currently serve 188 million people.

QBE, through Premiums4Good, is an investor in the $743 million fund, joining several investors across the globe in the fund's mission to change lives in communities in countries like Kenya, Nigeria, Ghana, South Africa, India, Indonesia, the Philippines and Sri Lanka.

The fund's investments to date include WorldRemit, which enables fast secure international money transfer, and NeoGrowth, a digitally-enabled financial company that provides business loans and insurance in India. The fund has also made investments in East African healthcare provider Goodlife Pharmacy, providing diagnostics and basic health care in communities where public healthcare is limited, as well as Ascent Meditech, a business that manufactures and delivers orthopaedic products across India.

Through these and additional investments, the fund strives to impact the lives of millions of people as well as generate robust financial returns for investors.

By investing in the provision of essential services, the fund is a powerful enabler of financial inclusion and access to healthcare. It supports the elimination of poverty, contributes to healthier, more productive communities and helps drive economic success. Significantly, the fund targets reaching more than 70 million emerging consumers over the next five years.

“QBE was the first Australian insurance group to back LeapFrog's new impact investment fund. By investing in high-growth companies in emerging Asia and Africa, the fund aims to reach 70 million low-income people with healthcare and financial tools. Most of those people will be accessing these essential services for the first time, helping lift themselves and their families into security. At over $1 billion, LeapFrog Fund III is the largest equity fund ever established by a pure impact investor. As a key participant, QBE is sending a powerful signal to the country and the world that it is possible to achieve Profit with Purpose.”

Andy Kuper,
CEO LeapFrog Investments

Social impact bonds

In 2014, QBE committed to invest up to $100 million in suitable social impact investments, specifically SIBs and pay-for-success (PFS) investments across our global investment portfolio. We aim to lead in making these kinds of investments to signal our support for SIBs/PFS and outcomes-based financing as an institutional investor.

We strongly support investment as a means of raising capital for global social and environmental issues while creating sustainable financial returns. Investments supporting Premiums4Good fall within multiple asset classes and impact areas and range in depth of impact. SIBs are at the high-impact end of the spectrum, as a results-based investment.

We are a leading investor in SIBs across the globe, and one of the few to invest across different impact areas, currencies and geographies. To date, we have invested in 11 SIBs and two SIBs funds in Australia, Canada, the United Kingdom and the United States. QBE was the anchor investor for the first SIB fund in the United States with The Reinvestment Fund and Living Cities in 2017.

These investments seek positive outcomes across diverse impact areas. If our current SIB direct and fund investments achieves the intended outcomes, we have the capacity to positively impact more than 21,000 people in areas such as:

- reducing youth homelessness;
- improving education and employment outcomes;
- improving parenting skills to reduce the number of children removed into state care;
- reducing re-offending; and
- reducing long-term cardiovascular disease.

As we continue to expand our investment in impact bonds, we aim to bring commercial rigour to these investments and help develop the market across multiple jurisdictions – to grow a robust impact bond market. By proactively engaging with stakeholders on the benefits of public-private-social sector partnerships, we aim to strengthen the sector globally, and encourage other institutional investors into the market.

Current Premiums4Good investments[1]

IMPACT AREA	IMPACT LOCATION: NORTH AMERICA	AUSTRALIA AND NEW ZEALAND	EUROPE AND UNITED KINGDOM	GLOBAL AND DEVELOPING MARKETS	TOTAL
Environment					
Food and agriculture				1	1
Resource efficiency, recycling, re-use and conservation				1	1
Sustainable energy	10	4	6	2	22
Total	10	4	6	4	24
Social					
Education and employment				1	1
Financial inclusion			3	2	5
Health	1	1			2
Housing and social real estate	2	4	1		7
Social care and provision of community services	3	1	1		5
Social inclusion, diversity and gender	1				1
Urban and community development	3				3
Total	10	6	5	3	24
Grand total	**20**	**10**	**11**	**7**	**48**

Global recognition of Premiums4Good

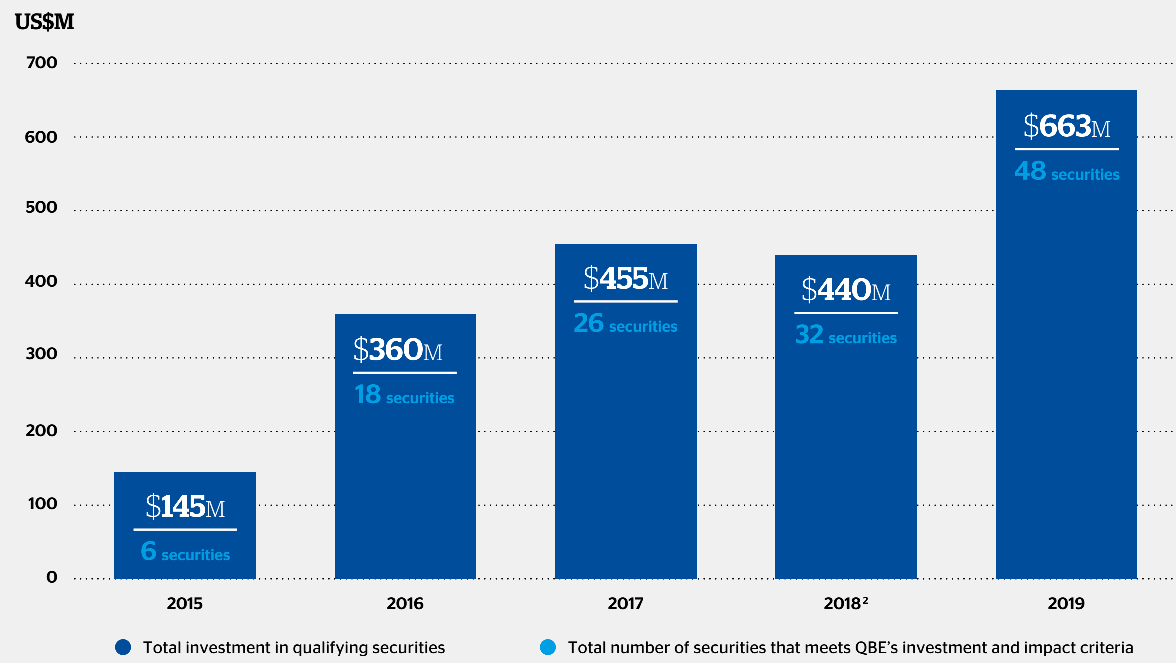
Since its inception in 2014, Premiums4Good continues to engage customers, employees and stakeholders. In 2019, Premiums4Good secured industry and peer recognition with its shortlisting in a range of prestigious awards including:

Ethical Corporation's global *Responsible Business Awards* – Finalist, United Kingdom

The Shared Value Project's *Shared Value Awards* – Finalist, Australia

Banksia Foundation's *Banksia Sustainability Awards* – Finalist, Australia

Securities and investment totals 2015-2019 (US$M)



1 Impact areas, geographies and SDGs are mapped and categorised by QBE in line with our impact investment definitions and classifications. Please note that individual investments or investees may classify these differently.

2 Our methodology to reconcile number of securities was updated from 2018 onward.

Customer and community

As an international insurer and reinsurer with a long and proud history of serving our community, we offer a diverse portfolio of products and services to meet our customers' current and emerging needs. Our customers are at the heart of our decision making and we are committed to delivering a consistent level of outstanding customer service across our divisions that reflects community values and expectations.

To provide quality solutions for our customers, we continually seek to understand the trends impacting them, and the broader communities and societies in which we operate. The Sustainable insurance section of this Report outlines how we incorporate this ambition into our comprehensive range of products and services. We also seek to contribute to the community through thought leadership, advocacy, disaster relief and other online resources, and through our QBE Foundation.

Managing customer conduct risk

We define 'conduct risk' as the risk of unfair outcomes resulting from a failure to treat customers and claimants in a fair manner when designing or building our products, designing and operating our sales and marketing practices, distributing our products, handling claims and managing complaints.

In 2019, we introduced a Group Conduct Risk Policy outlining our expectations in relation to managing conduct risk across our business, supporting our strong commitment to customer service and satisfaction.

Our Group Executive Non-Financial Risk Committee (ENFRC) has oversight of conduct risk at QBE. Its objective is to support the Group Board and the Board Risk & Capital Committee (BRCC) with identifying, assessing and mitigating conduct risk. Our Conduct Risk Working Group supports the ENFRC to deliver a consistent approach to managing conduct risk. The Working Group is made up of senior experts across the business and operates under a dedicated Group Head of Conduct.

Demonstrating our commitment as a customer-centric insurer, we maintain several initiatives, processes and controls to ensure fair treatment of our customers through every stage of the policy life cycle, including post-sale services. This includes customer service satisfaction surveys, analysing customer complaints to identify root causes and a continuous focus on improving the customer experience.

Improving customer outcomes through behavioural science

In partnership with academics and institutions, we use experiments, interviews, observation, data analysis and behavioural science research to gain a deeper understanding of what drives customer behaviour.

Our aim is to integrate the emerging science of injury recovery into the claims and recovery process. In Australia Pacific, our Behavioural Insights team is using this knowledge to test options, and introduce changes, that are delivering real benefits to people injured in the workplace and in motor vehicle accidents.

For example, when employers demonstrate support, injured workers are more likely to return to work more quickly, contributing to better personal and professional outcomes. In 2019, our Behavioural Insights team successfully communicated the importance of supporting injured workers to employers, including through the provision of suitable duties. The solutions developed by our Behavioural Insights team are now being shared across QBE, helping other teams apply behavioural science to improve outcomes for all our customers.

Benefitting customers through new data and digital solutions

Data-driven solution transforming customer claims

Our customers seek, and deserve, good quality and efficient service. The Property Decisioning Tool enables us to challenge the traditional claims model by automating non-complex claims – improving and speeding up the claims and recovery process.

The tool quickly determines the likely complexity of a claim, the likely repairs needed and immediately engages the correct supplier. This has allowed us to reduce recovery times for customers, with the correct repairer or restorer responding quickly to mitigate losses, manage claims costs and minimise any delays.

Insurance Awards 2019

insurance ASIA Awards 2019

In Asia, we were recognised for enhancing our claims experience using digital innovation through our Digital Claims Platform. Awards included:

1. Claims Initiative of the Year – Hong Kong Award at the Insurance Asia Awards 2019
2. Top 3 Finalist for the Outstanding Claims Management – General Insurance Award at the Hong Kong Insurance Awards 2019 organised by the Hong Kong Federation of Insurers

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Digitising to improve customer experience and satisfaction

A strong focus on implementing digital solutions has helped improve customer experience and accessibility. In Asia, we have started the journey to digitise our insurance value chain and create an enhanced experience for our partners and end customers.

Across Singapore and Hong Kong, we introduced an innovative business to business insurance portal, Qnect. This one-stop web-based platform empowers intermediaries to manage insurance transactions, generate quotes, issue policies, manage customer portfolios and generate data analytics in an efficient manner. The portal supports our customers' insurance needs anytime, anywhere by providing access to a wide range of business and personal insurance products and relevant resources.

In Hong Kong, we took Qnect to the next level by creating a business to business to consumer model for a strategic distribution partner. We piloted this new model for travel and home contents insurance with a plan to expand to other insurance products.

We also introduced a digital claims portal for our travel and domestic helper insurance products in Hong Kong, offering a simpler and faster claims experience. The platform is designed to provide an easy-to-use, efficient and intuitive experience, allowing customers to submit a claim on any mobile device with just a few keystrokes.

As claims via the platform are assessed and processed digitally, it has enabled faster validation and payment, drastically shortening the entire claims lifecycle and delivering operational excellence for the business. Building on our success in Hong Kong, we are looking to extend the digital claims capability to a broader range of products in the future.

1 NO POVERTY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Promoting financial inclusion

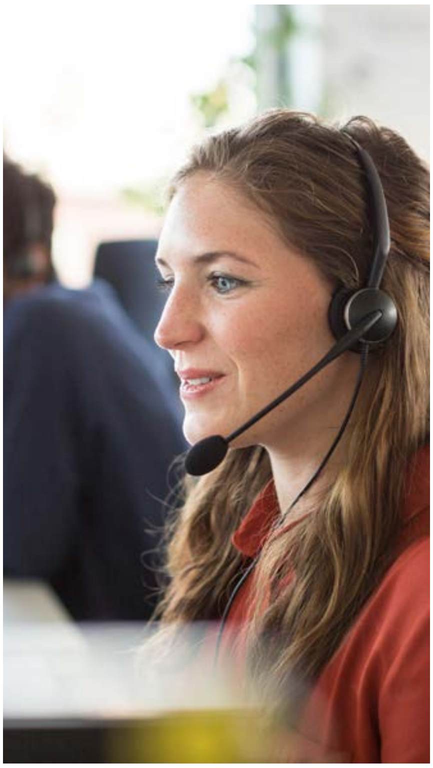
Reducing complexity, promoting clarity

We provide a range of tools and services to help our customers understand our range of financial products and services, and to provide helpful general information about insurance and risk. We continue to focus on developing and providing clearer and more effective disclosure throughout the customer journey to enable our customers to make the right decision, at the right time, based on accurate information.

As part of our continuous improvement process, we are working to simplify our product disclosure and policy wording to reduce complexity where possible to help our customers more readily understand what they are, and are not, covered for. This supports customer education and decision making. We started to test this with several of our lines of business in 2019.

QBE Australian Housing Outlook

Our report, *The QBE Australian Housing Outlook 2019–2022* equips our customers, partners and consumers with the latest residential property and economic information along with a three-year forecast for house and unit prices across all our major cities and 11 regional centres. We have partnered with BIS Oxford Economics for many years to produce this annual report, now in its 18th edition.



Supporting our vulnerable customers

Across Australia Pacific, we are developing a strategy to assist and support vulnerable customers. This includes a focus on:

- training our workforce to better recognise and deal with our more vulnerable customers; and
- embedding appropriate practices across the customer journey that result in improved customer outcomes and experiences.

In 2019, we piloted an intensive, face-to-face training program with members of our Claims and Customer Relations teams in Australia. Training focused on recognising and understanding vulnerability and related triggers, communicating respectfully with customers experiencing vulnerability and linking customers with appropriate internal and external support.

We also committed to promoting greater financial inclusion for all Australians by joining the Financial Inclusion Action Plan (FIAP) program, an initiative that promotes economic wellbeing, resilience and inclusion. A partnership between Good Shepherd Microfinance, the Australian Government, EY and the Centre for Social Impact, the FIAP is supported by an advisory group and 40 member organisations, including QBE. Tangible commitments have been made to realise greater financial inclusion and resilience for vulnerable groups across the sphere of influence of FIAP program participants.

As part of our commitment, we are developing an action plan to address financial wellbeing, building on a range of initiatives underway to support vulnerable customers and communities. These initiatives focus on providing fair and accessible products and services, enhancing financial capability of staff, customers and the community, understanding financial vulnerability and supporting economic security.

Standing by our customers and communities in the face of disaster

Partnering to build resilient communities and futures

As a global insurer, we see first-hand the impacts natural disasters have on our customers and the communities in which we operate. We are one of the first ports of call for our customers when they are affected by a disaster. We aim to respond quickly, show care and sensitivity, and deliver outstanding service to those customers impacted by catastrophes – in line with our focus on building resilience within our communities.

We recognise that natural disasters are increasing in frequency and severity, impacting billions of people worldwide. Climate change is a material business risk for QBE, and our role is to help our customers build their resilience, and better secure their future, through risk preparation and mitigation.

In 2019, we committed to two strategic multi-year partnerships with leading global not-for-profits involved in natural disaster preparedness and response – Red Cross and Save the Children. These partnerships will streamline our support for disaster recovery initiatives and enable us to deploy vital resources quickly and effectively. Our aim is to support both organisations in their work to address the humanitarian crisis caused by climate change and work collaboratively on disaster preparedness and climate resilience initiatives for vulnerable communities. We continue to stand alongside our customers to address their evolving and complex needs into the future.

While our partnerships will initially focus on immediate relief in the event of a natural disaster, we will work together to leverage the skills and expertise across our organisations to focus on disaster risk reduction and resilience programs.

As outlined in the diagram, our partnerships will focus on supporting communities through disaster recovery programs to help rebuild and prepare for future catastrophes. We will also collaborate to create new disaster risk reduction initiatives.

Innovating in our disaster response

Part of our role as an international insurance company is to help our customers build resilience through risk preparation and mitigation. We provide direct help through on-the-ground catastrophe teams, specialist teams, relief efforts and spending face-to-face time with affected policy holders.

In North America, our claims teams continue to innovate in the way we meet the needs of customers experiencing severe weather events. We continue to invest in technology, targeted communications, virtual assistance and 3D modelling to provide better and faster support to our customers when they need it most.

We model approaching storm activity to identify where, and when, our customers might be at risk. This allows us to proactively communicate, alerting them to possible dangers. Our targeted email alerts give our customers time to put safety measures in place before a severe weather event hits, as well as providing them with information on how to report a claim.

If a claim is required, communication through our platform helps speed up the claims and recovery process. Customers can send smartphone footage of damage to us and these remote assessment capabilities have cut down the estimating process time by as much as 40%, helping us deliver on our goal of making a difference for customers in times of need.

Our Partnership with Red Cross

The International Red Cross and Red Crescent Movement is the world's largest global humanitarian network, consisting of more than 192 member societies. Red Cross provides protection and assistance to people affected by disasters, conflicts and health and social problems.

With a mission to alleviate human suffering, Red Cross supports emergency responses across the world. A key focus area of this work is preparing communities and Red Cross and Red Crescent Societies ahead of disasters. This is done by helping communities identify risks and threats, and develop solutions to reduce or mitigate them.

Through our partnership, we will focus on addressing the increasing humanitarian impacts from climate change within this 'solutions economy'. This aims to contribute to the complex challenges whereby demand for humanitarian assistance is outstripping available financing. The solutions economy will look at innovative ways to solve the increasing gap in financial support and highlights the need for more global players to support communities in preparing for and recovering from disasters.

Our Partnership with Save the Children

Established 100 years ago, Save the Children is the world's leading independent organisation that supports children and children's rights. Save the Children believes in the rights of all individuals to receive aid in an emergency, based on need. However, women and children face disproportionate risks in emergencies, such as forcible displacement and human rights violations. For example, children are particularly vulnerable to being separated from their families, recruited into armed forces, exploited sexually and made victims of gender-based violence. Accordingly, emergency responses are often planned to meet their immediate needs.

In an emergency, Save the Children provides life-saving essentials such as food, clean water, healthcare and shelter, and services such as education and protection support to groups particularly at risk including disabled children, child combatants, gender-based violence survivors, adolescents, out-of-school youth, unaccompanied minors and orphans.

Through our global partnership with Save the Children, QBE aims to save more lives when a disaster strikes and help build communities that are more resilient in the face of natural disasters and more able to withstand the impacts of climate change in order to protect future generations.

Engaging and investing in our communities

QBE has established multiple community-focused initiatives that seek to create value by improving social and environmental conditions in the communities in which we operate.

Our community engagement strategy is aligned to our group-wide priority Sustainable Development Goals (SDGs) as outlined in Our approach to sustainability. This includes a focus on financial resilience and protecting vulnerable communities (SDG 1), diversity and inclusion (SDGs 5 and 10), supporting decent work and economic growth (SDG 8), building sustainable cities and communities (SDG 11), and taking action to combat the impacts of climate change (SDG 13).

Our community engagement strategy also includes an additional focus on supporting the health and wellbeing of our communities (SDG 3), as many of our product lines relate to accident and health, and helping people rebuild their lives after a catastrophe. As always, in 2019, our people have also actively supported their communities, nominating health-related causes they are passionate about for us to support.

We support our community activities via the QBE Foundation, as well as through a variety of partnerships, sponsorships, grants and events.

The QBE Foundation

The QBE Foundation was established in 2011 to ensure that we manage our community-related and corporate giving activities effectively and consistently, in line with our purpose, strategy and investment criteria. The Foundation's stated vision is:

"*To help people overcome disadvantage, strengthen their abilities and live more independently, successfully and productively*".

This vision is an extension of QBE's purpose: to give people the confidence to achieve their ambitions.

Across our divisions, we have strengthened the Foundation's focus on long-term and impactful strategic partnerships.

Our community engagement and investment activities help us drive employee engagement, improve the communities in which we live and work, and support our efforts to make a meaningful contribution to our priority SDGs.

Further information about the governance of the QBE Foundation can be found on our website.

Our community investment

The total value of our social and community investment programs in 2019 was over $5.5 million. This includes financial contributions through our charity partnerships and local grants, employee volunteering, workplace giving, in-kind giving and management overheads arising out of volunteered time, services or office space.

TYPE OF CONTRIBUTION	2019 US$000	2018 US$000
Financial contributions[1]	**4,544**	4,185
Time: employee volunteering[2]	**551**	464
In-kind giving[3]	**48**	77
Management overheads or administrative costs[4]	**518**	431
Total community contribution	**5,661**	5,157

Engaging our people

We encourage everyone at QBE to give back to the community by taking a designated, paid-volunteer day every year or by getting involved with our charity partners, through charitable and in-kind giving. Employees can volunteer individually, or with colleagues, to support a cause they are passionate about, with the QBE Foundation managing opportunities to support our charity partners.

Employee feedback tells us that volunteering gives our people personal development opportunities, increases collaboration and teamwork, leads to greater employee satisfaction and generates a sense of pride and connection to both QBE and the wider community.

In 2019, our employees spent over 12,600[5] hours volunteering as part of their designated volunteer day. We continue to collaborate with our charity partners to identify opportunities for our employees to more closely engage with the communities in which they live and work.

For example, since 2016, the QBE Foundation has partnered with Foodbank, an Australian food relief organisation with a mission to provide sufficient, safe and nutritious food to vulnerable and disadvantaged communities. In 2019, with the support of partners and supporters, Foodbank sourced 41.7 million kilograms of food and groceries, providing the equivalent of 75 million meals to hungry Australians. Foodbank's efforts contribute to improvements in wellbeing, sense of self-worth, social relationships, academic achievements and standard of living. The Foundation's partnership with Foodbank has made a positive, tangible difference to the lives of thousands of Australians in need.

In Western Australia, our employees volunteered as part of the Mega Meal Challenge, a week-long opportunity working in Foodbank's Community Kitchen to produce approximately 2,000 frozen meals. The Community Kitchen uses ingredients which give "rescued" food a third life, reducing Foodbank's food waste from 11% to 3%. The program supports increased resilience, wellbeing and living standards among meal recipients.

1 Total financial contributions for disaster relief, grants, charity partnerships and employee matching for employee fundraising efforts and/or payroll deductions from pre-tax salary.

2 The equivalent financial cost of time volunteered by employees as logged in our HR system to various community initiatives across our divisions. This is estimated using employee hourly/day rates, i.e. base salary divided by 52 weeks, then divided by either: a) employee weekly appointed hours, for hourly rates; or b) five days, for day rates.

3 In 2019, we have maintained our process to capture in-kind giving across our divisions by using financial proxy values as estimates.

4 This includes costs associated with communications and marketing, overheads and administration of our divisional QBE Foundation Committees.

5 Total time volunteered by our employees as logged in our HR system to various community initiatives across our divisions.

Supporting our communities – the QBE Foundation in action

Across the countries in which we operate, we have several multi-year partnerships. We showcased a range of these partnerships in our 2018 Sustainability Report. Below is a small selection of initiatives and achievements from 2019.

1 NO POVERTY

Protecting vulnerable communities and enabling financial resilience are key strategic priorities. This includes supporting financial literacy and inclusion, youth social services, adult welfare and natural disaster recovery relief.

Supporting the financial health of disadvantaged populations

Village Capital

In North America, we have collaborated with Village Capital, a highly-networked organisation in the field of impact investing, to release a report on the drivers and impacts of insurtech on socio-economic trends, within the United States and globally. These themes include insurance for all, the way innovation in insurance is shaping society, and how technology is helping the industry better address risks resulting from changes in the macro-environment. Ultimately, this research will help startups that are assisting underserved or disadvantaged populations achieve better financial health.

3 GOOD HEALTH AND WELL-BEING

As an insurer that helps people recover from injury, a focus on health and wellbeing is a key strategic priority for our community-related activities. It is also a key driver of employee engagement and satisfaction. Each year, the QBE Foundation partners with charities that strive to improve medical research, treatment and support for health concerns, mental health and physical disability.

Partnering with the Dementia Friends program

Insurance united against dementia

In partnership with Alzheimer's Society United Against Dementia

Through our partnership with the Alzheimer's Society in the United Kingdom, we supported the Dementia Friends program, which aims to increase understanding and raise awareness about dementia. The program delivers 'Information Sessions' which cover some of the challenges people with dementia face and how we can support them in the community. By becoming Dementia Friends and taking action, we can create safer and more inclusive communities for people living with, or affected by, dementia. More than 500 QBE employees have taken part in the Information Sessions.

Dementia Friends was created by the Alzheimer's Society to help break down the fear, stigma and misunderstanding of the condition and turn understanding into action. Our people are encouraged to become a Dementia Friend and help make QBE a more dementia-aware business. Dementia Friends is the biggest ever Alzheimer's Society initiative to help change people's perceptions of dementia.

As part of our strategic commitment to encouraging diversity and inclusion, we support community initiatives that promote acceptance and opportunities for vulnerable and under-represented groups. We aim to reduce inequality within and among the communities in which we operate. Our support includes mentoring, awareness-raising, developing educational materials and providing funding.

Equal representation in technology talent

colorcoded
dream | play | grow

In North America, in partnership with our business resource group the Women's Initiative Network, we supported colorcoded, a Wisconsin-based organisation aimed at increasing the number of girls, minority and low-income youth participating in computing. They do this through a combination of activities, workshops, mentorships and paid internships. The organisation aims to combat the stark underrepresentation of women and minorities in the computing workforce. The program QBE supported focuses on developing technology talent and future technology professionals in disadvantaged areas and underrepresented demographics. Our Women's Initiative Network and Women In Technology employee working groups will continue to work with colorcoded.

The Pinnacle Foundation – supporting people to bring their whole selves to study and work

Light the SPARK
The Pinnacle Foundation

For a fourth year, the Australia Pacific QBE Foundation proudly supported the Pinnacle Foundation, which provides educational and vocational support to young adults across Australia whose gender identity, sexual orientation or sexual characteristics have prevented or hindered achievement of their career aspirations or personal development. The underlying aim is to help empower disadvantaged LGBTIQ+ youth to become self-reliant, maintain their dignity and gain confidence and self-belief.

Our support helps students complete their studies at high school, university, or TAFE, and connects them to mentors who typically share the same academic and professional interests, gender identity, and sexual orientation. Overall, the work of The Pinnacle Foundation has delivered some fantastic results, including 89% of scholars achieving their academic goals, 95% of scholars feeling academically supported, 93% feeling more valued as a person and 95% noting that a Pinnacle Foundation scholarship improved their confidence.

Supporting our communities – the QBE Foundation in action (continued)

Another strategic aim of our Foundation is to foster local economic growth by supporting community-led education and employment initiatives. This will help contribute to social and economic development and poverty reduction. Many of these activities also link to the advancement of other SDGs such as SDG 1: No poverty and SDG 4: Quality education.

Tackling student hunger to improve learning

In the Philippines, a strategic aim of our Group Shared Services Centre QBE Foundation is to foster local economic growth by supporting community-led education, sustainable development, poverty reduction and employment initiatives. Since 2018, we have partnered with the Philippine Business for Social Progress (PBSP), a business-led organisation at the forefront of strategic corporate citizenship and business sector leadership, to tackle poverty and undernutrition among school children.

Through a strong ecosystem of support, the QBE Foundation has served almost 18,000 meals to 250 undernourished students at two schools based in Cebu and Manila. This has resulted in students reaching a Healthy Living Index, enabling them to better focus on their education.

In May 2019, QBE sponsored the refurbishment of the kitchen facilities that provide a clean cooking and eating environment for program beneficiaries. Our partnership provides volunteering opportunities for our employees to dedicate three hours of their time every Friday to PBSP's activities.

As an international insurance company, we have an important role to play in developing sustainable cities and communities and building resilience through our charity partnerships and collaborations. Our activities in this area are linked to the advancement of other SDGs such as SDG 1: No poverty and SDG 13: Climate action.

Building resilient cities

The North America QBE Foundation, in collaboration with QBE Ventures and Ashoka, launched the QBE Urban Resilience Challenge, a national social initiative to discover and fund tech-based innovations to drive resiliency in cities. Ten finalists were selected due to their clear social and environmental impact and benefits, including tackling social welfare, access to water and sanitation, protection of public environment, health and safety and city liveability.

The Urban Resilience Champion 'Drugviu' aims to build a world where medications work for everyone to improve health outcomes, including communities of colour. The Urban Resilience Pioneer was 'Biocellection', an organisation that recycles 'unrecyclable' plastics, preventing river and ocean pollution, saving wildlife and reducing carbon emissions. This initiative highlighted that transformative tech innovations have the potential to create longer term health and environmental improvements for our customers, communities and cities more broadly.

With natural disasters increasingly impacting our global communities, we are uniquely positioned to support these communities as they tackle the challenging task of recovery. Our activities in this area are linked to the advancement of other SDGs such as SDG 1: No poverty, SDG 11: Sustainable cities and communities and SDG 15: Life on Land.

Employee climate expeditions with the Earthwatch Institute

In 2019, the QBE Foundation partnered with the Earthwatch Institute, an international environmental not-for-profit organisation that offers unique, hands-on experiences in climate change research and ecosystem restoration. Some of our employees participated in expeditions across the globe – with destinations including the Acadia National Park, Andorran Pyrenees, Daintree River, Great Barrier Reef and La Selva Biological Station in Costa Rica.

The experiential learning program provided our employees with an understanding of how protecting our natural environment is a colossal task, one in which everyone has a role to play. Our employees came to appreciate the huge amount of work involved in scientific research and data collection, and the importance of environmental issues for QBE. Each employee returned from their expedition with a renewed understanding of the relevance of climate change and our ability to impact change globally.

Managing forests to alleviate water scarcity

Through the Group Shared Services Centre QBE Foundation, we are working with the World Wildlife Fund Philippines to go beyond the usual tree planting activities and expand to forest management around Ipo Watershed in the Norzagary Bulacan region of the Philippines. Metro Manila has been experiencing water shortages over the summer months and even during the rainy season.

Through our partnership under the Forests for Water program, we are aiming to alleviate water scarcity for inhabitants of Metro Manila by rehabilitating the forest around the main watersheds to help maintain the water cycle. We are also contributing to the fight against climate change by planting trees to offset our carbon footprint.

We are working with the local community in the area to mobilise their support with tree planting, monitoring and maintenance of seedlings. Mobilising the local community also helps spread awareness and contributes to a sustainable livelihood for them. In addition, we will be holding several learning sessions in the Group Shared Services Centre offices to educate our people on the importance of caring for water resources and our forest reserves.

People and culture

At QBE, we offer a dynamic, supportive and inclusive workplace where people are given the space to achieve their personal and professional goals.

We believe that providing a great place to work, and investing in our people now and into the future, are key to the long-term sustainability of our business. Our organisational culture is expressed through seven behavioural elements, the QBE DNA. We know that it is not just what we do, but how we do it, that can make a difference in the lives of our customers and our people, helping us achieve our purpose. Our QBE DNA underpins everything we do and helps us respond to the current and emerging needs of our people, customers, communities and other stakeholders. We are bringing our QBE DNA to life across the organisation and in our activities. Our QBE DNA sets out the expected behaviours for everyone in the Group and is central to the Group's Code of Ethics and Conduct.

Our QBE DNA

We are customer-centred	We are diverse	We are technical experts	We are fast-paced	We are courageous	We are accountable	We are a team

Our culture of risk management

The Board People & Remuneration Committee (PARC) oversees our people strategy and our progress against it. Our Group Board works to continually improve our understanding of risk culture and operational effectiveness.

We have a broad view of risk culture which includes how risk is understood, identified, managed and prioritised to form part of the cultural fabric of the organisation. We take an integrated, holistic perspective on organisational culture rather than treating risk culture as a separate aspect of the Group's culture. During the year, we ran focused campaigns across the Group to highlight good risk management practices and behaviours.

Our QBE Voice employee survey showed that 88% of our employees believe that managing risk is prioritised and valued across the business. In addition, 88% of our employees believe they have a good understanding of QBE's risk management practices, policies and procedures, up three percentage points from 2018.

Our performance management system, ME@QBE, is designed to enable an assessment of risk performance for all employees based on outcomes and behaviours. We developed corporate standards for our employees to help build a stronger risk management culture and highlight that everyone is accountable for managing risks at QBE.

For all senior leaders (level 3 and above), it is mandatory to have a 'managing risk' goal as part of ME@QBE, the achievement of which is considered when determining incentive outcomes. Executives are also subject to a detailed risk review using input from the Group Chief Risk Officer and Chairman of the Board Risk & Capital Committee, with the outcome shared with the PARC and having an impact on determining incentive outcomes.

Refer to the 2019 Remuneration Report and Risk – our business in the 2019 Annual Report for further information.

ME@QBE: Managing performance

We continue to foster a working environment where people and performance matter. In 2019, we introduced a new performance management system called ME@QBE, which provides our employees with a simpler and more modern approach to performance management. The process is based on regular conversations with their manager, continual feedback on how that individual is living our QBE DNA and ongoing support for personal and professional development.

Through ME@QBE, our people align their personal goals with QBE's strategic priorities, providing a stronger connection between individual performance and the success of the Group. Our new system also supports our employees to focus on personal and career development.

We recognise, reward and celebrate achievements and outstanding contributions. We strive to offer employees competitive financial benefits that reflect their efforts and accomplishments, which meet or exceed community expectations. Through our various programs, we also celebrate employees who consistently demonstrate our QBE DNA and continue to create value for our customers, business and stakeholders. For example, in 2019 local executives rewarded employees within their teams who truly live our QBE DNA with an invitation to our Global Leadership Forum.

Engaging our people

People are at the heart of our business. Creating an environment where our employees feel engaged, supported and equipped to do their best is essential to our success.

Our employee network groups empower our people to work together on issues they care about. These groups include QBE Pride (LGBTI+), MIX (ethnic diversity), Women's Initiative Network and The Circle (women) and Valour (veterans). Others include Workability, which focuses on employees living with physical and mental disability, and Open Mind, focused on employee mental health and wellbeing. Across our offices, we have implemented change and advocacy networks to foster employee engagement and bring our QBE DNA to life.

Our annual QBE Voice employee survey focuses on issues such as employee engagement, satisfaction and enablement, organisational culture, leadership and management effectiveness, diversity and inclusion (D&I) and risk culture metrics. The survey gives our people the opportunity to tell us what it feels like to work at QBE, and where we need to improve our employee experience and workplace culture. We also use the survey process to get a point-in-time view of the demographics and diverse composition of our workforce. Refer to pages 51 to 53 for further information. In 2019, we achieved a strong response rate of 87%, with an overall engagement score of 70%, up four percentage points from 2018, and an enablement score of 71%, up two percentage points from 2018.

Key insights from this year's survey showed that more people are aware of the QBE DNA (up 10 percentage points), highlighting the continued integration of our seven cultural behavioural elements across the business. More people feel QBE is open and honest in communications (up six percentage points) and can express their views freely without fear of negative consequences (up five percentage points). Our people agree that their team is committed to delivering quality products and services, that they are treated with respect as individuals, and understand what is expected of them in their job.

It was great to hear that more people believe their manager supports them in their development. There is growing trust and confidence in our leaders, both the Group Executive Committee (up seven percentage points) and Divisional Leadership teams (up four percentage points).

Our people have asked us to continue to become more innovative as a company. Feedback has indicated that the work we are doing to achieve our strategic priorities is having an impact and QBE is continually transforming for the better.

How we engage our people

We continue to use platforms such as Yammer and Microsoft Teams to support networking, information sharing and collaboration across the Group. We engage our people through interactive forums, team meetings and networks that encourage two-way conversations. Our Group and divisional Chief Executive Officers (CEOs) provide regular updates in town halls, via email or networking platforms, giving employees the chance to directly comment and ask questions about the business and our strategic priorities. Our executives use town halls, huddles, roundtable discussions, focus groups and 'YamJams' (online chat forums via Yammer) to encourage employees to voice their thoughts, suggest improvements or innovations and engage with their leaders.

QBE Voice survey results

Engagement

70%

Up 4 percentage points from 2018

Enablement

71%

Up 2 percentage points from 2018

Investing in the growth of our people

We know that long-term career development is crucial to employee engagement, satisfaction and retention, and we offer tools and resources to help our people identify and achieve their career goals.

In 2019, we enhanced our focus on the future of work, considering the different capabilities that our people will need in the years to come given the rise of automation, artificial intelligence and machine learning in less complex tasks within the business. We encourage our employees to drive their own development and work with their manager to create a personal development plan. We use our talent management and succession-planning processes to identify high-potential employees and build their capability for future roles within the Group.

Building our technical expertise

We continue to invest in the learning and development requirements of our intermediaries. In 2019, we received two Gold LearnX Live! Awards for our Commercial Lines Authorised Representative (AR) community in Australia Pacific. This includes Best Learning and Development Project and Best Bespoke Training Project. We developed an AR hub and digital learning platform consisting of several product specific modules offering industry-recognised points for professional development. Our AR hub helps our commercial partners build their insurance product knowledge with associated on-the-job resources in a format that suits their needs and provides practical learnings that can be applied to real-life situations across a range of products.

Developing our leaders

In 2019, we further invested in developing our leaders through a global program called Lead@QBE. The program was designed to uplift the capability of our people leaders and equip them to play a role in driving a high-performance culture.

Across the Group, more than 70% of our people leaders participated in at least one element of the program designed to develop people leadership skills on topics including giving great feedback, performance coaching, shaping futures and differentiating performance. We embedded the QBE DNA into the Lead@QBE program to help further accelerate the cultural shift within the business.

In October 2019, we brought together our top 170 leaders from across the Group in a two-day leadership forum. This enabled our senior leaders to better understand our future strategy as a business to respond to changing environmental and macroeconomic trends. Throughout the year, each QBE division hosted a local leadership forum to reinforce our Group and divisional business strategy, align leadership teams and plan for the future.

Diversity and inclusion

In support of

WOMEN'S EMPOWERMENT PRINCIPLES

Established by UN Women and the UN Global Compact Office

These icons denote integration of WEPs

Our people possess the vast range of skills, insights and experience needed to respond to challenges and opportunities, and service our customers. We embrace the diversity of all our people irrespective of difference, and believe this spirit of openness is essential to attracting, retaining and developing the best people for the best organisational and personal outcomes.

Our global policy

In 2018, we revised and relaunched our Global Diversity and Inclusion Policy, which highlights our commitment to promoting equality, and embedding inclusion, in our workplace. The PARC oversees our strategy and progress and the Global D&I Council (comprising our Group Executive Committee) drives our agenda collectively and divisionally. We report our progress publicly through QBE's Corporate governance statement.

Progress on achieving our women in senior management goals

Across the Group, our goal is to achieve 35% women in leadership by women by 2020. In 2019, we achieved a 2% increase to 34%. This was due to our ongoing focus on recruiting, selecting, promoting and developing our people, including our women. For example, in Australia, we continued to run our flagship career acceleration program 'Lead In' with great success.

Promoting equality through advocacy

We continue to strengthen our tone from the top with our QBE Champions of Change network, an initiative led by our Group CEO to encourage the top 50 senior leaders across the business to become powerful role models and champions of D&I and directly influence change. We launched a series of 'Learning Bites' focused on D&I to educate our employees, and raise awareness, on topics such as speaking up and standing by others as a team.

Further, our Group Executive Committee (GEC) has placed a higher level of visible sponsorship and accountability on issues relating to the progression of women in leadership and the fair treatment of all. This included our senior-level leadership advocating for, or being signatories to, external pledges or charters such as the Male Champions of Change group in Australia, HM Treasury Women in Finance Charter in the United Kingdom, Tech Talent Charter in the United Kingdom to achieve greater gender diversity in technology services and the charter created by the reference French LGBT+ association, L'Autre Cercle, for the inclusion of LGBT+ people in the workplace. We also continue to speak out and advocate on D&I issues through partnerships such as those with Lloyd's Dive In festival in the United Kingdom, an annual event promoting year-round best practice in diversity and inclusion in the global insurance industry.

Refer to Customer and community for further information about our contribution to gender equality and women's empowerment through community initiatives.

Equality in recruitment

We continue to focus on strengthening our hiring practices to promote D&I across our workforce including tracking of gender-diverse hirees, interview panels and shortlisted candidates. We created a new recruitment guide in 2019 to help support and upskill people leaders in hiring and promoting diverse hiring practices.

Diversity in our supply chain

We are committed to encouraging D&I in our supply chain. Our Supplier Sustainability Principles outline our desire to work with businesses that reflect the diverse nature of the people and communities we serve, including minority and First Nations businesses, disability and social enterprises, female-owned and/or led businesses, our community partners and other not-for-profit businesses.

Refer to Operational excellence for further information.

Reactions

NORTH AMERICA AWARDS

QBE North America was named Insurer of the Year for Diversity and Inclusion at the Reactions North America Awards 2019 to acknowledge our progress and commitment to D&I initiatives.

1 NO POVERTY | 5 GENDER EQUALITY | 10 REDUCED INEQUALITIES | 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Flexible working at QBE

We create and maintain a diverse and inclusive workforce by recognising and responding to people's needs at different stages of their lives and the role that new technologies can play in making our workplaces more flexible and adaptable. We also support flexible working to help employees balance personal obligations with their careers.

In 2019, we continued to embed our Flex@QBE Principles, aligned to our QBE DNA, across the business. These principles outline the standards, values and practices that underpin our approach to flexible working and guide both employees and people leaders as they carry out their respective roles and responsibilities.

Across our offices, we have formal 'Work from Home' policies to further support our employees. We also offer our employees a variety of local benefits including leave support for carers, discounted insurance products, health and wellbeing programs and more.

We track our employees' access to flexible working and collaboration tools, including working remotely. Insights show that the ability to work flexibly is an important part of the employee experience as our people seek to balance their professional, personal and family commitments. Our QBE Voice survey results indicate that 84% of our employees believe that their work schedule is flexible enough to allow them to meet family and personal responsibilities.

1 NO POVERTY
3 GOOD HEALTH AND WELL-BEING
5 GENDER EQUALITY

Sharing the care

We are changing the face of parenting for our employees with the introduction of a new paid parental leave initiative in Australia and New Zealand – Share the Care. The initiative aims to make parenting, career breaks and flexible working 'business as usual' for both men and women. Share the Care eliminates the gendered terms of 'primary' and 'secondary' carer, instead now offering our existing 12-weeks' paid parental leave to every new parent – acknowledging the important roles all parents play within a working family. We are the first general insurer in Australia, and first organisation in New Zealand, to adopt a gender-equal, flexible paid parental leave policy as we continue to foster an ever more inclusive workplace.

1 NO POVERTY
5 GENDER EQUALITY
10 REDUCED INEQUALITIES

Supporting our employees who are carers

Across our divisions, we offer several options to support our employees with family or carer responsibilities. In North America, our employees can access up to 20 days of 'back-up care' each year, being discounted childcare or elder care that can be in-home, or centre-based. This provides much needed support when an employee's regular care options fall through, for any reason. We also offer Mother's Milk Shipping to support mothers returning to work whose jobs require them to travel.

Across a number of our countries, including Australia, Hong Kong, New Zealand, Singapore and the United Kingdom, we offer our employees paid maternity leave in excess of the legally required minimum. In the United States, Australia and Hong Kong, we also offer our employees paid paternity leave in excess of the legally required minimum.

Financial literacy and wellbeing

We offer a wide range of initiatives to support our employees' financial wellbeing and literacy. This includes one-on-one financial reviews, webinars on financial wellness, classes on financial budgeting, training on retirement planning (including superannuation and pension fund management) and estate planning. This is particularly relevant as our workforce demographics continue to change.

Upholding human rights

Across our international divisions, we respect human rights and commit to avoiding human rights harm. We are dedicated, and promote adherence, to internationally-recognised human rights principles to secure the dignity and equality of our employees, customers, communities and suppliers.

Refer to Governance for further information on how we manage human rights across our business.

Addressing discrimination and equal employment opportunity

As part of QBE's commitment to treating our people, and our customers, with respect and dignity, we do not tolerate any form of discrimination as outlined in our Group Code of Ethics and Conduct. Equal employment opportunity is key to our approach to workforce diversity and inclusion, and we strive to be an equal opportunity employer wherever we are in the world.

QBE provides training and education on discrimination and appropriate workplace behaviour to all employees, and the Group Whistleblowing Policy details how to report incidents of discrimination.

Promoting health, safety and wellbeing

Across our business, we actively promote the health, safety and wellbeing of all employees, contractors and visitors. Along with the policies and initiatives discussed in the Governance section, the following core policies support our efforts in this area:

- Work Health and Safety (WHS) Policy;
- Flex@QBE Principles; and
- Group Code of Ethics and Conduct.

Our Group and divisional CEOs take executive-level responsibility for health, safety and wellbeing. All people leaders at QBE are responsible for improving employee awareness of, and access to, relevant policies, processes and support.

Our global WHS Leadership Team exchanges initiatives and ideas from their respective divisions to enhance the offerings available to staff and contractors, and to mitigate risks that may arise. The team regularly reports their work, and findings, to the Group Board.

To help our people and their families live healthy, well-balanced lives we provide a range of wellbeing support services, including stress management information and training, dedicated training for mental health first aiders, access to confidential counselling programs, lifestyle benefits, health and nutrition programs, flexible working arrangements, childcare facilities and leave and carer provisions. These all help create a more productive and healthier workplace where employees can prioritise health (mental and physical) and minimise stress.

Fair remuneration and gender pay equity

At QBE we seek to reward our employees fairly and support our objective of gender pay equity through regular analysis, monitoring and transparent communication. Since 2012, in Australia, we have internally measured the gender pay gap as required under the *Workplace Gender Equality Act 2012* (Cth) and reported findings to the Australian Workplace Gender Equality Agency. We continue to report the gender pay gap in the United Kingdom in accordance with local legislation.

In both instances, we measure the gap based on the requirement to report average salaries of males and females in the specified country, which has highlighted a gender pay gap driven predominantly by having more males than females in senior roles. We continue to remain focused on the diversity of our leadership roles, including progressing our target of 35% women in leadership by 2020. Our analysis has indicated that in our three largest commercial markets (the United Kingdom, the United States and Australia), we pay our employees in excess of publicly acknowledged levels of what is understood in those jurisdictions as the 'living wage' (broadly, the minimum income necessary to meet basic needs).

Since 2018, we have been using multivariate regression analysis to assess the gender pay equity gap based on the key drivers of pay in our organisation including the role, location and performance of the employee. This methodology is applied across all our major markets of Australia, the United States, the Philippines and the United Kingdom, covering approximately 90% of QBE's workforce. As an average across these markets, our gender pay equity gap is sufficiently small enough to be confident that we pay men and women equally in like-for-like roles. However, we recognise that at an individual level, some pay gaps still exist and we are working to address any identified gaps through our ongoing salary review processes and other initiatives. During 2020, we expect to make further progress in this area with targeted adjustments to an employee's pay as identified and required, alongside ongoing reviews of our people processes to ensure gender-balanced outcomes.

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

Our workforce

Overall workforce[1]

11,704

Total number of employees

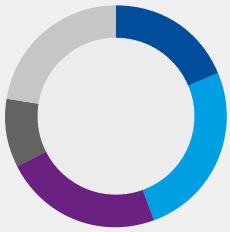
52.2% Female

47.8% Male

11,314

Total number of full-time equivalent (FTE) employees

Geographic footprint by division (headcount)



Workforce (%) by employment level and gender[4]

	2019		2018[5]		2017		2016	
	FEMALE	MALE	FEMALE	MALE	FEMALE	MALE	FEMALE	MALE
Group Executive Committee (GEC)	**27**	**73**	27	73	11	89	10	90
Level 1	**20**	**80**	23	77	22	78	23	77
Level 2	**29**	**71**	26	74	22	78	23	77
Level 3	**35**	**65**	34	66	32	68	30	70
Level 4	**48**	**52**	48	52	47	53	47	53
Level 5	**56**	**44**	56	44	55	45	56	44
Level 6	**64**	**36**	64	36	64	36	64	36
Women Workforce Total	**52**	**48**	53	47	53	47	53	47
Total % of women in leadership (GEC-Level 3)[6]	**34**	**66**	32	68	30	70	28	72

Average tenure by gender across levels of workforce[7]

	2019			2018		
AVERAGE TENURE (YEARS)	FEMALE	MALE	TOTAL	FEMALE	MALE	TOTAL
Group Executive Committee	**3.4**	**5.1**	**4.6**	2.4	4.6	4.0
Level 1	**4.3**	**10.2**	**9.0**	3.7	9.7	8.3
Level 2	**5.9**	**8.6**	**7.9**	6.0	8.6	7.9
Level 3	**6.8**	**8.3**	**7.7**	7.0	8.1	7.7
Level 4	**7.0**	**7.0**	**7.0**	7.1	7.1	7.1
Level 5	**6.3**	**4.8**	**5.7**	6.3	4.7	5.6
Level 6	**6.0**	**3.6**	**5.2**	5.9	4.2	5.3
Grand Total	**6.4**	**6.0**	**6.2**	6.4	6.0	6.2

1 This includes permanent and fixed term, excludes casual/temporary employees and contingent workers not directly employed by QBE.
2 Group Head Office employees are based across all divisions of operation.
3 Group Shared Services Centre employees are based in the Philippines.
4 This includes permanent and fixed term, excludes casual/temporary employees and contingent workers not directly employed by QBE.
5 2018 data restated to align with current year methodology.
6 Women in leadership (i.e. women in senior management) is defined as Group Executive Committee, levels 1, 2 and 3.
7 This includes permanent and fixed term, excludes casual/temporary employees and contingent workers not directly employed by QBE. 2018 data has been updated to reflect changes in our HR system.

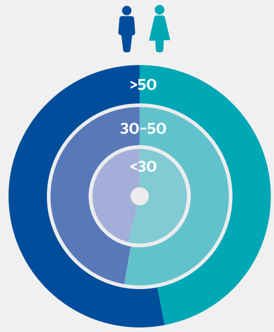
Workforce by age and gender

Overall workforce by age and gender (headcount)[1]

	2019			2018		
AGE	FEMALE	MALE	TOTAL	FEMALE	MALE	TOTAL
<30	**1,225**	**1,026**	**2,251**	1,386	1,096	2,482
30-50	**3,705**	**3,231**	**6,936**	3,945	3,377	7,322
>50	**1,176**	**1,338**	**2,514**	1,232	1,416	2,648

Overall workforce by average age

DIVISION	2019	2018	2017
North America	**47**	47	46
Australia Pacific	**42**	42	43
International	**41**	41	41
Latin America[2]	**-**	40	38
Group Head Office	**42**	42	41
Group Shared Services Centre	**32**	32	31
Overall average age	**41**	40	40



	HEADCOUNT %
<30	
Female	**54**
Male	**46**
30-50	
Female	**53**
Male	**47**
>50	
Female	**47**
Male	**53**

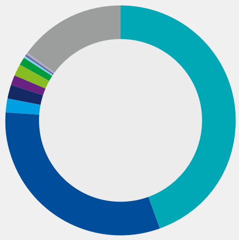
Attrition[3]

	OVERALL TERMINATIONS[4]		VOLUNTARY ATTRITION[5] %		INVOLUNTARY ATTRITION[6] %		OVERALL ATTRITION %	
	2019	2018	2019	2018	2019	2018	2019	2018
By gender								
Female	**1,334**	1,804	**12.4**	14.5	**9.2**	11.8	**21.5**	26.2
Male	**1,145**	1,708	**12.4**	15.0	**8.0**	12.5	**20.4**	27.5
Grand Total	**2,479**	3,512	**12.4**	14.7	**8.6**	12.1	**21.0**	26.8
By age								
<30	**520**	738	**18.9**	21.4	**6.3**	9.4	**25.2**	30.7
30-50	**1,435**	2,213	**12.0**	14.6	**8.2**	13.4	**20.2**	28.0
>50	**524**	561	**8.4**	9.3	**11.4**	10.8	**19.8**	20.0
Grand Total	**2,479**	3,512	**12.4**	14.7	**8.6**	12.1	**21.0**	26.8
By division								
North America	**349**	311	**9.0**	8.8	**6.4**	4.1	**15.4**	12.9
Australia Pacific	**565**	529	**11.3**	12.5	**8.3**	5.7	**19.6**	18.2
International	**425**	526	**11.8**	14.4	**4.3**	4.2	**16.1**	18.7
Group Head Office[7]	**208**	224	**10.6**	14.4	**8.0**	6.8	**18.6**	21.2
Group Shared Services Centre[8]	**607**	669	**18.1**	21.4	**4.1**	1.0	**22.2**	22.4
Subtotal	**2,154**	2,259	**12.5**	14.6	**6.0**	4.0	**18.5**	18.5
Latin America[9]	**325**	1,253	**5.0**	17.0	**196.9**	122.0	**201.9**	139.0
Grand Total	**2,479**	3,512	**12.4**	14.7	**8.6**	12.1	**21.0**	26.8

1 This includes permanent and fixed term, excludes casual/temporary employees and contingent workers not directly employed by QBE. 2018 data has been updated to reflect changes in our HR system. Three employees with gender noted as 'Unspecified' have been excluded from this table.
2 Latin America disposed of in 2018 and therefore discontinued operations.
3 This includes permanent employees, excludes fixed term and casual/temporary employees as well as contingent workers not directly employed by QBE.
4 Overall terminations include both voluntary and involuntary figures.
5 Voluntary terminations typically comprise resignations, contract terminations or voluntary retirement.
6 Involuntary terminations principally include those terminated through dismissal, redundancy or involuntary retirement.
7 Group Head Office employees are based across all regions.
8 Group Shared Services Centre employees are based in the Philippines.
9 Latin America disposed of in 2018 and therefore discontinued operations. High level of attrition in Latin America is due to the consolidation of the Group's divisional structure from six to five divisions.

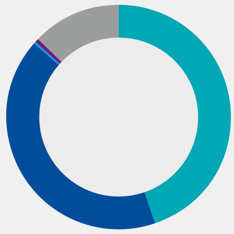
Workforce diversity indicators[1]

Ethnicity[2]



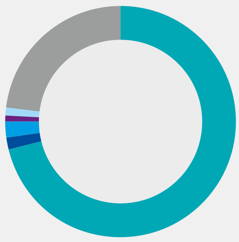
	%
Caucasian/White	44.4
Asian/Asian British/ Asian American	31.7
Indian Sub-continent	2.0
Other	1.8
Mixed/Multiple ethnic groups	1.5
Latino/Hispanic	1.5
African/African American Caribbean/Black/Black British	1.1
Oceanic and Pacific Islander	0.6
Middle Eastern	0.5
Indigenous	0.3
Prefer not to answer	14.6

Gender identity[3]



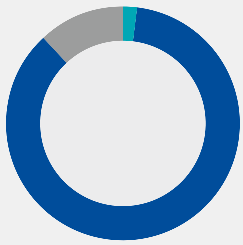
	%
Female	44.8
Male	41.6
Transgender	0.3
Another gender identity	0.6
Prefer not to answer	12.7

Sexual orientation[4]



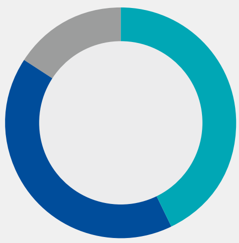
	%
Heterosexual	71.1
Bisexual	1.8
Gay	2.2
Lesbian	0.7
Another sexual orientation not listed	1.3
Prefer not to answer	22.9

Disability[5]



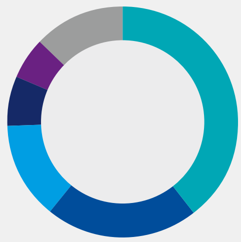
	%
Yes	2.2
No	85.9
Prefer not to answer	11.9

Carer responsibility[6]



	%
Yes	43.0
No	41.3
Prefer not to answer	15.7

Carer responsibility: care provided to[7]



	%
School aged children	55.9
Pre-school aged children	30.1
Family member with health problems	19.5
Family member who is frail	9.6
Family member with a disability	7.6
Other	17.6

Diversity breakdown of workforce

PART-TIMERS	2019	2018	2017[8]
Female	**472**	484	630
Male	**57**	51	167
Total	**529**	535	797
Total Workforce	**11,704**	12,452	14,140
Part time %	**4.5**	4.3	5.6

4.5% **of employees work part-time**
Up from 4.3% in 2018

1 The following information is at a point in time, collected anonymously and voluntarily as part of the annual QBE Voice employee survey completed in November 2019.
2 Based on % of survey respondents. Total survey respondents = 9,587. Papua New Guinea, Solomon Islands and Vanuatu were excluded from this survey question.
3 Based on % of survey respondents. Total survey respondents = 9,338. Papua New Guinea, Solomon Islands, Vanuatu, UAE and Malaysia were excluded from this survey question.
4 Based on % of survey respondents. Total survey respondents = 9,298. Papua New Guinea, Solomon Islands, Vanuatu, UAE and Malaysia were excluded from this survey question.
5 Based on % of survey respondents. Total survey respondents = 9,578.
6 Based on % of survey respondents. Total survey respondents = 9,679.
7 Based on % of survey respondents. Total survey respondents = 4,164. Respondents were able to select multiple options, therefore the % does not add up to 100%.
8 Figures have been restated.

Operational excellence

Our global operations teams provide essential services to our customers and employees including policy processing, claims management, information technology, data and analytics, projects and procurement services.

In 2019, supported by the Board Operations & Technology Committee, our operations teams continued to focus on enhancing the customer experience, increasing the rate of response to change and strengthening operational governance, performance and resilience.

Digitisation, innovation and analytics

Our digitisation, innovation and analytics efforts have remained core to us delivering better customer experiences and becoming a more innovative and competitive business. In 2019, we continued to strengthen our capabilities in this area and some of our efforts include:

- In Australia, we are working on easier, faster and more transparent digital claims management solutions for our brokers, agents and customers. These are currently being used for Accident and Health claims and will be extended to other lines from 2020.
- We continue to integrate emerging technologies to help expedite the claims management process and allow customers to interact and chat with us via a range of mobile devices, providing us with real-time feedback on how we are doing, with new capabilities introduced to our North American market. We also continue to implement digital claims solutions to enhance our customer experience.

  Refer to Customer and community for further information.

- In our North America crop business, NAU Country Insurance Company continues to provide market leading digital capabilities. We entered a new collaboration with The Climate Corporation to help our farming customers and their insurance agents move planting and harvest data electronically into the NAU Country Precision Farming and Acreage Crop Reporting system, for faster completion and delivery of planting and production reports.

  Refer to Sustainable insurance for further information about innovative risk management tools developed by NAU Country Insurance Company.

- In the United Kingdom, QBE's collaboration with Synectics Solutions and the Cabinet Office to fight insurance fraud was recognised with the 'Claims Initiative of the Year – Insurer' at the British Insurance Awards 2019 and the 'Claims Innovation of the Year' at the Insurance Post Claims Awards, United Kingdom. By integrating new external data sources and using advanced analytics techniques such as machine learning and natural language processing, we have achieved an uplift in identifying potentially fraudulent claims.
- Our North American Accident and Health team has developed machine learning models to bring together data from internal sources, and external medical data from Truven Health Analytics, to provide deeper insights into how an individual's medical journey may evolve – supporting our clinical risk managers and underwriters in recommending optimal coverage at the right price.
- In Europe, our analytics team has delivered new machine learning models that enable greater pricing precision for our motor insurance business. In North America, our pricing analytics team has leveraged internal and external data to identify which aircraft have a higher risk for claims during the policy term.

QBE Ventures

Our partnerships with leading insurtech companies continue to drive innovation. Established in 2017, QBE Ventures is our corporate venture fund focused on forming commercial relationships with startups that will enhance our business model, drive efficiencies and develop new paths for growth. These startup companies provide intelligence, insights and potentially industry-changing ideas. We actively seek to invest in companies whose products or ideas can be implemented into our operations to help us solve particular business problems or to grasp an opportunity – accelerating both the startup's growth and our transformation.

This year, we took our partnership with CLARA Analytics to the next level with an investment through QBE Ventures. CLARA Analytics improves claims outcomes in commercial insurance with easy-to-use artificial intelligence (AI)-based and machine learning products which have been used in Australia since 2018. This is our sixth investment through QBE Ventures.

We have extended the use of CLARA Analytic's products to North America where they are helping our team direct injured workers to those providers who produce the best medical outcomes and can help them return to work faster.

Technology and operational resilience

In 2019, our Technology Services team continued to strengthen the foundational aspects of our IT systems. Our focus is to rationalise the number of legacy applications, increase the stability of our platforms, improve the user experience and strengthen our cyber security and disaster recovery capabilities.

This essential work, to modernise our infrastructure and applications, helps us to implement innovative solutions faster and easier, delivering value to our stakeholders, customers and people.

We have also matured our approach to managing technology risk, growing the size and capability of our risk management function globally. We have introduced a revised set of minimum control standards to improve governance and help improve the early identification and mitigation of risk.

We continue to make significant investments to uplift our cyber security capability. We have adopted a new global operating model to set strategic direction and common goals for security with our people, partners and regulators. Our global function helps ensure new initiatives are 'Secure by Design' and progress our technology agenda to benefit the entire business. We commenced executing QBE's comprehensive cyber security strategy, which outlines our plan to ensure that effective controls are in place across people, process and technology, to protect our customer and corporate data from cyber threats.

In 2019, we delivered a range of initiatives such as uplifted cyber threat detection and response, identity and access management and data loss prevention to help further enhance our capabilities. We also focused on enhancing operational insights by providing more granular reporting to the QBE Group Board and Committees on cyber operation to support governance and oversight. Our comprehensive, multi-channel global awareness program delivered phishing simulations, online compliance training, face-to-face presentations, targeted training and cyber safety news and communications to our employees to assist them to stay safe at work and at home.

Our Technology teams are also committed to finding ways to reduce our carbon footprint. Since 2015, the team that manages our Data Centre in Sun Prairie, Wisconsin, have reduced power consumption by over 60% through upgrades to next-generation technologies and by using the outside air for eight months of the year on average to provide cooling. Our contract with the local utility provider results in QBE being reimbursed for power our generators produce which is either pumped back into the grid or used to power our facilities at peak times.

During the year, as part of our approach to strengthening business resilience, we have established new backup sites for our Group Shared Services Centre in the Philippines to support the recovery of business-critical functions and ensure continuity of service in the event of a disaster.

Managing claims

How we manage a claim is the moment that matters most to our customers – when we strive to fulfil the promise of their policy. Throughout 2019, we have continued our company-wide focus on improving our customers' experiences as well as making our claims fulfilment process more customer-centric, sustainable and efficient.

As part of this focus on improving our claims management processes, we scaled up our 2018 pilot with Active Recovery Clinic, completing one of the largest studies worldwide on whiplash recovery in collaboration with the University of Sydney. The injury recovery rate for our claimants using leading biomechanics technology and research is 20% higher than industry best practice and we are helping more people recover completely from their injury. Our application of behavioural science techniques to our engagement with injured claimants and their employers is helping people get back to work faster.

Refer to Customer and community for further information.

Procurement

Our procurement teams aim to deliver business value in a responsible and sustainable manner, with a focus on minimising operational and supply chain risk when interacting with suppliers.

Aligned to our Supplier Sustainability Principles, we are commencing a process to integrate sustainability considerations as part of procurement. We seek to engage suppliers and partners who share our understanding and commitment of developing sustainable supply chains for our regional and global communities, and who will work with us to achieve these objectives, where relevant and applicable for our strategic relationships.

The Supplier Sustainability Principles are referenced as part of our supplier agreement templates (including our Global Services Agreement template). In North America, as part of the 'Request for Proposal' process, we include questions on environmental initiatives and metrics that the supplier tracks.

In Australia Pacific, we worked on utilising our supply chain decisions to support diversity and financial inclusion through our partnerships with:

- Social Traders – Australia's leading organisation connecting social enterprises with social procurement opportunities;
- Supply Nation – Australia's leading database of verified Indigenous businesses; and
- WEConnect International – a global network connecting women-owned businesses to qualified buyers around the world.

During 2019, we were able to work with these partners to enter diverse supplier relationships equating to A$425,000 of spend. We also promoted sustainable travel by integrating sustainability considerations into our accommodation-sourcing activities.

Operational environmental management

We are committed to reducing the environmental impact of our operations by integrating resource efficiency considerations into our business decisions, switching to renewable electricity, and engaging our employees and suppliers to build capability. We continue to maintain carbon neutrality for our global business operations.

On World Environment Day this year we launched our Group Environmental Policy, outlining our commitment to environmental sustainability across all aspects of our business – from our operations, underwriting and investment activities, to how we engage employees, contractors, partners and suppliers and provide our customers with environmental solutions and products.

Climate change is undoubtedly one of the most significant economic, social and environmental challenges affecting our world. To address the climate-related impact of our operations, we have set three new targets (measured from 2018 levels). These are to:

Reduce organisational energy use by

15%

by 2021

Reduce Scope 1 and 2 carbon emissions by

30%

by 2025[1]

Use

100%

renewable electricity for our global operations by 2025

Our 2019 performance against targets is outlined in the table below.

INDICATOR	BASELINE[2]	TARGET	TARGET YEAR	ACTUAL PERFORMANCE	PERFORMANCE AGAINST TARGET	STATUS
Air travel (tCO_2-e)	17,739	-20%	2021	**12,160**	**-31%**	Achieved
Energy use (GJ)	178,976	-15%	2021	**153,296**	**-14%**	On track
Net Scope 1+2 emissions (tCO_2-e)[1]	29,696	-30%	2025	**12,772**	**-57%**	Achieved
Renewable electricity use (MWh)	0	100%	2025	**18,876**	**63%**[3]	On track

1 This is a science-based emissions reduction target calculated in line with the most ambitious decarbonisation scenario, which is the 1.5°C scenario.
2 Air travel baseline is 2017. Baseline for all other indicators is 2018.
3 Actual 2019 percentage of total electricity sourced from renewable electricity. This is not a year-on-year percentage change.

Reducing our climate-related impact

In 2019, we joined some of the world's most influential companies in the RE100 initiative, committing to target 100% renewable electricity across our global operations by the end of 2025. We are the first Australian-headquartered insurance business to do so. We are making good progress towards this target, with 63% of our global electricity use coming from renewable sources. We have achieved our scope 1 and 2 science-based emissions reduction target and aim to maintain this going forward.

Minimising our environmental impact

In striving to achieve our environmental targets, we are focused on greater efficiency in the design and operations of our buildings. This year we:

- Consolidated our Melbourne operations into a single office in the central business district which has a six star 'Green Star – Design & As Built' rating, and moved to more energy efficient LED lighting during recent office refurbishments at some of our offices in Georgia, Iowa and Massachusetts.
- Progressed virtualisation and consolidation of our data centres to improve energy efficiency and reduce carbon emissions.

Refer to the Technology and operational resilience subheading for further information.

- Took significant steps to remove single-use plastic and paper items from our Australian, United States and United Kingdom operations. This included removing all plastic bottles from vending machines and broker lounges in the United Kingdom, providing reusable cups in our largest office premises in the United States and United Kingdom and providing reusable KeepCups to all employees in our Melbourne office.

Upskilling our people through collaboration

We continue to collaborate with our external partners, such as the Qantas Future Planet program and the Earthwatch Institute, to build internal awareness and capability on environmental issues.

Refer to Customer and community for further information.

This has helped establish a strong network of environmental champions across our global operations. In 2019, employees across our offices, including Adelaide, Brisbane, Dusseldorf, Italy, Madrid, New York, Paris, Parramatta, Stockholm, and a few offices in the United Kingdom, have formed sustainability working groups with an initial focus on pressing environmental issues.

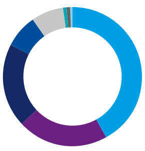
Greening our environment

This year, in Canada, we introduced QBtree – a new initiative that supports environmental groups to plant trees in urban and rural areas. QBE provides financial support for these activities by offsetting a proportion of our annual merchandising budget, historically spent on less environmentally sustainable items. Instead of purchasing those items, we now allocate that money towards planting trees in the communities in which we operate. We trialed this initiative at a prominent broker conference and it received positive feedback. We will be rolling it out across our European office footprint in 2020.

Greenhouse gas (GHG) emissions by activity

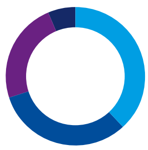
tCO_2-e GHG EMISSIONS[1]		% CHANGE FROM PRIOR YEAR	2019	2018	2017	2016	2015
Direct emissions (Scope 1)[2]							
Business travel - fleet vehicles	O	-20%	**5,615**	6,988	6,631	7,529	10,500
Stationary energy - gas[4]	O	-26%	**985**	1,326[4]	1,273	1,157	1,900
Total Scope 1	O	-21%	**6,600**	8,314	7,904	8,686	12,400
Indirect emissions (Scope 2)[2]							
Stationary energy - renewable and non-renewable electricity	O	-22%	**16,729**	21,382	23,899	25,155	33,344
Stationary energy - renewable electricity purchased			**(10,557)**	–	–	–	–
Total Net Scope 2	O	-71%	**6,172**	21,382	23,899	25,155	33,344
Other indirect emissions (Scope 3)[2,3]							
Stationary energy - gas indirect[4]	O	7%	**1,274**	1,186[4]	1,570[4]	2,081[4]	–
Business travel - air[5]	O	-19%	**12,160**	14,973	17,739	19,524	10,698
Business travel - car hire and taxi	O	-1%	**2,146**	2,161	2,158	1,669	
Business travel - rail and bus travel	O	-4%	**133**	139	133	168	
Office paper purchased	O	-29%	**5**	7[8]	13[8]	11[8]	
Waste - recycled and landfill	O	-2%	**249**	253[4]	277[4]	406[4]	
Water	O	2%	**192**	188	229	193	
Total Scope 3	O	-15%	**16,159**	18,907	22,119	24,052	10,698
Total GHG emissions (Scope 1, 2 and 3)	O	-40%	**28,931**	48,603	53,922	57,893	56,442
Carbon offsets	O		**(28,931)**	(48,603)[6]	–	–	–
Net GHG emissions (carbon neutral from 2018)			**–**	–	53,922	57,893	56,442

Emissions profile by source (tCO_2-e)



	%
Air travel	42.0
Electricity	21.3
Fleet vehicles	19.4
Natural gas	7.8
Car hire and taxi	7.4
General waste	0.9
Water	0.7
Bus and rail travel	0.5
Office paper	0.0

Emissions profile by region (tCO_2-e)

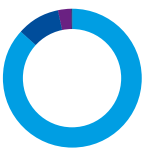


	%
Australia Pacific	38.0
North America	32.2
International	23.5
Corporate and Other	6.3

Key performance indicators - GHG emissions intensity

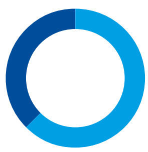
tCO_2-e GHG EMISSIONS		% CHANGE FROM PRIOR YEAR	2019	2018[4]	2017[4]	2016[4]	2015
Net Scope 1+2 GHG emissions per GEP US$M	O	-54%	**0.96**	2.11	2.20	2.30	3.07
Net Scope 1+2 GHG emissions per FTE[7]	O	-54%	**1.13**	2.45	2.25	2.38	3.15
GHG emissions per GEP US$M	O	-37%	**2.18**	3.46	3.73	3.93	3.78
GHG emissions per FTE[7]	O	-36%	**2.56**	4.00	3.81	4.07	3.88

Carbon offset by project type (%)



	%
Wind	86.7
Solar	10.2
Carbon farming	3.0
Land fire abatement	0.1

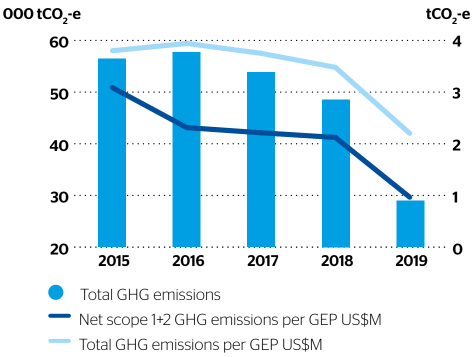
Electricity use by source (%)



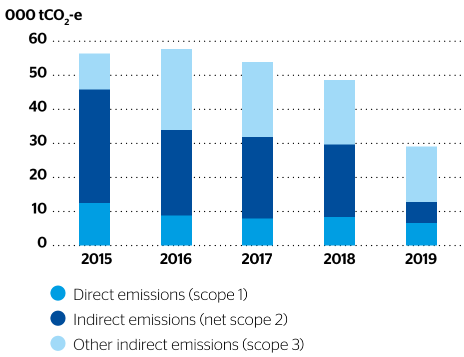
	%
Renewable	62.5
Non-renewable	37.5

1 GHG emissions data is calculated based on QBE business activities and includes emissions from CO_2, N_2O and CH_4. Emissions from HFCs, PFCs, SF_6 and biogenic activities are not applicable to QBE's operations and therefore have not been reported.
2 Estimates have been made for certain office locations and activity data streams where actual activity was not available, and were based on comparable offices/activities in the same region.
3 Scope 3 emissions from 2016 onwards include waste disposal, water consumption and indirect stationary energy consumption. Scope 3 emissions from investments and employees commuting are not included in QBE's GHG inventory due to unavailability of data. Other Scope 3 activities related to capital goods, transportation and distribution, real estate and franchisees are not applicable to QBE's operations.
4 In 2019, as part of our ongoing focus on improved data quality, we have been able to capture more complete natural gas emissions data for both direct and indirect emissions and waste emissions. For consistency, we have restated natural gas and waste emissions for 2016-2018.
5 Scope 3 emissions from business air travel from 2016 onwards include DEFRA's required distance uplift and exclude radiative forcing. For 2015 these emissions exclude distance uplift and radiative forcing.
6 The carbon offsets amount purchased in 2018 was sufficient to cover the 2018 increase in emissions due to the restatement of natural gas consumption and waste mentioned in point 4 above and we remained carbon neutral.
7 The emissions intensity indicators for 2019 and 2018 are per FTE. The 2018 indicators have been restated from per number of employees to per FTE. Indicators for 2015-2017 are per number of employees.
8 Restated to reflect emissions related to office paper purchased only. In 2018, the reported emissions included emissions related to paper and board recycled, these are now reported as part of Waste - recycled and landfill.

Emissions intensity



Direct and indirect emissions



Other environmental indicators

	UNITS	% CHANGE FROM PRIOR YEAR	2019	2018	2017	2016	2015
Stationary energy use[1]							
Non-renewable electricity	MWh	-69%	**11,304**	35,916	40,691	46,500	54,089
Renewable electricity[2]	MWh		**18,876**	–	–	–	–
Electricity use per FTE[6]	MWh/FTE	-10%	**2.67**	2.96	2.88	3.27	3.72
Gas – direct	GJ	-26%	**19,513**	26,231	25,362	20,772	16,515
Gas – indirect	GJ	7%	**25,133**	23,446	31,218	37,460	
Gas use per FTE[6]	GJ/FTE	-3%	**3.95**	4.09	4.00	4.09	
Business travel	'000 km	-16%	**93,074**	110,499	132,851	124,195	97,569
Air travel	%	-19%	**77,958**	95,775	118,192	114,928	
Road travel[4]	%	2%	**11,876**	11,623	11,831	5,882	
Rail and bus travel	%	4%	**3,240**	3,101	2,828	3,385	
Business travel per FTE[6]	'000 km/FTE	-10%	**8.23**	9.10	9.40	8.73	6.71
Office paper purchased[1]	tonnes	-27%	**248**	339	618	505	
Office paper purchased per FTE[6]	kg/FTE	-21%	**22**	28	44	35	
Water use[1]	kL	2%	**182,502**	178,731	218,156	183,906	
Water use per FTE[6]	kL/FTE	10%	**16.13**	14.72	15.43	12.93	
Waste and recycling[1]	tonnes	-11%	**2,235**[3]	2,522[3]	3,266[3]	2,734[3]	
Waste to landfill	tonnes	-2%	**1,512**	1,536	1,770	1,764	
Waste per FTE[6]	kg/FTE	-5%	**198**	208	231	192	
Paper recycled	tonnes	-30%	**589**	844	1,340	833	
Other recycled waste[5]	tonnes	-6%	**134**	142	156	137	
Recycling rate	%	-17%	**32.34**	39.08	45.80	35.48	

How we account for the numbers

Our reporting on environmental data follows the guidelines outlined in:

- the Global Reporting Initiative (GRI) Standards' requirements for Emissions Disclosures 305-1, 305-2, 305-3 and 305-4;
- the Greenhouse Gas Protocol's *Corporate Accounting and Reporting and Corporate Value Chain (Scope 3) Accounting and Reporting Standards*; and
- QBE's Greenhouse Gas Reporting Framework which governs our data collection process.

The Group's GHG emissions reporting is driven by our global insurance operations across the world. We calculate emissions using the energy content and emission factors considered most relevant to each region, based on information sourced from:

- Australian Government's Department of Environment and Energy: *National Greenhouse Accounts Factors* 2019;
- United Kingdom Government's Department for Business, Energy & Industrial Strategy: *GHG Conversion Factors for Company Reporting* 2019;
- United State's Environmental Protection Agency (EPA): *Emission Factors for Greenhouse Gas Inventories: Direct Emissions from Stationary Combustion* 2018;
- United State's EPA: *Emissions & Generation Resource Integrated Database (eGRID)* 2016 (released in 2018); and
- International Energy Agency: *CO_2 Emissions from Fuel Combustion*, 2019 edition.

1 Estimates have been made for certain office locations and activity data streams where actual activity was not available, and were based on comparable offices/activities in the same region.
2 2019 is the first year QBE has started sourcing on renewable electricity. No comparable data is available.
3 In 2019, we revised the methodology used in estimating waste data as part of our ongoing focus on improved data quality. For consistency, we have restated waste volume for 2016–2018.
4 Road travel includes business travel by car hire, taxi and private car.
5 Includes recycled IT asset waste and mixed plastics and glass.
6 Indicators for 2019 and 2018 are per FTE. The 2018 indicators have been restated from per number of employees to per FTE. Indicators for 2015–2017 are per number of employees.

Governance

Strong corporate governance underpins our reputation as an international insurer and reinsurer, our actions, and our relationships with our shareholders, customers and other stakeholders. QBE is subject to extensive legal and regulatory requirements, industry codes of practice and business and ethical standards across our divisions. Compliance with these obligations and industry standards is critical to enable us to deliver our strategy and create long-term value and better outcomes for our stakeholders.

Refer to our 2019 Corporate governance statement.

This statement includes information about the QBE Board and management, our Group Governance Framework, guidelines, reporting and risk management. In 2019, we established an Executive Non-Financial Risk Committee (ENFRC) to support our Group Executive Committee (GEC) in managing non-financial risks.

Further information about this can be found in Our approach to sustainability.

QBE's Group Compliance Risk Policy

QBE's Group Compliance Risk Policy (Policy) outlines our approach to managing compliance risk across our international operations. It is overseen by the Board Risk & Capital Committee (BRCC) and outlines our governance arrangements, key roles and responsibilities relating to compliance management, and describes the core components of our approach.

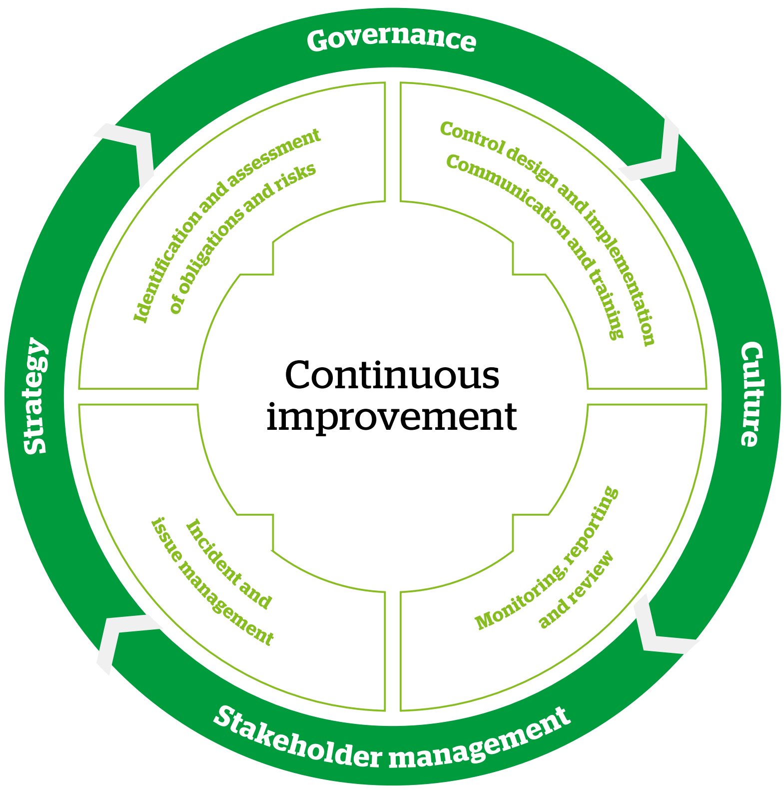
In 2019, we updated our Policy to clarify that the responsibility for identifying, managing and monitoring compliance is spread across multiple parts of the business. We also outlined specific responsibilities to manage compliance risk across the Group's three lines of defence.

The Policy has been developed to take into account the International Standard ISO 19600:2014 *Compliance management systems – Guidelines*. This is the recognised benchmark for the development of organisational compliance management systems, which is based on the principles of good governance, proportionality, transparency and sustainability.

The Policy complements our Group Risk Management Strategy and is supported by the Group Compliance Monitoring Program, our annual Group Compliance Monitoring Plan, and a range of group and local compliance policies, guidelines, programs and processes.

Compliance across QBE is overseen by our Group Compliance team, with responsibility for providing independent assurance and oversight to the BRCC that compliance is being appropriately managed across our divisions. In 2019, we appointed our first Group Chief Compliance Officer, who is tasked with establishing and overseeing group standards on compliance programs.

This is to help ensure that compliance programs across our operations are effective in identifying, preventing, detecting and correcting noncompliance with applicable laws, regulations and internal requirements.



Our Group Code of Ethics and Conduct

QBE is committed to maintaining high ethical standards in how we conduct our business. Our Group Code of Ethics and Conduct (the Code) sets the standards we expect of our directors, employees, contractors, agents and anyone who represents us in any capacity (collectively referred to in the Code and in this section as 'employees') to make good judgement calls and demonstrate high standards of ethical behaviour in all our actions and relationships, including with customers, suppliers, communities, investors and governments.

In 2019, we updated the Code to respond to regulatory changes and community expectations of our business and ethical standards. The Code now includes a stronger focus on our 'speak up' culture, data and privacy, and customer conduct. The Code incorporates QBE's DNA and is a demonstration of who we are and what we value – collectively and individually. Acting in accordance with our Code is a condition of employment, as is annual training in the Code.

Employees are encouraged to report genuine concerns about any conduct or activity they believe is dishonest, corrupt, inappropriate or illegal. We offer several channels for reporting, including to direct line managers, Compliance and Human Resources (HR) teams or via our QBE Ethics Hotline – an independently hosted hotline through which anonymous reports can be made.

Complying with financial crime laws

QBE is committed to ensuring compliance with financial crime-related laws in the countries in which we operate. Accordingly, employees must not commit, or become involved in, any form of financial crime, including but not limited to:

- tax evasion;
- bribery and corruption, including making any facilitation payments or the offering or receiving of gifts and benefits in order to retain/obtain business;
- internal and external fraud and cybercrime;
- money laundering and terrorist financing; and
- sanctions including trade, economic, targeted (focused on individuals, organisations or industries) and comprehensive sanctions (restrictions against a whole country's regime).

The proper giving and receipt of gifts and entertainment is an essential element of our approach to managing bribery and corruption risk. In 2019, we updated our Gifts and Entertainment Policy to have group wide application. The intention of the Policy is to ensure that any gifts and/or entertainment given or received across the Group are reasonable, modest and proportionate, given or received in good faith, and appropriately approved and registered, depending on value.

We have a suite of Group-wide policies and training on sanctions and anti-bribery and anti-corruption available on our website. In 2019, we also updated our Sanctions and Anti-bribery and Anti-Corruption policies to clarify requirements for due diligence on high risk third parties.

In line with our Code, in 2019, we introduced a new Group Conflicts of Interest Policy to promote consistent, fair and objective decision making. All employees are required to report conflicts across areas such as secondary employment (including business interests and voluntary work), personal relationships with employees, suppliers or customers, employment of relatives, personal investments, and gifts and entertainment.

Fair competition

We believe in free and fair competition and our competitive activities are undertaken ethically and lawfully. When we interact with competitors or potential competitors, we do not share confidential information that may impact how we all compete. Business decisions are made independently of our competitors. Agreements among competitors to fix prices, reduce prices or exclude other competitors from the market are serious antitrust or anti-competitive offences and is behaviour we do not tolerate.

Our 'speak-up' culture: the QBE Ethics Hotline

We are committed to providing an open, safe, supportive and transparent work environment. All employees are encouraged to speak up and feel empowered to do and say the right thing, including about any conduct or activity they believe is dishonest, corrupt, inappropriate or illegal. Employees can report genuine concerns internally to their manager, a senior manager or their HR or Compliance teams. Depending on the issue, employees can choose to report to those working in other teams including, but not limited to, Legal, Fraud or Financial Crime, Risk or Procurement. Alternatively, concerns can be reported confidentially and anonymously through our QBE Ethics Hotline. This message is supported by our Code and Group Whistleblowing Policy and Guidelines.

Where a genuine concern is raised, we will assess whether the issue should be investigated in accordance with the investigation requirements of our Group Whistleblowing Policy. We acknowledge, investigate appropriately and fairly, and document all reported concerns. Reports made by employees will be kept confidential to the extent possible. Where reports are substantiated, we take appropriate remedial action, advise the reporter promptly and document the outcomes. We do not tolerate any form of retaliation against anyone who raises a concern or participates in an investigation.

In 2019, we updated our Group Whistleblowing Policy and training to reflect changes to Australian whistleblowing laws which have broader impact across our Group as protected disclosures can be made to any 'eligible recipient' based in any location.

Respecting human rights

Wherever we operate, we respect human rights and commit to avoid human rights harm. We are committed to adhering to internationally recognised human rights norms and principles to ensure dignity and equality for all our employees, customers, communities and suppliers.

We are guided by internationally recognised human rights standards and guiding principles, such as the:

- International Bill of Human Rights, consisting of the Universal Declaration of Human Rights, the International Covenant on Economic, Social and Cultural Rights and the International Covenant on Civil and Political Rights;
- International Labour Organisation's eight fundamental Conventions; and
- United Nations Guiding Principles on Business and Human Rights.

We reject any form of slavery, including forced or child labour and take measures to prevent our involvement in human rights harm through our supply chain relationships. This commitment is detailed in our Group Modern Slavery and Human Trafficking Statement and in our Code. We are developing our approach to compliance with modern slavery laws, which will include a risk assessment exercise to identify modern slavery risks and embed ongoing due diligence for supplier selection and screening.

In 2019, we worked with leading human rights specialists to develop a risk assessment tool for assessing modern slavery and human trafficking risk. We commenced the process of risk assessing certain suppliers who have a direct relationship with QBE, to identify those who may pose a greater risk of involvement in these practices.

We are also focusing our efforts on developing and further enhancing our existing due diligence processes for appointing new suppliers, with a view to implementing enhanced procedures to encompass modern slavery risk.

Protecting the privacy of our stakeholders

We respect our customers' and employees' privacy and are committed to protecting their personal information from misuse or unauthorised disclosure and to complying with privacy laws across all our divisions. We only collect and share personal information where it is needed for legitimate business or employment/engagement purposes, or where there is a legal need to do so. We ensure all our employees understand the importance of keeping personal information private. When we work with third parties, we make it clear to them the importance we place on privacy, and the standards we expect.

Privacy at QBE is governed centrally through our Group Compliance team and our Chief Privacy Officer. The Chief Privacy Officer chairs QBE's Group Privacy Council (GPC) which provides advice, evaluation and approval. Its role is to ensure there is adequate consideration and review of the privacy risks and implications related to international activities that cross divisions.

The GPC is also responsible for QBE's Group-wide privacy governance and work program and for ensuring that the program meets the requirements of the Group Compliance Risk Policy.

QBE operates in compliance with applicable privacy laws in the countries in which it operates, including the General Data Protection Regulation (GDPR) and the Australian Privacy Act.

We have privacy policies that provide data protection for both our customers and employees. In 2019, we developed a Group Third Party Risk Framework which sets baseline data protection requirements for third parties.

In 2019, we developed a Group Privacy Framework which outlines QBE's approach to privacy governance and privacy program expectations across the Group. We require personal data issues and incidents to be tracked and reported to the Chief Privacy Officer along with a root cause analysis, which we report to the BRCC. Our Code sets out disciplinary actions for deliberate, wilful or negligent release of employee or customer personal data, which may include termination of employment. Our Group Privacy Program is subject to review by our Group Internal Audit team, with the most recent review completed in 2019.

We also refined our Global Privacy Impact Assessment process and updated our Global Priority Personal Data Breach Policy to further clarify how we will respond to personal data breaches and clearly set out employee and stakeholder responsibilities with regards to personal data protection. In 2019, we also assessed our privacy resourcing capability and recruited an additional resource to support our Group Privacy Program.

Mandatory compliance training

QBE provides mandatory compliance training to ensure our employees understand all relevant laws, regulations and internal policies and how to adhere to them, and apply them, in their daily work. Compliance topics, such as our Code, the QBE Ethics Hotline, Sanctions, Anti-Bribery and Anti-Corruption, are supported by local mandatory compliance training.

Tax strategy and transparency

QBE supports the Australian voluntary Tax Transparency Code, a set of principles and minimum standards on public disclosure of tax information. We publish an annual Tax Transparency Report outlining our tax strategy and governance. We seek to comply with all applicable tax laws, regulations and disclosure requirements, and to pay the amount that is legally required to be paid, in all of the jurisdictions in which we operate. QBE supports the principle behind multilateral moves towards greater transparency within the corporate sector that increase community understanding of the corporate sector's compliance with tax laws and build public trust.

The Group Board has oversight of tax governance across our divisions through the Group's Tax Risk Framework, with local boards having oversight of divisional tax governance. Operationally, the Group Chief Financial Officer (CFO) is responsible for the Group's tax risk management and for ensuring the implementation of the Group's Tax Risk Framework. The Group CFO is assisted by the Group Head of Tax and divisional CFOs to ensure that policies and procedures that support the framework are in place, and are maintained and applied consistently around the world. They also ensure that the divisional tax teams have the skills and experience to implement the approach appropriately.

Sustainability scorecard

We have outlined several commitments, initiatives and targets that enable QBE to stay focused on our sustainability priorities, address our material topics, and drive improved environmental, social and business outcomes. Our commitments and targets are aligned to our priority SDGs that we believe we can best support and advance. QBE's Sustainability Committee will oversee progress on targets and regularly report to the Board Risk & Capital Committee and Group Executive Committee. We will disclose progress on our commitments annually in our Sustainability Report.

SUSTAINABILITY FRAMEWORK	COMMITMENT	ASSOCIATED INITIATIVE / TARGET	PROGRESS	SDG ALIGNMENT
Sustainable insurance	Address the risks and opportunities related to climate change	Implement our three year Climate Change Action Plan (2018-2020)		13
		Oversee implementation, monitoring and compliance of our underwriting and investment portfolio in line with our Group Energy Policy		7, 13
	Continue to embed consideration of ESG risks into our Group-wide risk management framework	Review Group Underwriting Standards in 2020 with reference to the proposed ESG in underwriting guide issued by Principal for Sustainabile Insurance (PSI)		All SDGs
	Collaborate with industry, government, community partners and other stakeholders to support the achievement of our priority United Nations Sustainable Development Goals	Contribute to the development of a sustainable finance roadmap for Australia by 2020 through our membership of the Australian Sustainable Finance Initiative		All SDGs
		Maintain ongoing participation in a range of external initiatives and partnerships to ensure a collaborative approach to addressing climate change		1, 11, 13, 17
Responsible investments	Support impact investing as a means to raise capital to address global environmental and social issues while creating appropriate financial returns	Achieve our ambition to grow our total impact investments to US$2 billion by 2025[1]		All SDGs
		Invest in suitable social impact bond (SIB) opportunities across our global investment portfolio up to US$100 million[2]		1, 5, 11, 13
Customer and community	Develop a vulnerable customer strategy for the Australia Pacific Business	Building on our membership of the Financial Inclusion Action Plan program, roll out a foundational plan for Australia in 2020		1, 10, 17
		Implement and roll out a vulnerable customer policy and staff training for Australia Pacific in 2020, and deliver process improvements for Australian customers experiencing hardship		1, 10
	Maintain a group-wide community engagement strategy in line with our priority SDGs	Maintain annual QBE Foundation budget of 0.5% of previous year's cash profit after tax		1, 5, 8, 11, 13
		Refresh our global community engagement strategy by 2020		1, 5, 8, 10, 11, 13, 17
	Support communities affected by natural disasters through the QBE Foundation	Work with partners Red Cross and Save the Children to develop and implement a global approach to disaster relief and resilience		1, 11, 13
	Treat our customers fairly at every stage of the policy cycle, from product development/design through to post sales and claims, including complaints handling	Implement and roll out new Group Conduct Risk Policy across the divisions during 2020		16

SUSTAINABILITY FRAMEWORK	COMMITMENT	ASSOCIATED INITIATIVE / TARGET	PROGRESS	SDG ALIGNMENT
People and culture	Continue to focus on diversity and inclusion in the workplace	35% of women in leadership by 2020	On Track	5, 10
		Maintain fair remuneration on a like-for-like role basis	On Track	
Operational excellence	Minimise the impact of our operations on the environment	Use 100% renewable electricity for our operations by 2025	On Track	7, 13
		Achieve our science-based target of reducing scope 1 and 2 carbon emissions by 30% by 2025 (from 2018 levels)	On Track	
		20% reduction in air travel by 2021 (from 2017 levels)	On Track	
		15% reduction in energy use by 2021 (from 2018 levels)	On Track	
		Maintain carbon neutrality for our global business operations	On Track	
Governance	Cultivate and continue to drive compliance awareness across the business	Roll out refreshed Code of Ethics and Conduct training on an annual basis	On Track	8, 16
		Aim to achieve 97%[3] completion of the Code of Ethics and Conduct training	On Track	
		Aim to achieve 97%[3] completion of Whistleblowing Policy (or local equivalent) training	On Track	
	Take measures to prevent involvement in human rights harm, including modern slavery	Publish an annual Modern Slavery and Human Trafficking Statement describing our actions to assess and address modern slavery risks in our business and across our supply chain during the financial year	On Track	8
		Incorporate a focus on human rights in our 2020 Code of Ethics and Conduct training for all employees to raise general awareness	On Track	
	Continue to be transparent about our tax contributions across the Group	Publish an annual Group Tax Transparency Report	On Track	16

1 This has an extension of our previous ambition set in 2019 of $1 billion by 2021 which is on track for achievement.

2 We have committed a minimum of $100 million, £100 million and A$100 million of premium income to the program from the United States, Europe and Australia Pacific respectively. These contributions will be made in addition to those from our select customers who elect to allocate 25% of their premiums to the initiative.

3 Completion of compliance training is mandatory for all employees. QBE acknowledges that there may be a valid reason why some employees may not have completed this training. Our target completion rate accounts for these reasons. For example, ad hoc variances to HR/learning system outlining worker absences during training rollout.

Key: Behind | On Track | New Target

Our memberships and industry collaboration

As part of our focus on stakeholder engagement, we are members of, or signatories to, several global and local sustainability-related initiatives. These provide us with a platform to collaborate with stakeholders on key sustainability issues through open dialogue and knowledge sharing. These initiatives assist us to develop solutions to address local and global challenges relevant to our industry and beyond.

We also belong to industry bodies and other local membership organisations in countries where we operate, as well as forums and institutes related to risk management, accounting and finance and actuarial services. We encourage employees to be involved in these organisations through training and qualifications, events, participation in working groups and taking leadership positions.

Performance and reporting

By engaging with stakeholders and reporting on our sustainability approach and initiatives, we aim to be transparent and open about our sustainability performance and achievements. Sustainability ratings and industry benchmarks provide an important opportunity for us to improve our sustainability performance over time.

We participate in a range of external reporting and benchmarking initiatives including:

Further information about this can be found on our website.

Overview
Sustainable insurance
Responsible investments
Customer and community
People and culture
Operational excellence
Governance
Performance

Independent limited assurance report

to the management of QBE Insurance Group Limited

Deloitte.

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Independent Assurance Practitioner's Limited Assurance Report on the 2019 Sustainability Report to the Management of QBE Insurance Group Limited

We have undertaken a limited assurance engagement relating to the selected Sustainability Performance Indicators detailed below (the 'Subject Matter') presented in the QBE Sustainability Report for the year ended 31 December 2019 ('2019 Sustainability Report').

Subject Matter and Reporting Criteria

The Subject Matter and Reporting Criteria for our limited assurance engagement for the year ended 31 December 2019 and disclosed in the QBE 2019 Sustainability Report is as follows:

SUSTAINABILITY PERFORMANCE INDICATORS	REPORTING CRITERIA
Current Premiums4Good investments; Security and investment total (count of securities and US$), page 31	QBE 2019 Sustainability Reporting Framework
QBE Voice survey results – employee engagement and enablement score including response rate (%), page 46	QBE 2019 Sustainability Reporting Framework
Overall workforce; Geographic footprint by division (headcount); Workforce (%) by employment level and gender; Average tenure by gender across levels of workforce; Overall workforce by age and gender (headcount), pages 51 to 52	GRI standard 405-1(b) (2016) QBE Sustainability Reporting Framework
Overall workforce by average age by division, page 52	QBE Sustainability Reporting Framework
Attrition by gender, age group and division – Overall terminations (headcount), voluntary attrition (%), involuntary attrition (%), overall attrition (%), page 52	GRI 401-1(b) (2016) QBE 2019 Sustainability Reporting Framework
Workforce diversity indicators by ethnicity, gender identity, sexual orientation, disability and carer responsibility (including care provided to) (%), page 53	GRI standard 405-1(b) (2016) QBE Sustainability Reporting Framework
Diversity breakdown of workforce – part-timers by gender and % of total workforce, page 53	QBE Sustainability Reporting Framework
2019 performance against targets (excluding baseline); Greenhouse gas (GHG) emissions (tCO_2-e) by activity (excluding carbon offsets); Key performance indicators – GHG emissions intensity (tCO_2-e); Other environmental indicators, pages 58 to 61	GRI standard 305-1, 305-2, 305-3, 305-4 (2016) QBE Sustainability Reporting Framework

Responsibilities of Management

Management of QBE is responsible for:

- Ensuring that the Subject Matter is properly prepared and presented in accordance with the Reporting Criteria
- Confirming the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information
- Designing, establishing and maintaining internal controls to ensure that the Subject Matter is properly prepared and presented in accordance with the Reporting Criteria.

Assurance Practitioner's Independence and Quality Control

We have complied with the independence and other relevant ethical requirements relating to assurance engagements, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements,* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Assurance Practitioner's Responsibility

Our responsibility is to express a limited assurance conclusion on the Subject Matter based on the procedures we have performed and the evidence we have obtained.

We conducted our limited assurance engagement in accordance with Australian Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* ('ASAE 3000') issued by the Australian Auditing and Assurance Standards Board in order to express a conclusion whether, based on the procedures performed and the evidence obtained, anything has come to our attention that causes us to believe that the Subject Matter has not been reported, in all material respects, in accordance with the Reporting Criteria. ASAE 3000 requires that we plan and perform this engagement to obtain limited assurance about whether the Subject Matter is free from material misstatement.

A limited assurance engagement in accordance with ASAE 3000 involves identifying areas where a material misstatement of the Subject Matter information is likely to arise, addressing the areas identified and considering the process used to prepare the Subject Matter. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures we performed were based on our professional judgement and consisted primarily of:

- Interviewing respective Subject Matter data owners and sustainability report responsible management to understand and assess the approach for collating, calculating and reporting the respective Subject Matter across the reporting period ended 31 December 2019;
- Undertaking a sample of detailed walkthroughs of key systems and processes used/relied upon to compile the Subject Matter for the 2019 QBE Sustainability Report;
- Assessing the supporting process documentation developed to support the collation, calculation and reporting process in accordance with the GRI Standards and QBE policies and procedures as applicable;
- Completing analytical reviews over material data streams to identify any material anomalies/gaps for the Subject Matter and investigate further where required; and
- Agreeing overall data sets for the Subject Matter to the final data contained in the 2019 QBE Sustainability Report.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement.

Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance about whether the Subject Matter has been reported, in all material respects, in accordance with the Reporting Criteria.

Inherent Limitations

There are inherent limitations in performing an assurance engagement – for example, assurance engagements are based on selective testing of the information being examined – and it is possible that fraud, error or non-compliance may occur and not be detected. An assurance engagement is not designed to detect all misstatements, as an assurance engagement is not performed continuously throughout the year that is the subject of the engagement and the procedures are performed on a test basis. The conclusion expressed in this report has been formed on the above basis.

Additionally, non-financial data may be subject to more inherent limitations than financial data, given both its nature and the methods used for determining, calculating and sampling or estimating such data.

Limitations of Use

This report has been prepared for use by Management of QBE for the purpose of enhancing the confidence of the users (i.e. Directors and Management of QBE, and the readers of the Sustainability Report), over the accuracy of the data presented in the QBE Sustainability Report for the agreed Subject Matter. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Management of QBE or for any purpose other than that for which it was prepared.

Conclusion

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Subject Matter have not been reported, in all material respects, in accordance with the Reporting Criteria in the GRI Standards and the QBE policies and procedures.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Paul Dobson
Partner

Sydney, 17 February 2020

Designed and produced by ArmstrongQ

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