

Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2020

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at, or during the year ended, 31 December 2020.

Directors

Marty Becker (Chair until 29 February 2020, director until 30 April 2020)
 Stephen Fitzgerald AO
 John M Green (Deputy Chair)
 Tan Le (from 1 September 2020)
 Kathryn Lisson
 Sir Brian Pomeroy
 Patrick Regan (until 8 September 2020)
 Jann Skinner
 Eric Smith (from 1 September 2020)
 Rolf Tolle
 Michael Wilkins AO (Chair from 1 March 2020)

Consolidated results

	STATUTORY RESULT	
	2020 US\$M	2019 US\$M
Gross written premium	14,643	13,442
Gross earned premium revenue	14,008	13,257
Net earned premium	11,708	11,609
Net claims expense	(8,934)	(8,102)
Net commission	(1,891)	(1,819)
Underwriting and other expenses	(1,752)	(1,690)
Underwriting result	(869)	(2)
Net investment income on policyholders' funds	142	649
Insurance (loss) profit	(727)	647
Net investment income on shareholders' funds	84	387
Financing and other costs	(252)	(257)
Loss on sale of entities and businesses	(2)	(8)
Share of net loss of associates	(5)	(3)
Restructuring and related expenses	(104)	(43)
Amortisation and impairment of intangibles	(466)	(51)
(Loss) profit before income tax from continuing operations	(1,472)	672
Income tax expense	(39)	(104)
(Loss) profit after income tax from continuing operations	(1,511)	568
Loss after income tax from discontinued operations	–	(21)
(Loss) profit after income tax	(1,511)	547
Net (profit) loss attributable to non-controlling interests	(6)	3
Net (loss) profit after income tax attributable to ordinary equity holders of the Company	(1,517)	550

Result

The Group reported a net loss after tax attributable to ordinary equity holders of the Company of \$1,517 million for the year ended 31 December 2020, compared with a net profit after tax of \$550 million for the prior year. The result was materially impacted by an estimated \$655 million loss due to underwriting result impacts of COVID-19, adverse prior accident year claims development, elevated catastrophe claims, a significantly reduced investment return as a result of extreme first-half market volatility, and goodwill and deferred tax asset impairments in North America of \$390 million and \$120 million, respectively.

Gross written premium increased by \$1,201 million mainly due to strong premium rate increases in North America and International, partly offset by the impact of divestments. Reinsurance expense increased by \$652 million, mainly reflecting increased reinsurance purchases in North America, particularly in the Crop business.

The Group reported an underwriting loss of \$869 million compared with a loss of \$2 million in the prior year, equating to a combined operating ratio of 107.4% compared with 100.0%. Excluding the impact of changes in risk-free rates, the combined operating ratio was 104.2% compared with 98.0% in the prior year.

The net claims ratio was 76.3% compared with 69.8% in the prior year. Excluding the impact of changes in risk-free rates and the Ogden decision in the prior year, the net claims ratio was 73.1% compared with 67.3%. The claims ratio was impacted by COVID-19 claims (\$260 million), a strengthening of risk margins in response to uncertainty created by COVID-19 (\$300 million), higher than anticipated catastrophe claims and adverse prior accident year claims development. These were partly offset by a further improvement in the attritional and large individual risk claims ratios.

The combined commission and expense ratio increased slightly to 31.1% from 30.2% in the prior year. The net commission expense ratio increased to 16.1% from 15.6% in the prior year, mainly reflecting premium growth and changes in business mix in International. The Group's expense ratio increased to 15.0% from 14.6% in the prior year, with cost savings more than offset by elevated risk and regulatory costs and a NSW CTP profit normalisation charge.

Net investment and other income was \$226 million compared with \$1,036 million in the prior year. The investment portfolio was severely impacted by COVID-19 market volatility, particularly in the first half of the year. While fixed income assets benefited from falling sovereign bond yields, realised losses on emerging market and high yield debt assets negatively impacted fixed income returns. Growth assets were substantially impacted by market volatility. The Group now has minimal exposure to listed equities and sold all high yield and emerging market debt instruments to de-risk the investment portfolio in the first half of the year.

The Group's effective tax rate was negative 3% compared with 15% in the prior period reflecting the mix of corporate tax rates in the jurisdictions in which QBE operates, current period taxable losses in the North American tax group where an already substantial deferred tax asset limited recognition of further tax losses, non-deductible goodwill impairment, and the write-down of the deferred tax asset in the North American tax group following a reassessment of expected future taxable profits.

Dividends

Our dividend policy is designed to reward shareholders relative to cash profit while maintaining sufficient capital for future investment and growth of the business. In light of the substantial reported loss, the directors have elected not to declare a final dividend.

In the prior year, the directors announced a final dividend of 27 Australian cents per share, franked at 30%.

The 2020 full year dividend payout is A\$59 million compared with A\$681 million for 2019. Further details of dividends paid during the year are set out in note 5.4 to the financial statements.

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 27 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 2020 was 92.5% compared with 90.0% 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

Rule 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* (Cth) (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 rule 78 of the Company's constitution.

Directors' Report continued

FOR THE YEAR ENDED 31 DECEMBER 2020

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 38 and 39 of this Annual Report, 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 27 of this Annual Report.

Events after balance date

No matter or circumstance has arisen since 31 December 2020 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 section on pages 36 to 37, the climate disclosures on pages 28 to 35 and the risk management section of the Corporate Governance Statement on pages 42 to 49 of this Annual Report.

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. Details of these, and information on how QBE has responded to uncertainties created by COVID-19, are included in the notes to the financial statements.

Meetings of directors

	FULL MEETINGS OF DIRECTORS ¹		MEETINGS OF INDEPENDENT DIRECTORS		MEETINGS OF COMMITTEES														
					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	5	5	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Stephen Fitzgerald	14	13	10	10	–	–	5	5	4	4	–	–	4	4	6	6	–	–	–
John M Green	14	14	10	10	5	5	5	5	4	4	4	4	4	4	6	6	29	29	–
Tan Le	5	5	3	3	2	2	2	2	–	–	2	2	–	–	–	–	–	–	–
Kathryn Lisson	14	14	10	10	5	5	5	5	–	–	4	4	–	–	–	–	2	2	–
Sir Brian Pomeroy	14	14	10	10	5	5	5	5	4	4	–	–	–	–	6	6	1	–	–
Patrick Regan	9	9	–	–	–	–	–	–	–	–	–	–	–	–	–	–	6	6	–
Jann Skinner	14	14	10	10	5	5	5	5	–	–	–	–	4	4	6	6	27	27	–
Eric Smith	5	4	3	3	–	–	2	2	–	–	2	2	–	–	2	2	–	–	–
Rolf Tolle	14	14	10	10	5	5	5	5	–	–	–	–	4	4	6	6	5	5	–
Michael Wilkins	14	14	10	10	5	5	5	5	2	2	4	4	4	4	3	3	29	29	–

H Number of meetings held while a Board or Committee member.

A Number of meetings attended while a Board or Committee member.

1 All directors attended all scheduled Board meetings. Some of the 2020 Board meetings were unscheduled and called at short notice, resulting in some directors being unable to attend.

2 Ad hoc committees of the Board were convened during the year in relation to the financial results and other reporting matters.

Further meetings occurred during the year, including meetings of the Chair, Group Chief Executive Officer and Interim Group Chief Executive Officer, and meetings of the directors with management. Often 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 2018 to 19 February 2021, the directors also served as directors of the following listed entities:

DIRECTOR	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	–
Scentre Group Limited	Director	8 April 2020	–
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 38 to 39 of this Annual Report.

Qualifications and experience of company secretaries

Carolyn Scobie, BA, LLB, MA, AGIA, GAICD

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

Peter Smiles, LLB, MBA, FGIA, FCIS, GAICD

Peter is Deputy Company Secretary of QBE Insurance Group Limited and a company secretary of various QBE subsidiaries in Australia. He has 30 years of insurance experience, which includes 24 years as a corporate lawyer. In addition to his current company secretarial duties, he acts as a corporate lawyer advising Group head office departments.

Directors' interests and benefits

Ordinary share capital

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

DIRECTOR	NUMBER OF SHARES HELD
Stephen Fitzgerald	65,286
John M Green	41,253
Tan Le	783
Kathryn Lisson	40,442
Sir Brian Pomeroy	33,757
Jann Skinner	63,995
Eric Smith	783
Rolf Tolle	63,336
Michael Wilkins	63,172

Options and conditional rights

No executives hold options at the date of this report. Details of the schemes under which options and conditional rights are granted are provided in the Remuneration Report and in note 8.5 to the financial statements.

The names of all persons who currently hold options granted under the Employee Share and Option 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 Commonwealth, State or Territory legislation, climate disclosures are provided on pages 28 to 35 of this Annual Report and operational greenhouse gas emissions and other environmental data is disclosed in the 2020 Sustainability Report.