Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

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:

- giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the year then ended
- 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 2020
- 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 financial statements, which include significant accounting policies and other explanatory information
- 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 & 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.

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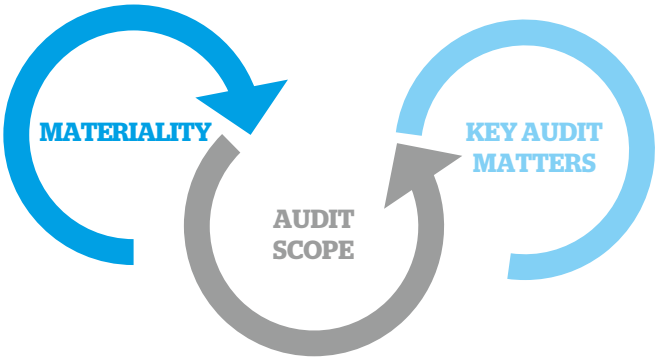
Independent auditor's report

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 US$57.8 million, which represents approximately 0.5% of the Group's net earned premium.
- 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.
- 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 judgement, noting it is within the range of commonly acceptable thresholds.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We conducted an audit of the most financially significant components, being the Australia Pacific, International and North America divisions. In addition, we performed specified risk focused audit procedures in relation to the captive reinsurer, Equator Re, and other head office entities. Further audit procedures were performed over the consolidation process.
- 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 component auditors throughout the year with conference calls and written instructions.
- We also ensured that our team, including the component auditors across the Group, possessed the appropriate skills and competencies needed for the audit of a complex global insurer. This included industry expertise as well as specialists and experts in IT, actuarial, tax and valuations.

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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) US$17,334 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 estimate. 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 judgements and actuarial expertise, are intended to achieve a probability of adequacy within the Group's desired range of 87.5% - 92.5%, being the estimated overall sufficiency of reserves to pay future claims. We considered the valuation of net outstanding claims liability a key audit matter due to: • The significant judgement required by the Group and the inherent uncertainty in estimating the expected future payments for claims incurred, including those not yet reported. • The uncertainty related to catastrophe events, particularly those occurring closer to year end, and in relation to 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. • The uncertainty created by the COVID-19 pandemic on particular classes of business including property business interruption, credit exposed lines and certain long-tail classes that may experience heightened claims activity due to increased risk from economic impacts and other factors. • Models used to calculate the net outstanding claims liability across the Group are complex and judgement is applied in determining the appropriate construct of the models. • The higher degree of auditor subjectivity and effort in performing procedures and evaluating audit evidence related to significant assumptions, particularly patterns of claims incidence, reporting and payment. • The audit effort required the use of experts with specialised skills and knowledge.	Together with PwC actuarial experts, our procedures included: **Gross discounted central estimate** • Evaluating the design of the Group's relevant controls over the claims reserving process and assessing whether a sample of these controls operated effectively throughout the year. • Evaluating whether the Group's actuarial methodologies were consistent with recognised practices and with prior periods. • Evaluating the appropriateness and reliability of data used to derive the central estimate, including testing a sample of case estimates and settlements by agreeing to underlying documentation. • Assessing the reasonableness of significant actuarial assumptions such as patterns of claims incidence, reporting and payment, focusing on those classes of business which present a higher risk and in particular those impacted by the COVID-19 pandemic. We assessed these assumptions by comparing them with our expectations based on the Group's experience, current trends and benchmarks, and our own industry knowledge. • Testing the discount assumptions applied through evaluating the yield curves and claims payment patterns. This included comparing the rates applied to external market data and the payment patterns to historical information. **Reinsurance and recoveries** • Evaluating a sample of reinsurance recoveries held by divisions and the Group against underlying contracts to assess the existence of cover and appropriateness of their recognition, including inspecting relevant legal advice obtained by the Group. • Assessing the recoverability of the reinsurance recoveries by considering the payment history and credit worthiness of reinsurer counterparties for a sample of reinsurance recoveries.

Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Key audit matter	How our audit addressed the key audit matter
	Risk margin and probability of adequacy • Assessing the Group's approach to setting the risk margin in accordance with the requirements of Australian Accounting Standards, with a focus on the assessed level of uncertainty in the net central estimate leading to a change in the margin year on year. • Considering the Group's key judgements 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. • Evaluating 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. We also considered the reasonableness of the Group's disclosures against the requirements of Australian Accounting Standards.

Carrying value of goodwill

(Refer to note 7.2.1) US$2,107 million

An impairment assessment is performed annually by the Group, or more frequently if events or circumstances indicate that the carrying value of goodwill may be impaired.

Potential impairment is identified by comparing the value-in-use of a cash-generating unit (CGU) to its carrying value, including goodwill. The value-in-use for each of the CGUs is estimated by the Group using a discounted cash flow model which includes significant judgements and assumptions relating to cash flow projections, investment returns, terminal growth rates, and discount rates. The impairment test for the North America CGU resulted in an impairment charge of US$390 million for the Group.

We considered the carrying value of goodwill a key audit matter due to:

- The inherent estimation uncertainty and subjectivity in judgements in a number of assumptions, including cash flow projections, investment returns, terminal growth rates and discount rates.
- Models used to calculate value-in-use are complex and judgement is applied in determining the appropriate construct of the models.
- The higher degree of auditor subjectivity and effort in performing procedures and evaluating audit evidence related to significant assumptions, particularly cash flow projections.
- The audit effort required the use of experts with specialised skills and knowledge.

Our procedures included:

- Evaluating the determination and composition of the CGUs to which goodwill is allocated.
- Evaluating the appropriateness of the value-in-use methodology based on the requirements of Australian Accounting Standards.
- Developing an understanding of the process by which the cash flow projections were developed and comparing the cash flows included in the impairment assessment with the three year business plan presented to the Board.
- Evaluating the reasonableness of significant assumptions used to derive the cash flow projections, with a particular focus on the impact of the COVID-19 pandemic, by comparing to external market and industry data where available, and current and past performance of the CGUs.
- Together with PwC valuation experts, we:
  - Assessed the consistency of the terminal growth rates and investment returns with available external information.
  - Reperformed the calculation of the discount rates applied to cash flow projections, comparing key inputs (including risk-free-rate, market premium and unlevered beta) to industry or other benchmarks.
- Testing the mathematical accuracy of the models which were used to determine the value-in-use of the CGUs.

We also considered the reasonableness of the Group's disclosures against the requirements of Australian Accounting Standards.

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Key audit matter	How our audit addressed the key audit matter

Recoverability of deferred tax assets in the North America tax group

(Refer to note 6.2.1) US$295 million

The Group holds deferred tax assets comprised of carry forward tax losses and deductible temporary differences related to the North America tax group.

The Group performs a recoverability assessment at each balance date in order to evaluate the expected utilisation of the deferred tax assets. The assessment is largely dependent upon the future profitability of the North America CGU, as well as the period over which tax losses will be available for recovery, and the execution of any future tax planning strategies. The recoverability assessment resulted in a write down of the deferred tax assets of US$120 million for the Group.

We considered the recoverability of the deferred tax assets in the North America tax group a key audit matter due to:

- The inherent estimation uncertainty and subjectivity in judgements in a number of assumptions, including cash flow projections, investment returns, and terminal growth rates.
- The higher degree of auditor subjectivity and effort in performing procedures and evaluating audit evidence related to significant assumptions, particularly cash flow projections.

Our procedures included:

- Evaluating the reasonableness of the deferred tax assets recoverability assessment based on the requirements of Australian Accounting Standards with consideration of the "convincing other evidence" test under AASB 112 *Income Taxes*.
- Evaluating the reasonableness of significant assumptions used to derive the cash flow projections, with a particular focus on the impact of the COVID-19 pandemic, by comparing with external market and industry data where available, and current and past performance of the North America CGU.
- Comparing cash flow projections and other assumptions used in the deferred tax assets recoverability assessment to those used for the goodwill impairment assessment for the North America CGU.
- Testing the mathematical accuracy of the model which was used to determine the recoverability of the deferred tax assets.

We also considered the reasonableness of the Group's disclosures against the requirements of Australian Accounting Standards.

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 level 3 investments **(Refer to note 3.2.1) US$2,285 million** The Group held US$26,935 million of investments at 31 December 2020, of which US$2,285 million were classified as level 3 in accordance with AASB 13 *Fair Value Measurement*. The Group exercises judgement in valuing level 3 investments as there are significant unobservable inputs as a result of market illiquidity or instrument complexity. The level 3 investments held at fair value largely consist of infrastructure assets and debt, unlisted property trusts and private equity. We considered the valuation of level 3 investments a key audit matter due to: • The extent of judgement involved in determining the fair value of investments as a result of significant unobservable market inputs. • The level of effort required in evaluating audit evidence obtained in relation to the valuation, and use of experts with specialised skills and knowledge.	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. • Evaluating the appropriateness of the valuation methodologies used against the requirements of Australian Accounting Standards. • For infrastructure debt, we compared the Group's calculation of fair value with our own calculation. Together with PwC valuation experts, this included sourcing independent inputs from market data providers and using our own valuation models. • For infrastructure assets and unlisted property trusts where the Group determines the fair value with reference to external information, we: – Compared the price used by the Group to the 31 December 2020 price quoted by the fund manager. – Obtained the most recent audited financial statements of the relevant funds and evaluated the reliability and accuracy of past statements. – Inspected the most recent reports provided by the fund manager setting out the controls in place at the fund manager, and that included an independent audit opinion over the design and operating effectiveness of those controls, where available. • For private equity, together with PwC valuation experts, we assessed the appropriateness of the methodology and key inputs used in the valuation model with reference to external information, where available. We also considered the reasonableness of the Group's disclosures against the requirements of Australian Accounting Standards.

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Key audit matter	How our audit addressed the key audit matter
Operation of IT systems and controls The Group's operations and financial reporting systems are heavily dependent on IT systems, including automated accounting procedures and IT dependent manual controls. The Group's controls over IT systems include: • The framework of governance over IT systems. • Controls over program development and changes. • Controls over access to programs, data and IT operations. • Governance over generic and privileged user accounts. We considered this a key audit matter given the reliance on the IT systems in the financial reporting process and the impact on relevant controls we seek to rely on as part of our audit.	Our procedures included: • Evaluating the design, and testing the operating effectiveness, of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. Where we identified design and operating effectiveness issues relating to IT systems or application controls relevant to our audit, we performed alternative audit procedures. • 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 2020, 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.

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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Report on the Remuneration Report

Our opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 54 to 76 of the Directors' Report for the year ended 31 December 2020.

In our opinion, the Remuneration Report of QBE Insurance Group Limited for the year ended 31 December 2020 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

Voula Papageorgiou
Partner

Sydney
19 February 2021