

Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2021

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at, or during, the year ended 31 December 2021.

Directors

Michael Wilkins AO (Chair)
 Andrew Horton (from 1 September 2021)
 Stephen Fitzgerald AO
 John M Green (Deputy Chair)
 Tan Le
 Kathryn Lisson
 Sir Brian Pomeroy
 Jann Skinner
 Eric Smith
 Rolf Tolle

Consolidated results

	STATUTORY RESULT	
	2021 US\$M	2020 US\$M
Gross written premium	18,457	14,643
Gross earned premium revenue	17,035	14,008
Net earned premium	13,408	11,708
Net claims expense	(8,371)	(8,934)
Net commission	(2,070)	(1,891)
Underwriting and other expenses	(1,829)	(1,752)
Underwriting result	1,138	(869)
Net investment income on policyholders' funds	77	142
Insurance profit (loss)	1,215	(727)
Net investment income on shareholders' funds	45	84
Financing and other costs	(247)	(252)
Loss on sale of entities and businesses	-	(2)
Share of net loss of associates	(7)	(5)
Restructuring and related expenses	(72)	(104)
Amortisation and impairment of intangibles	(21)	(466)
Profit (loss) before income tax	913	(1,472)
Income tax expense	(156)	(39)
Profit (loss) after income tax	757	(1,511)
Net profit attributable to non-controlling interests	(7)	(6)
Net profit (loss) after income tax attributable to ordinary equity holders of the Company	750	(1,517)

Result

The Group reported a net profit after tax attributable to ordinary equity holders of the Company of \$750 million for the year ended 31 December 2021, compared with a net loss after tax of \$1,517 million for the prior year. The current year profit reflects a material turnaround from the prior year which included a significant underwriting loss due to COVID-19, adverse prior accident year claims development, and impairments of North American goodwill and deferred tax assets.

Gross written premium increased by \$3,814 million mainly due to premium rate increases, improved retention and new business growth across the Group, with particularly strong growth in Crop. Reinsurance expense increased by \$1,327 million, mainly reflecting the cost of reinsuring certain prior accident year Australian compulsory third party motor (CTP) liabilities (\$365 million) combined with growth in more heavily reinsured portfolios and the higher cost of renewal of the Group's main catastrophe and per risk treaties.

The Group reported an underwriting profit of \$1,138 million compared with a loss of \$869 million in the prior year, equating to a combined operating ratio of 91.5% compared with 107.4%. Excluding the impacts of changes in risk-free rates, the combined operating ratio was 93.7% compared with 104.2% in the prior year.

The net claims ratio was 62.4% compared with 76.3% in the prior year. Excluding the impact of changes in risk-free rates, the net claims ratio was 64.6% compared with 73.1%, with the improvement reflecting the aforementioned CTP reinsurance transaction (\$349 million), the reduced impact of COVID-19 claims (a net release of \$141 million compared with a cost of \$560 million in the prior year), and a reduced level of adverse prior accident year claims development relative to the prior year.

The combined commission and expense ratio decreased to 29.1% from 31.1% in the prior year. The net commission ratio reduced to 15.5% from 16.1% in the prior year, primarily due to business mix changes in North America and Australia Pacific. The Group's expense ratio decreased to 13.6% from 15.0% in the prior year, mainly reflecting disciplined cost management and operating leverage driven by strong premium growth.

Total investment income was \$122 million compared with \$226 million in the prior year, reflecting the adverse impact of higher risk-free rates partly offset by improved returns on growth assets.

The Group's effective tax rate was 17% compared with negative 3% in the prior year reflecting the mix of corporate tax rates in the jurisdictions in which QBE operates and the utilisation of previously unrecognised tax losses in the North American tax group. The prior year tax rate was also impacted by the non-deductible impairment of goodwill and derecognition of deferred tax assets in North America.

Dividends

The directors are announcing a final dividend of 19 Australian cents per share, 10% franked, compared with no final dividend for the prior year. The 2021 full year dividend payout is A\$443 million compared with A\$59 million for 2020. Further details of dividends paid during the year are set out in note 5.4 to the financial statements.

The directors have reassessed the Group's dividend policy and expect to pay out 40%–60% of annual adjusted cash profit. This approach will better support the Group's growth ambitions and provide flexibility to manage the dynamics of the global insurance cycle.

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

Information on the Group's results, operations, business strategy, prospects and financial position is set out in the operating and financial review on [pages 10 to 21](#) of this Annual Report.

Outstanding claims liability

The net central estimate of outstanding claims is determined by the Group Chief Actuary. 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 to mitigate the inherent uncertainty in the net central estimate. The probability of adequacy of the outstanding claims liability at 31 December 2021 was 91.7% compared with 92.5% last year. The Australian Prudential Regulation Authority (APRA) prudential standards provide a capital credit for risk margins 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 2021

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 operating and financial review on [pages 10 to 21](#) 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 2021 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 directors believe 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 Group Chief Risk Officer's Report on [pages 28 to 29](#), the climate change section on [pages 30 to 37](#) and the risk management section of the corporate governance statement on [page 51](#) 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 & RE-MUNERATION		RISK & CAPITAL		SUB-COMMITTEES ²	
	H	A	H	A	H	A	H	A	H	A	H	A	H	A	H	A	H	A
Stephen Fitzgerald	11	10	6	6	—	—	6	6	4	4	—	—	4	4	6	6	1	1
John M Green	11	11	6	6	5	5	6	6	4	4	4	4	4	4	6	5	10	10
Andrew Horton	3	3	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Tan Le	11	11	6	6	5	5	6	6	—	—	4	4	—	—	—	—	—	—
Kathryn Lisson	11	11	6	6	5	5	6	6	—	—	4	4	—	—	—	—	—	—
Sir Brian Pomeroy	11	11	6	6	5	5	6	6	4	4	—	—	—	—	6	6	3	3
Jann Skinner	11	11	6	6	5	5	6	6	—	—	—	—	4	4	6	6	12	12
Eric Smith	11	11	6	6	—	—	6	6	—	—	4	4	—	—	6	6	—	—
Rolf Tolle	11	11	6	6	5	5	6	6	—	—	—	—	4	4	6	6	5	5
Michael Wilkins	11	11	6	6	5	5	6	6	4	4	4	4	4	4	6	6	8	8

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 2021 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 18 February 2022, 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 and 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 25 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	69,268
John M Green	41,253
Andrew Horton	150,000
Tan Le	4,127
Kathryn Lisson	44,079
Sir Brian Pomeroy	37,445
Jann Skinner	70,000
Eric Smith	4,127
Rolf Tolle	67,618
Michael Wilkins	72,258

Options and conditional rights

At the date of this report, Andrew Horton has 335,570 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 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 change disclosures are provided on pages 30 to 37 of this Annual Report and operational greenhouse gas emissions and other environmental data are disclosed in the [2021 Sustainability Report](#).