

# Directors' Report continued

FOR THE YEAR ENDED 31 DECEMBER 2021



## Auditor's independence declaration

As lead auditor for the audit of QBE Insurance Group Limited for the year ended 31 December 2021, 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.

A handwritten signature in black ink, appearing to read 'V. Papageorgiou'.

Voula Papageorgiou  
**Partner, PricewaterhouseCoopers**

Sydney  
18 February 2022

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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 18, 388 George Street Sydney NSW 2000 Australia.

A description of the nature of the Group's operations and its principal activities is included on pages 4 to 27, none of which is part of this Financial Report. The Financial Report was authorised for issue by the directors on 18 February 2022. 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](http://www.qbe.com).

# Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTE	2021 US\$M	2020 US\$M
Gross written premium		18,457	14,643
Unearned premium movement		(1,422)	(635)
Gross earned premium revenue	2.1	17,035	14,008
Outward reinsurance premium		(3,983)	(2,462)
Deferred reinsurance premium movement		356	162
Outward reinsurance premium expense		(3,627)	(2,300)
Net earned premium (a)		13,408	11,708
Gross claims expense	2.2	(11,464)	(12,300)
Reinsurance and other recoveries revenue	2.2	3,093	3,366
Net claims expense (b)	2.2	(8,371)	(8,934)
Gross commission expense		(2,704)	(2,331)
Reinsurance commission revenue	2.1	634	440
Net commission (c)		(2,070)	(1,891)
Underwriting and other expenses (d)		(1,829)	(1,752)
<b>Underwriting result (a)+(b)+(c)+(d)</b>		<b>1,138</b>	<b>(869)</b>
Investment income – policyholders' funds	3.1	94	153
Investment expenses – policyholders' funds	3.1	(17)	(11)
<b>Insurance profit (loss)</b>		<b>1,215</b>	<b>(727)</b>
Investment income – shareholders' funds	3.1	53	90
Investment expenses – shareholders' funds	3.1	(8)	(6)
Financing and other costs	5.1.2	(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	7.1	(21)	(466)
Profit (loss) before income tax		913	(1,472)
Income tax expense	6.1	(156)	(39)
Profit (loss) after income tax		757	(1,511)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Net movement in foreign currency translation reserve	5.3.2	(272)	375
Net movement in cash flow hedge and cost of hedging reserves	5.3.2	41	(24)
Income tax relating to these components of other comprehensive income		(13)	7
<i>Items that will not be reclassified to profit or loss</i>			
Remeasurement of defined benefit plans		21	38
Income tax relating to this component of other comprehensive income		(7)	(10)
Other comprehensive (loss) income after income tax		(230)	386
<b>Total comprehensive income (loss) after income tax</b>		<b>527</b>	<b>(1,125)</b>
<b>Profit (loss) after income tax attributable to:</b>			
Ordinary equity holders of the Company		750	(1,517)
Non-controlling interests		7	6
		757	(1,511)
<b>Total comprehensive income (loss) after income tax attributable to:</b>			
Ordinary equity holders of the Company		520	(1,131)
Non-controlling interests		7	6
		527	(1,125)
<b>EARNINGS (LOSS) PER SHARE FOR PROFIT (LOSS) AFTER INCOME TAX ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
	NOTE	2021 US CENTS	2020 US CENTS
<b>For profit (loss) after income tax</b>			
Basic earnings (loss) per share	5.5	47.5	(108.5)
Diluted earnings (loss) per share	5.5	47.2	(108.5)

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated balance sheet

AS AT 31 DECEMBER 2021

	NOTE	2021 US\$M	2020 US\$M
<b>Assets</b>			
Cash and cash equivalents	5.2	819	766
Investments	3.2	28,111	26,935
Derivative financial instruments	5.6	142	520
Trade and other receivables	2.6	7,109	5,760
Current tax assets		6	60
Deferred insurance costs	2.5	2,697	2,282
Reinsurance and other recoveries on outstanding claims	2.3	6,757	6,527
Other assets		2	19
Assets held for sale	3.2	50	–
Defined benefit plan surpluses	8.7	92	65
Right-of-use lease assets		328	383
Property, plant and equipment		155	167
Deferred tax assets	6.2	521	546
Investment properties		37	34
Investments in associates		28	27
Intangible assets	7.1	2,449	2,534
<b>Total assets</b>		<b>49,303</b>	<b>46,625</b>
<b>Liabilities</b>			
Derivative financial instruments	5.6	452	845
Trade and other payables	2.7	3,215	2,338
Current tax liabilities		24	15
Unearned premium	2.5	8,637	7,466
Gross outstanding claims	2.3	24,282	23,861
Lease liabilities		354	431
Provisions		129	149
Defined benefit plan deficits	8.7	29	22
Deferred tax liabilities	6.2	31	51
Borrowings	5.1	3,268	2,955
<b>Total liabilities</b>		<b>40,421</b>	<b>38,133</b>
<b>Net assets</b>		<b>8,882</b>	<b>8,492</b>
<b>Equity</b>			
Contributed equity	5.3.1	9,777	10,273
Treasury shares held in trust		(2)	(1)
Reserves	5.3.2	(1,608)	(1,898)
Retained profits		714	117
Shareholders' equity		8,881	8,491
Non-controlling interests		1	1
<b>Total equity</b>		<b>8,882</b>	<b>8,492</b>

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 2021

	SHAREHOLDERS' EQUITY					NON-CONTROLLING INTERESTS US\$M	TOTAL EQUITY US\$M
	CONTRIBUTED EQUITY US\$M	TREASURY SHARES HELD IN TRUST US\$M	RESERVES US\$M	RETAINED PROFITS US\$M	TOTAL US\$M		
At 1 January 2021	10,273	(1)	(1,898)	117	8,491	1	8,492
Profit after income tax	–	–	–	750	750	7	757
Other comprehensive (loss) income	–	–	(244)	14	(230)	–	(230)
Total comprehensive (loss) income	–	–	(244)	764	520	7	527
<b>Transactions with owners in their capacity as owners</b>							
Shares issued under Employee Share and Option Plan and held in trust	31	(31)	–	–	–	–	–
Share-based payment expense	–	–	32	–	32	–	32
Shares vested and/or released	–	30	(30)	–	–	–	–
Dividends paid on ordinary shares	–	–	–	(118)	(118)	(7)	(125)
Dividend Reinvestment Plan and Bonus Share Plan	11	–	–	1	12	–	12
Distributions on capital notes	–	–	–	(50)	(50)	–	(50)
Foreign exchange	(538)	–	532	–	(6)	–	(6)
At 31 December 2021	9,777	(2)	(1,608)	714	8,881	1	8,882

	SHAREHOLDERS' EQUITY					NON-CONTROLLING INTERESTS US\$M	TOTAL EQUITY US\$M
	CONTRIBUTED EQUITY US\$M	TREASURY SHARES HELD IN TRUST US\$M	RESERVES US\$M	RETAINED PROFITS US\$M	TOTAL US\$M		
At 1 January 2020	7,594	(1)	(1,335)	1,895	8,153	–	8,153
Loss after income tax	–	–	–	(1,517)	(1,517)	6	(1,511)
Other comprehensive income	–	–	358	28	386	–	386
Total comprehensive income (loss)	–	–	358	(1,489)	(1,131)	6	(1,125)
<b>Transactions with owners in their capacity as owners</b>							
Shares issued under Employee Share and Option Plan and held in trust	26	(28)	–	–	(2)	–	(2)
Share-based payment expense	–	–	20	–	20	–	20
Shares vested and/or released	–	28	(28)	–	–	–	–
Contributions of equity, net of transaction costs	1,699	–	–	–	1,699	–	1,699
Reclassification on disposal of controlled entities	–	–	2	(2)	–	–	–
Dividends paid on ordinary shares	–	–	–	(265)	(265)	(5)	(270)
Dividend Reinvestment Plan and Bonus Share Plan	27	–	–	3	30	–	30
Distributions on capital notes	–	–	–	(25)	(25)	–	(25)
Foreign exchange	927	–	(915)	–	12	–	12
At 31 December 2020	10,273	(1)	(1,898)	117	8,491	1	8,492

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 2021

	NOTE	2021 US\$M	2020 US\$M
<b>Operating activities</b>			
Premium received		17,020	14,471
Reinsurance and other recoveries received		2,538	2,080
Outward reinsurance premium paid		(2,616)	(2,054)
Claims paid		(10,056)	(9,429)
Acquisition and other underwriting costs paid		(4,116)	(3,793)
Interest received		406	426
Dividends received		124	77
Other operating payments		(220)	(174)
Interest paid		(238)	(257)
Income taxes paid		(88)	(113)
Net cash flows from operating activities	8.4	2,754	1,234
<b>Investing activities</b>			
Net proceeds on sale of growth assets		156	42
Net payments for purchase of interest-bearing financial assets		(2,782)	(2,387)
Net (payments for) proceeds from foreign exchange transactions		(20)	277
Payments for purchase of intangible assets		(91)	(71)
Payments for purchase of property, plant and equipment		(29)	(40)
Payments for investments in associates		(9)	–
Proceeds on disposal of entities and businesses (net of cash disposed)		–	17
Proceeds on sale of investment property		4	–
Net cash flows from investing activities		(2,771)	(2,162)
<b>Financing activities</b>			
Net proceeds from issue of equity instruments		–	1,300
Proceeds from settlement of staff share loans		–	1
Payments relating to principal element of lease liabilities		(85)	(61)
Proceeds from borrowings		550	358
Repayments of borrowings		(202)	(140)
Dividends and distributions paid		(162)	(265)
Net cash flows from financing activities		101	1,193
Net movement in cash and cash equivalents		84	265
Cash and cash equivalents at the beginning of the year		766	547
Effect of exchange rate changes		(31)	(46)
Cash and cash equivalents at the end of the year	5.2	819	766

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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Performance  
overview

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Operating and  
financial review

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Governance

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Directors'  
Report

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Report

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Other  
information


# Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 11,000 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.

The Company is listed on the Australian Securities Exchange and is a for-profit entity.

#### About insurance

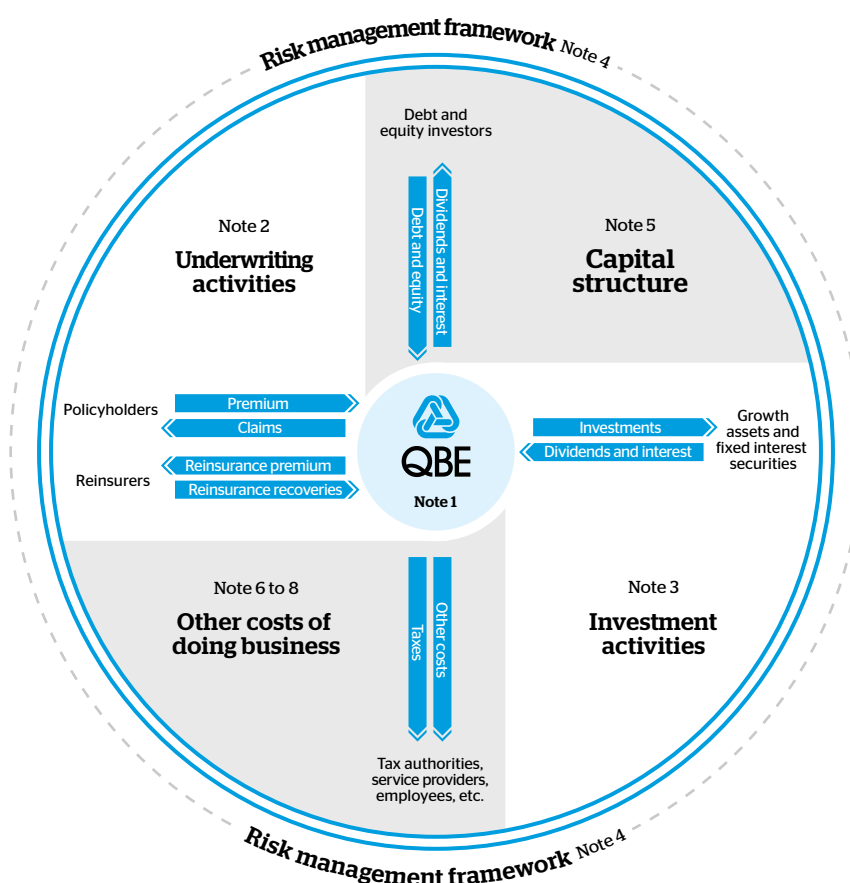
In simple terms, insurance and reinsurance companies help their customers (consumers, businesses and other insurance companies) to manage risk. More broadly put, an insurance company creates value by pooling and redistributing risk. This is done by collecting premium from those that it insures (i.e. policyholders), and then paying the claims of the few that call upon their insurance protection. A 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
- 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 or loss), 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 expense and 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 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 the *Corporations Act 2001*;
- complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and Interpretations as issued by the IFRS Interpretations Committee (IFRIC);
- 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 Australian Accounting Standards Board (AASB) that are now effective are detailed in note 8.1.1.

The Group has not adopted any Accounting Standards and Interpretations that have been issued or amended but are not yet effective as listed in note 8.1.2.

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at 31 December 2021 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 the balance date is contained in note 7.2.

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.

Where necessary, comparative information has been restated to conform to the current year's disclosures.



# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 are 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 6.2.1); and
- impairment testing of intangible assets (note 7.1.1).

The impacts of COVID-19 on these areas are discussed in note 1.2.3 and in individual notes where appropriate.

### 1.2.3 COVID-19

COVID-19 was declared a pandemic by the World Health Organisation in March 2020. The virus itself, as well as measures to slow its spread, have had a profound impact on the global economy. QBE has considered a broad range of factors in assessing the impact of the resulting uncertainty on the consolidated financial statements.

While the areas of critical accounting judgements and estimates did not change, the impact of COVID-19 resulted in the application of further judgement within those identified areas. Given the continued uncertainty related to the potential impact of COVID-19, there may be changes in market conditions in the future and the impact of these changes will be accounted for in future reporting periods as they arise and/or can be reasonably predicted.

Areas which were most impacted by COVID-19 at the balance date were as follows:

- **Net discounted central estimate (note 2.3):** QBE's result and balance sheet were materially impacted by the estimated cost of COVID-19-related claims in 2020. The projected net ultimate cost of COVID-19-related claims is based on detailed reviews of the Group's emerging claims experience and exposure, scenario analysis under a variety of macroeconomic and legislative outcomes, and consideration of the Group's reinsurance protections. There has been no material change to the projected ultimate cost of COVID-19-related claims, noting a release of claims incurred in 2020 has been offset by claims incurred in 2021. Although the overall cost of COVID-19-related claims is relatively unchanged, the uncertainty in relation to ultimate outcomes is, in our view, somewhat reduced compared with the prior reporting period. The release relating to COVID-19-related claims incurred in 2020, which is supported by emerging claims experience, is consistent with this view.  
The potential impact of ongoing litigation relating to the Group's property business interruption exposure (refer to note 8.2), including the second industry test case in Australia concerning the interpretation and application of exclusion clauses in relation to COVID-19, has been considered in the determination of the net discounted central estimate and risk margin (see below). While the initial judgement from the second Australian business interruption test case was favourable to insurers, it is currently subject to appeal. The ultimate cost of claims therefore remains uncertain pending the outcome of the appeal.  
QBE will continue to monitor emerging claims experience, legislative outcomes and wider market developments to ensure that the net discounted central estimate is reflective of the Group's best estimate of expected future claims.
- **Risk margin (note 2.3.3):** The Group aims to maintain a probability of adequacy in the range of 87.5% to 92.5% reflecting the level of uncertainty in the net discounted central estimate. In response to the heightened level of uncertainty related to the potential impact of COVID-19 on claims outcomes, QBE increased the risk margin at 31 December 2020 to achieve a probability of adequacy of 92.5%, at the upper end of the Group's target range. During the current period, the Group released \$140 million of this risk margin reflecting the reduced uncertainty related to COVID-19, particularly with respect to business interruption claims across all regions where we have exposure, trade credit and LMI claims. The probability of adequacy at 31 December 2021 is 91.7%.
- **Liability adequacy test (note 2.5.1):** This assessment is informed by the Group's expectation of future net claims including a risk margin and is therefore subject to uncertainties similar to those discussed above. Future claims assumptions used in the liability adequacy test have been selected whilst giving consideration to, amongst other factors, the potential for ongoing impact from COVID-19, albeit that the future risk associated with COVID-19 is somewhat reduced compared with the prior reporting period.
- **Goodwill impairment testing (note 7.1.1):** A detailed impairment test has been completed in respect of the carrying value of QBE's cash-generating units, which included consideration of the impact of COVID-19 consistent with the process undertaken at 31 December 2020. The explicit risk premium adjustment which was included in the pre-tax discount rate at 31 December 2020 in response to COVID-19 uncertainty has been removed with the continuing, albeit reduced, uncertainty in relation to COVID-19 now implicitly reflected in the equity beta used to calculate the cost of equity. The impact of this change on the recoverable value of the cash-generating units was not material.

- **North American tax group deferred tax asset recoverability (note 6.2.1):** QBE's reassessment of the recoverability of this asset included consideration of the potential impacts of COVID-19. The recoverability assessment has been updated, consistent with the impairment testing completed for the North American cash-generating unit and other entities where relevant.

The Group's COVID-19 financial impact assessment was not limited to the areas identified above. All material components of the balance sheet were considered in detail, as was the effectiveness of QBE's risk management framework in responding to both financial and non-financial risks, with no material issues identified.

## 1.2.4 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 net investments 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 to mitigate currency risk on translation of net investments in foreign operations to the ultimate parent entity's functional currency of Australian dollars. QBE may elect to use derivatives to manage currency translation risk in order to preserve capital.

QBE also uses derivatives to mitigate risk associated with foreign currency transactions and balances.

The Group designates hedge relationships which meet the specified criteria in AASB 9 *Financial Instruments* as either cash flow hedges or hedges of net investments in foreign operations. 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:

	2021		2020	
	PROFIT OR LOSS	BALANCE SHEET	PROFIT OR LOSS	BALANCE SHEET
A\$/US\$	0.751	0.727	0.688	0.771
£/US\$	1.375	1.353	1.283	1.368
€/US\$	1.182	1.138	1.140	1.222

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 1. OVERVIEW

### 1.3 Segment information



#### Overview

Information is provided by operating segment to assist an 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.

#### Operating segments

The Group's operating segments are as follows:

- North America writes general insurance, reinsurance and Crop business in the United States.
- International writes general insurance business in the United Kingdom, Europe and Canada. It also writes general insurance and reinsurance business through Lloyd's; worldwide reinsurance business through offices in the United Kingdom, United States, Ireland, Bermuda, Dubai 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; 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.

2021	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	6,289	6,962	5,215	18,466	(9)	18,457
Gross earned premium revenue – external	5,838	6,480	4,730	17,048	(13)	17,035
Gross earned premium revenue – internal	–	6	1	7	(7)	–
Outward reinsurance premium expense	(1,873)	(947)	(831)	(3,651)	24	(3,627)
Net earned premium	3,965	5,539	3,900	13,404	4	13,408
Net claims expense	(3,136)	(3,118)	(2,217)	(8,471)	100	(8,371)
Net commission	(512)	(978)	(581)	(2,071)	1	(2,070)
Underwriting and other expenses	(460)	(724)	(601)	(1,785)	(44)	(1,829)
Underwriting result	(143)	719	501	1,077	61	1,138
Investment income – policyholders' funds	30	12	22	64	13	77
Insurance (loss) profit	(113)	731	523	1,141	74	1,215
Investment income – shareholders' funds	30	5	10	45	–	45
Financing and other costs	(1)	(2)	(6)	(9)	(238)	(247)
Share of net loss of associates	–	–	–	–	(7)	(7)
Restructuring and related expenses	(18)	(8)	(13)	(39)	(33)	(72)
Amortisation and impairment of intangibles	–	–	(5)	(5)	(16)	(21)
(Loss) profit before income tax	(102)	726	509	1,133	(220)	913
Income tax credit (expense)	21	(139)	(149)	(267)	111	(156)
(Loss) profit after income tax	(81)	587	360	866	(109)	757
Net profit attributable to non-controlling interests	–	–	–	–	(7)	(7)
Net (loss) profit after income tax attributable to ordinary equity holders of the Company	(81)	587	360	866	(116)	750

2020	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	4,744	5,845	4,079	14,668	(25)	14,643
Gross earned premium revenue – external	4,519	5,513	3,984	14,016	(8)	14,008
Gross earned premium revenue – internal	1	18	1	20	(20)	–
Outward reinsurance premium expense	(1,200)	(765)	(360)	(2,325)	25	(2,300)
Net earned premium	3,320	4,766	3,625	11,711	(3)	11,708
Net claims expense	(2,974)	(3,229)	(2,479)	(8,682)	(252)	(8,934)
Net commission	(480)	(874)	(534)	(1,888)	(3)	(1,891)
Underwriting and other expenses	(482)	(648)	(572)	(1,702)	(50)	(1,752)
Underwriting result	(616)	15	40	(561)	(308)	(869)
Investment income (loss) – policyholders' funds	33	91	31	155	(13)	142
Insurance (loss) profit	(583)	106	71	(406)	(321)	(727)
Investment income – shareholders' funds	33	27	7	67	17	84
Financing and other costs	(2)	(2)	(5)	(9)	(243)	(252)
Loss on sale of entities and businesses	–	–	–	–	(2)	(2)
Share of net loss of associates	–	–	–	–	(5)	(5)
Restructuring and related expenses	(22)	(8)	(37)	(67)	(37)	(104)
Amortisation and impairment of intangibles	–	(5)	(16)	(21)	(445)	(466)
(Loss) profit before income tax	(574)	118	20	(436)	(1,036)	(1,472)
Income tax credit (expense)	121	(25)	(6)	90	(129)	(39)
(Loss) profit after income tax	(453)	93	14	(346)	(1,165)	(1,511)
Net profit attributable to non-controlling interests	–	–	–	–	(6)	(6)
Net (loss) profit after income tax attributable to ordinary equity holders of the Company	(453)	93	14	(346)	(1,171)	(1,517)

### 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 ultimate parent entity's country of domicile, was \$4,254 million (2020 \$3,573 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 2021

## 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:

- 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, 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	2021 US\$M	2020 US\$M
<b>Gross earned premium revenue</b>			
Direct and facultative		15,493	12,634
Inward reinsurance		1,542	1,374
		17,035	14,008
<b>Other revenue</b>			
Reinsurance and other recoveries revenue	2.2	3,093	3,366
Reinsurance commission revenue		634	440
		20,762	17,814



### 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.

## 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) 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	2021 US\$M	2020 US\$M
<b>Gross claims expense</b>			
Direct and facultative		10,321	11,144
Inward reinsurance		1,143	1,156
		11,464	12,300
<b>Reinsurance and other recoveries revenue</b>			
Direct and facultative		2,851	3,217
Inward reinsurance		242	149
	2.1	3,093	3,366
Net claims expense		8,371	8,934
<b>Analysed as follows:</b>			
Movement in net discounted central estimate	2.4.2	8,453	8,590
Movement in risk margin	2.3.3	(82)	344
Net claims expense		8,371	8,934

## 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 on outstanding claims (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	2021 US\$M	2020 US\$M
Gross discounted central estimate	2.3.1	22,864	22,324
Risk margin	2.3.3	1,418	1,537
Gross outstanding claims		24,282	23,861
Reinsurance and other recoveries on outstanding claims	2.3.2	(6,757)	(6,527)
Net outstanding claims		17,525	17,334

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 2. UNDERWRITING ACTIVITIES

The table below analyses the movement in the net outstanding claims liability, showing separately the movement in the gross liability and the impact of reinsurance:

	NOTE	2021			2020		
		GROSS US\$M	REINSURANCE US\$M	NET US\$M	GROSS US\$M	REINSURANCE US\$M	NET US\$M
At 1 January		23,861	(6,527)	17,334	19,915	(5,104)	14,811
Claims expense – current accident year	2.4.2	12,172	(3,359)	8,813	10,947	(3,099)	7,848
Claims expense – prior accident years	2.4.2	(626)	266	(360)	1,009	(267)	742
Movement in risk margin	2.3.3	(82)	–	(82)	344	–	344
Incurred claims recognised in profit or loss	2.2	11,464	(3,093)	8,371	12,300	(3,366)	8,934
Claims payments		(10,361)	2,742	(7,619)	(9,254)	2,079	(7,175)
Foreign exchange		(682)	121	(561)	900	(136)	764
At 31 December		24,282	(6,757)	17,525	23,861	(6,527)	17,334

### 2.3.1 Gross discounted central estimate

	NOTE	2021 US\$M	2020 US\$M
Gross undiscounted central estimate excluding claims settlement costs		23,129	22,169
Claims settlement costs		500	447
Gross undiscounted central estimate		23,629	22,616
Discount to present value		(765)	(292)
Gross discounted central estimate	2.3	22,864	22,324
Payable within 12 months		8,339	7,777
Payable in greater than 12 months		14,525	14,547
Gross discounted central estimate	2.3	22,864	22,324



### 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;
- existence of complex underlying exposures;
- 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;
- changing social, political and economic trends, for example price and wage inflation; and
- impacts of COVID-19 as described in note 1.2.3.

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 are 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 (refer to note 2.3.2).

### 2.3.2 Reinsurance and other recoveries on outstanding claims

	NOTE	2021 US\$M	2020 US\$M
Reinsurance and other recoveries on outstanding claims – undiscounted <sup>1</sup>		<b>7,014</b>	6,623
Discount to present value		<b>(257)</b>	(96)
Reinsurance and other recoveries on outstanding claims	2.3	<b>6,757</b>	6,527
Receivable within 12 months		<b>2,758</b>	2,715
Receivable in greater than 12 months		<b>3,999</b>	3,812
Reinsurance and other recoveries on outstanding claims	2.3	<b>6,757</b>	6,527

1 Net of a provision for impairment of \$32 million (2020 \$21 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.



# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 2. UNDERWRITING ACTIVITIES

### 2.3.3 Risk margin



#### Overview

A risk margin is determined by the 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.

		2021	2020
Risk margin	US\$M	<b>1,418</b>	1,537
Risk margin as a percentage of the net discounted central estimate	%	<b>8.8</b>	9.7
Probability of adequacy	%	<b>91.7</b>	92.5

Excluding the impact of foreign exchange which reduced the risk margin by \$37 million (2020 \$57 million increase), the net movement in profit or loss was a release of \$82 million (2020 \$344 million charge). The resulting probability of adequacy was 91.7% (2020 92.5%). Net profit after tax would have reduced by \$40 million, at the Group's prima facie income tax rate of 30%, if the probability of adequacy was maintained at 92.5%.

The reduction in risk margin mainly reflects reduced uncertainty related to the impact of COVID-19 partly offset by additional risk margin in response to business growth.



#### 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 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 Group.

	2021 %	2020 %
North America	1.44	0.84
International	0.55	0.03
Australia Pacific	1.12	0.41
Group	0.87	0.30



### 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.

	2021 YEARS						2020 YEARS					
	US\$	£	A\$	€	OTHER	TOTAL	US\$	£	A\$	€	OTHER	TOTAL
North America	3.2	–	–	–	–	3.2	3.6	–	–	–	–	3.6
International	4.0	5.0	3.5	4.0	2.5	4.1	3.6	3.3	3.5	4.3	2.4	3.7
Australia Pacific	–	–	2.2	–	1.7	2.2	–	–	2.7	–	1.9	2.6
Group	3.4	5.0	2.4	4.0	2.4	3.5	3.6	3.3	2.7	4.3	2.3	3.3

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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.

	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
<b>2021</b>							
North America	1,578	608	413	274	193	647	3,713
International	2,404	1,631	1,143	842	632	2,120	8,772
Australia Pacific	1,599	713	465	300	190	355	3,622
	5,581	2,952	2,021	1,416	1,015	3,122	16,107
<b>2020</b>							
North America	1,241	571	417	289	195	684	3,397
International	2,581	1,192	1,201	897	665	1,992	8,528
Australia Pacific	1,240	831	596	454	268	483	3,872
	5,062	2,594	2,214	1,640	1,128	3,159	15,797

### 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, 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 or loss 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 or loss after income tax.

	SENSITIVITY %	PROFIT (LOSS) <sup>1</sup>	
		2021 US\$M	2020 US\$M
Net discounted central estimate	+5	(564)	(553)
	-5	564	553
Risk margin	+5	(50)	(54)
	-5	50	54
Inflation rate	+0.5	(206)	(194)
	-0.5	193	185
Discount rate	+0.5	193	185
	-0.5	(206)	(194)
Coefficient of variation	+1	(163)	(166)
	-1	162	166
Probability of adequacy	+1	(53)	(60)
	-1	48	54
Weighted average term to settlement	+10	38	11
	-10	(38)	(11)

<sup>1</sup> Net of tax at the Group's prima facie income tax rate of 30%.

## 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.

	2011 & PRIOR 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	2020 US\$M	2021 US\$M	TOTAL US\$M
<b>Net ultimate claims payments<sup>1</sup></b>												
(a) Original estimate of net ultimate claims payments		7,805	7,400	7,230	6,514	6,967	8,264	7,359	7,831	7,791	8,463	
(b) One year later		7,860	7,310	7,230	6,531	6,746	8,336	7,535	8,116	7,554		
Two years later		7,747	7,253	7,071	6,302	6,621	8,271	7,546	8,213			
Three years later		7,739	7,228	6,976	6,277	6,635	8,479	7,607				
Four years later		7,732	7,143	6,947	6,177	6,691	8,474					
Five years later		7,684	7,249	6,964	6,144	6,643						
Six years later		7,615	7,200	6,916	6,117							
Seven years later		7,590	7,181	6,908								
Eight years later		7,577	7,176									
Nine years later		7,559										
(c) Current estimate of net ultimate claims payments		7,559	7,176	6,908	6,117	6,643	8,474	7,607	8,213	7,554	8,463	74,714
(d) Cumulative net payments to date		(7,363)	(6,929)	(6,617)	(5,865)	(6,022)	(7,210)	(6,306)	(6,001)	(4,806)	(2,605)	(59,724)
(e) Net undiscounted central estimate at fixed rate of exchange	1,310	196	247	291	252	621	1,264	1,301	2,212	2,748	5,858	16,300
(f) Foreign exchange impact												(217)
Provision for impairment												32
(g) Net undiscounted central estimate at 31 December 2021												16,115
Discount to present value												(508)
Claims settlement costs												500
Risk margin												1,418
(h) Net outstanding claims liability at 31 December 2021 (note 2.3)												17,525
(i) Movement in estimated net ultimate claims payments (note 2.4.1)	48	(18)	(5)	(8)	(27)	(48)	(5)	61	97	(237)	8,463	8,321

1 Excludes claims settlement costs.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 2. UNDERWRITING ACTIVITIES



### 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 many currencies. The translation of estimated net ultimate claims payments 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, estimated net ultimate claims payments 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 2021 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 net central estimate development recognised in profit or loss (refer to note 2.4.2).

	2021			2020		
	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) <sup>1,2,3</sup>	8,463	(142)	8,321	7,469	363	7,832
Movement in claims settlement costs	433	1	434	413	(1)	412
Movement in discount	(85)	(232)	(317)	(39)	387	348
Other movements	2	13	15	5	(7)	(2)
Movement in net discounted central estimate (note 2.4.2)	8,813	(360)	8,453	7,848	742	8,590

1 Excludes claims settlement costs.

2 2021 prior accident year claims includes a benefit of \$324 million from the reinsurance of Australian CTP liabilities. Excluding this recovery, the movement in prior accident year claims in 2021 reflects adverse development in North America and Australia Pacific, partly offset by positive development in International.

3 The movement in prior accident year claims in 2020 mainly reflects adverse development in North America and, to a lesser extent, International, partly offset by positive development in Australia Pacific.

## 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.

	2021			2020		
	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
<b>Gross central estimate development</b>						
Undiscounted	12,280	(253)	12,027	10,994	476	11,470
Discount	(108)	(373)	(481)	(47)	533	486
	12,172	(626)	11,546	10,947	1,009	11,956
<b>Reinsurance and other recoveries</b>						
Undiscounted	(3,382)	125	(3,257)	(3,107)	(121)	(3,228)
Discount	23	141	164	8	(146)	(138)
	(3,359)	266	(3,093)	(3,099)	(267)	(3,366)
<b>Net central estimate development</b>						
Undiscounted	8,898	(128)	8,770	7,887	355	8,242
Discount	(85)	(232)	(317)	(39)	387	348
Net discounted central estimate development (note 2.4.1)	8,813	(360)	8,453	7,848	742	8,590

## 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 risk of the business written. 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.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 2. UNDERWRITING ACTIVITIES

### Summary of unearned premium and deferred insurance costs

	2021 US\$M	2020 US\$M
Unearned premium (a)	8,637	7,466
To be earned within 12 months	7,847	6,429
To be earned in greater than 12 months	790	1,037
Unearned premium	8,637	7,466
Deferred reinsurance premium <sup>1</sup>	1,052	724
Deferred net commission	1,230	1,141
Deferred acquisition costs	415	417
Deferred insurance costs (b)	2,697	2,282
To be expensed within 12 months	2,260	1,909
To be expensed in greater than 12 months	437	373
Deferred insurance costs	2,697	2,282
Net unearned premium (a)–(b)	5,940	5,184

1 Deferred reinsurance premium relating to future business not yet written was \$114 million (2020 \$96 million).

### Unearned premium movements

	2021 US\$M	2020 US\$M
At 1 January	7,466	6,460
Deferral of unearned premium on contracts written in the financial year	7,516	5,988
Earning of premium written in previous financial years	(6,094)	(5,353)
Net profit or loss movement	1,422	635
Foreign exchange	(251)	371
At 31 December	8,637	7,466

### Deferred insurance costs movements

	DEFERRED REINSURANCE PREMIUM		DEFERRED NET COMMISSION		DEFERRED ACQUISITION COSTS	
	2021 US\$M	2020 US\$M	2021 US\$M	2020 US\$M	2021 US\$M	2020 US\$M
At 1 January	724	523	1,141	1,008	417	376
Costs deferred in financial year	951	593	1,038	891	354	329
Amortisation of costs deferred in previous financial years	(595)	(431)	(922)	(815)	(342)	(310)
Net profit or loss movement	356	162	116	76	12	19
Foreign exchange	(28)	39	(27)	57	(14)	22
At 31 December	1,052	724	1,230	1,141	415	417



## 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-rata 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 (refer to note 2.5.1). Deferred net commission is a type of deferred acquisition cost and is disclosed separately.

## 2.5.1 Liability adequacy test



### Overview

At each balance date, the Group is required to assess net unearned premium to determine whether the amount provided is sufficient to pay future claims net of reinsurance recoveries attributable to the net unearned premium.

If the present value of expected future net claims including a risk margin exceeds the net unearned premium, adjusted for deferred reinsurance premium relating to future business not yet written, the net unearned premium is deemed deficient. This deficiency is immediately recognised in profit or loss. In recognising the deficiency, an insurer must first write down 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

	2021 US\$M	2020 US\$M
Undiscounted net central estimate	5,282	4,676
Discount to present value	(98)	(23)
	5,184	4,653
Risk margin at the 75th percentile of insurance liabilities	197	181
Expected present value of future cash flows for future claims including risk margin	5,381	4,834

The risk margin at the 75th percentile of insurance liabilities as a percentage of the net discounted central estimate is 3.8% (2020 3.9%).

The application of the liability adequacy test at 31 December 2021 did not identify a deficiency (2020 nil).



## How we account for the numbers

At each balance date, the adequacy of net unearned premium 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 other than 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.



# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 2. UNDERWRITING ACTIVITIES



### Critical accounting judgements and estimates

In assessing the adequacy of net unearned premium, AASB 1023 *General Insurance Contracts* requires the inclusion of a risk margin but does not prescribe a minimum level of margin. While 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 unearned premium.

The liability adequacy test assumes a 75% probability of adequacy. The risk margin applied in the liability adequacy test is determined on a consistent basis with the methodology described in note 2.3.3 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 which have not yet been processed into financial systems.

	2021 US\$M	2020 US\$M
<b>Trade debtors</b>		
Premium receivable <sup>1</sup>	3,462	2,990
Reinsurance and other recoveries <sup>2</sup>	2,118	1,452
Unclosed premium	774	729
Other trade debtors	195	224
	<b>6,549</b>	5,395
Other receivables	560	365
Trade and other receivables	<b>7,109</b>	5,760
Receivable within 12 months	6,628	5,471
Receivable in greater than 12 months	481	289
Trade and other receivables	<b>7,109</b>	5,760

1 Net of a provision for impairment of \$81 million (2020 \$88 million).

2 Net of a provision for impairment of \$17 million (2020 \$14 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 initially 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.

## 2.7 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.

	2021 US\$M	2020 US\$M
Trade payables	2,322	1,604
Other payables and accrued expenses	823	714
Treasury payables	19	16
Investment payables	51	4
Trade and other payables	3,215	2,338
Payable within 12 months	3,029	2,174
Payable in greater than 12 months	186	164
Trade and other payables	3,215	2,338

Due to the predominantly short-term nature of these payables, the carrying value is assumed to approximate the fair value.



### 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.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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

	2021 US\$M	2020 US\$M
(Loss) income on fixed interest securities, short-term money and cash	(96)	449
Income (loss) on growth assets	258	(170)
Gross investment income <sup>1</sup>	162	279
Investment expenses	(25)	(17)
Net investment income	137	262
Foreign exchange	(4)	(29)
Other income	–	5
Other expenses	(11)	(12)
Total investment income	122	226
Investment income – policyholders' funds	94	153
Investment expenses – policyholders' funds	(17)	(11)
Investment income – shareholders' funds	53	90
Investment expenses – shareholders' funds	(8)	(6)
Total investment income	122	226

1 Includes net fair value losses of \$409 million (2020 \$206 million), interest income of \$396 million (2020 \$407 million) and dividend and distribution income of \$175 million (2020 \$78 million).



### How we account for the numbers

Interest income is recognised in the period in which it is earned. Dividends and distribution income 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.

## 3.2 Investment assets

	2021 US\$M	2020 US\$M
<b>Fixed income assets</b>		
Short-term money	4,537	2,974
Government bonds	6,953	5,600
Corporate bonds	14,777	15,958
Infrastructure debt	99	372
	<b>26,366</b>	<b>24,904</b>
<b>Growth assets</b>		
Developed market equity	85	25
Unlisted property trusts	758	750
Infrastructure assets	788	894
Private equity <sup>1</sup>	—	262
Alternatives	114	100
	<b>1,745</b>	<b>2,031</b>
<b>Total investments</b>	<b>28,111</b>	<b>26,935</b>
Amounts maturing within 12 months	10,051	6,679
Amounts maturing in greater than 12 months	18,060	20,256
<b>Total investments</b>	<b>28,111</b>	<b>26,935</b>

1 At 31 December 2021, \$50 million of private equity assets were reclassified to assets held for sale and are expected to be disposed of during 2022.

At 31 December 2021, QBE had undrawn commitments to externally managed investment vehicles of \$209 million (2020 \$156 million).



### 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 are 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 de-recognised when the right to receive future cash flows from the asset has expired or has been transferred along with substantially all the risks and rewards of ownership.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 3. INVESTMENT ACTIVITIES

### 3.2.1 Fair value hierarchy



#### Overview

The Group Revaluation 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 identical 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.

	2021				2020			
	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
<b>Fixed income assets</b>								
Short-term money	141	4,396	–	4,537	24	2,950	–	2,974
Government bonds	5,236	1,717	–	6,953	2,978	2,622	–	5,600
Corporate bonds	–	14,777	–	14,777	–	15,953	5	15,958
Infrastructure debt	–	–	99	99	–	–	372	372
	5,377	20,890	99	26,366	3,002	21,525	377	24,904
<b>Growth assets</b>								
Developed market equity	83	–	2	85	23	–	2	25
Unlisted property trusts	–	–	758	758	–	–	750	750
Infrastructure assets	–	–	788	788	–	–	894	894
Private equity	–	–	–	–	–	–	262	262
Alternatives	64	–	50	114	100	–	–	100
	147	–	1,598	1,745	123	–	1,908	2,031
<b>Total investments</b>	<b>5,524</b>	<b>20,890</b>	<b>1,697</b>	<b>28,111</b>	<b>3,125</b>	<b>21,525</b>	<b>2,285</b>	<b>26,935</b>

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 a 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.

#### Government bonds and corporate bonds

Government bonds and corporate bonds are valued based on quoted prices sourced from external data providers. The fair value categorisation of these assets is based on the observability of the inputs. At 31 December 2021, \$332 million of government bonds were reclassified from level 2 to level 1 following a reassessment of the observability of inputs used in the valuation of those assets.

#### Infrastructure debt

Infrastructure debt is priced by external data providers where quoted prices are available or by the external fund manager who may use a combination of observable market prices or comparable prices where available and other valuation techniques. When valuation techniques require the use of significant unobservable inputs, these assets have been categorised as level 3.

#### 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.

#### Unlisted property trusts and infrastructure assets

These assets are valued using current unit prices as advised by the responsible entity, trustee or equivalent of the investment management scheme. As the valuation techniques require the use of significant unobservable inputs, these assets have been categorised as level 3.

### Private equity

These assets comprise limited partnerships and 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 fund manager. In most cases, an independent administrator will be utilised by the external fund manager for pricing and valuation. When the most up to date information is not available at the balance date, management may consider a combination of other valuation techniques in the determination of fair value. During the period, these assets were disposed of, or reclassified to assets held for sale as described in note 3.2.

### Alternatives

These assets mainly comprise investments in exchange-traded commodity products that are listed, traded in active markets and valued by reference to quoted bid prices. Alternatives also includes strategic unlisted investments which are valued based on other valuation techniques utilising significant unobservable inputs.

#### Movements in level 3 investments

The following table provides an analysis of investments valued with reference to level 3 inputs:

LEVEL 3	2021 US\$M	2020 US\$M
At 1 January	2,285	1,379
Purchases	61	121
Disposals/transfers to assets held for sale	(675)	(146)
Reclassifications from level 2	—	816
Fair value movement recognised in profit or loss	86	17
Foreign exchange	(60)	98
At 31 December	1,697	2,285

### 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 as described in note 8.2.

Included in investments are amounts totalling \$3,417 million (2020 \$3,071 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 \$287 million (2020 \$164 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. 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	2021 US\$M	2020 US\$M
<b>Bond futures and options</b>		
Short government bond futures	(1,751)	(403)
Long government bond futures	36	—
Short government bond options	(23)	—
<b>Interest rate futures</b>		
Short interest rates futures	(1,214)	—



### 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 futures and options traded in an active market, the fair value is determined by reference to quoted market prices. The mark-to-market value of futures positions is cash settled on a daily basis resulting in a fair value of nil at the balance date. The fair value of options was not material at the balance date.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 framework for managing risk sets out the approach to managing risk effectively to meet strategic objectives whilst taking into account the creation of value for our shareholders. QBE's ERM framework is articulated in the Group Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS), both of which are approved annually by the Board and lodged with APRA.

The ERM 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 identification and measurement, modelling and stress testing, risk systems, 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.

The 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 as follows:

- 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); and
- Group risk (note 4.8).

## 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 six subcategories, as follows:

- Performance risk: QBE is not able to achieve its performance objectives.
- Capital risk: QBE's structure and availability of capital do not meet regulatory requirements and/or support strategic initiatives.
- Reputational risk: QBE's stakeholders have a negative perception of QBE's brand which may damage QBE's reputation and threaten overall performance.
- Environmental, social and governance (ESG) risk: negative impact on QBE's strategic priorities or objectives from ESG issues.
- Emerging risk: new or future risks which are difficult to assess but may have a significant impact to QBE or the markets in which it operates.
- Risk culture: the norms of behaviour within QBE that determine the organisation's ability to understand, discuss and act on current and future risks.

QBE's approach to managing strategic risk is underpinned by the Group strategic risk appetite statement as set by the Board and is summarised below.

### Performance risk

Failure to deliver acceptable performance can result in shareholders losing confidence, impacting our reputation in the market and ultimately impacting our ability to deliver our strategic objectives.

QBE evaluates performance risk by assessing changing levels of risk in the business plan (supported by an established regime of attestations to the business plan by chief underwriting officers, chief actuaries, chief financial officers and chief risk officers) and taking action accordingly, prior to signing off the business plan and making market commitments. Performance risk is monitored throughout the year against committed business plans (supported by performance monitoring, cell reviews and mid-year performance risk reviews.)

### Capital risk

The Internal Capital Adequacy Assessment Process (ICAAP) outlines QBE's approach to ensuring that the Group maintains adequate capital over time and monitors compliance with regulatory capital requirements and targets. The ICAAP includes:

- specific capital targets set in the context of QBE'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'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 Investment & Capital Committee, Executive Risk 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 sets the target level of regulatory capital for 2021 at 1.6–1.8 times (2020 1.6–1.8 times) the Group's Prescribed Capital Amount (PCA).
- All regulated controlled 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 total capital at 15%–30%. At the balance date, the ratio of borrowings to total capital was 26.9% (2020 25.8%). Excluding the subordinated debt due 2042 which is intended to be redeemed (refer to note 5.1), the ratio at the balance date was 24.1%.
- Insurer financial strength ratings are provided by the major rating agencies which indicate the Group's financial strength and claims paying ability.



# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 4. RISK MANAGEMENT

### Reputational risk

QBE assesses reputational risk through the quality of the relationships with key stakeholders, including shareholders, regulators, customers, governments, communities, employees, and third-party partners including distributors and suppliers. Each of these relationships is managed through divisional and Group teams, including corporate affairs, human resources, regulatory, compliance and distribution teams.

### ESG and emerging risks

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 and emerging risks are regularly reported to the Executive 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 is included in our climate change disclosures on [pages 30 to 37](#) of this Annual Report.

### Risk culture

A sound risk culture underpins QBE's risk management strategy and is a key component of the ERM framework.

QBE is committed to, and supports, a strong risk culture. It recognises the importance of risk awareness and culture as being instrumental in the effectiveness of the ERM framework. Further information on risk culture is provided on [page 28](#) of this Annual Report.

## 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 risk;
- insurance concentration risk; and
- reserving risk.

QBE's approach to managing insurance risk is underpinned by the Group's insurance risk appetite statement which is set by the Board and is summarised below.

### Underwriting/pricing risk

QBE manages underwriting/pricing risk by appropriately setting and adjusting underwriting strategy, risk selection and pricing practices throughout the underwriting cycle. Underwriting/pricing risk is monitored throughout the year against committed business plans underpinned by cell reviews.

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 REVENUE	2021 US\$M	2020 US\$M
Commercial and domestic property	5,031	4,194
Agriculture	2,825	1,957
Public/product liability	1,983	1,647
Motor & motor casualty	1,937	1,750
Professional indemnity	1,644	1,263
Marine, energy and aviation	1,271	1,098
Workers' compensation	1,040	847
Accident and health	772	727
Financial and credit	511	465
Other	21	60
	17,035	14,008

Insurance 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 aggregate exposures and manage catastrophe risk. These include the use of catastrophe models from third-party vendors, realistic disaster scenarios 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 actuarial valuation of insurance liabilities, which is conducted at least half-yearly. The valuation of the net discounted central estimate of outstanding claims is performed by qualified and experienced actuaries, with reference to historical data and reasoned expectations of future experience and events. The net discounted central estimate of outstanding claims is subject to a comprehensive independent review at least annually.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 4. RISK MANAGEMENT

### 4.3 Credit risk



#### Overview

Credit risk is the risk of financial loss from a counterparty's failure to meet their financial obligations, including both inability or unwillingness to pay, as well as loss due to credit quality deterioration from rating downgrades. 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's credit risk appetite as set by the 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 are 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 \$1,960 million (2020 \$1,098 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 does not change the total amount recoverable. 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				NOT RATED US\$M	TOTAL US\$M
	AAA US\$M	AA US\$M	A US\$M	BBB US\$M		
<b>As at 31 December 2021</b>						
Reinsurance recoveries on outstanding claims <sup>1,2</sup>	2	4,713	1,662	55	64	6,496
Reinsurance recoveries on paid claims <sup>1</sup>	–	1,701	388	4	25	2,118
<b>As at 31 December 2020</b>						
Reinsurance recoveries on outstanding claims <sup>1,2</sup>	67	4,613	1,419	58	67	6,224
Reinsurance recoveries on paid claims <sup>1</sup>	1	1,138	301	3	9	1,452

1 Net of a provision for impairment.

2 Excludes other recoveries of \$261 million (2020 \$303 million).

The following table provides further information regarding the ageing of reinsurance recoveries on paid claims at the balance date:

	YEAR	NEITHER PAST DUE NOR IMPAIRED US\$M	PAST DUE BUT NOT IMPAIRED				TOTAL 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	
Reinsurance recoveries on paid claims <sup>1</sup>	2021	1,333	642	58	36	49	2,118
	2020	1,014	304	76	31	27	1,452

1 Net of a provision for impairment.

### 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					TOTAL US\$M
	AAA US\$M	AA US\$M	A US\$M	BBB US\$M	NOT RATED US\$M	
<b>As at 31 December 2021</b>						
Cash and cash equivalents	–	232	499	35	53	819
Interest-bearing investments	4,435	9,706	9,474	2,715	38	26,368
Derivative financial instruments	–	53	81	6	2	142
<b>As at 31 December 2020</b>						
Cash and cash equivalents	38	238	275	155	60	766
Interest-bearing investments	2,947	9,509	8,982	3,427	39	24,904
Derivative financial instruments	–	218	115	186	1	520

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 risk exposure at the balance date 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:

	NEITHER PAST DUE NOR IMPAIRED US\$M	PAST DUE BUT NOT IMPAIRED				TOTAL 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	
<b>As at 31 December 2021</b>						
Premium receivable <sup>1</sup>	2,789	421	152	65	35	3,462
Other trade debtors	126	60	2	1	6	195
Other receivables	508	41	1	1	9	560
<b>As at 31 December 2020</b>						
Premium receivable <sup>1</sup>	2,425	334	159	50	22	2,990
Other trade debtors	212	1	2	3	6	224
Other receivables	353	4	1	1	6	365

1 Net of a provision for impairment.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 4. RISK MANAGEMENT

### 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, equity prices, credit spreads and foreign exchange rates.

QBE's approach to managing market risk is underpinned by the Group's market risk appetite as set by the 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 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; and
- sensitivities to changes in interest rate and credit spread risk, measured in terms of sensitivities to changes in risk factors such as interest rate risk.

#### Interest rate risk

QBE is exposed to interest rate risk through its holdings in interest-bearing assets. 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 and other financial instruments. 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 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. Information relating to this sensitivity is provided in note 2.3.7. At the balance date, the average modified duration of cash and fixed interest securities was 2.1 years (2020 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 or loss 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:

	SENSITIVITY %	PROFIT (LOSS) <sup>1</sup>	
		2021 US\$M	2020 US\$M
Interest rate movement – interest-bearing financial assets	+0.5	(199)	(186)
	-0.5	169	101

<sup>1</sup> Net of tax at the Group's prima facie income tax rate of 30%.

### Equity 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 growth assets 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 international markets and currencies.

Growth assets 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 profit after tax is shown in the table below:

	SENSITIVITY %	PROFIT (LOSS) <sup>1</sup>	
		2021 US\$M	2020 US\$M
Infrastructure assets	+20	110	125
	-20	(110)	(125)
Unlisted property trusts	+20	106	105
	-20	(106)	(105)
Alternatives	+20	16	14
	-20	(16)	(14)
ASX 200	+20	3	2
	-20	(3)	(2)
S&P 500	+20	3	–
	-20	(3)	–
Private equity <sup>2</sup>	+20	–	37
	-20	–	(37)

1 Net of tax at the Group's prima facie income tax rate of 30%.

2 At 31 December 2021, \$50 million of private equity is classified as held for sale (note 3.2) but is not considered subject to equity price risk.

QBE is also exposed to price risk on its fixed interest securities as discussed above 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, and therefore impact reported profit or loss 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 profit or loss after tax is shown in the table below:

	SENSITIVITY %	PROFIT (LOSS) <sup>1</sup>	
		2021 US\$M	2020 US\$M
Credit spread movement – corporate interest-bearing financial assets <sup>2</sup>	+0.5	(114)	(143)
	-0.5	96	111

1 Net of tax at the Group's prima facie income tax rate of 30%.

2 Includes infrastructure debt and other investments in non-government bonds.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 4. RISK MANAGEMENT

### Foreign exchange risk

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 investments in foreign operations to the functional currency of the ultimate 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 and 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 or loss after income tax of a 10% strengthening or weakening of the major currencies against the functional currencies of the underlying QBE 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 1.2.4. The sensitivities provided demonstrate the impact of a change in one key variable in isolation while 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.

EXPOSURE CURRENCY	2021			2020		
	RESIDUAL EXPOSURE US\$M	SENSITIVITY %	PROFIT (LOSS) <sup>1</sup> US\$M	RESIDUAL EXPOSURE US\$M	SENSITIVITY %	PROFIT (LOSS) <sup>1</sup> US\$M
US dollar	198	+10 -10	14 (14)	258	+10 -10	18 (18)
Australian dollar	95	+10 -10	7 (7)	(55)	+10 -10	(4) 4

<sup>1</sup> Net of tax at the Group's prima facie income tax rate of 30%.

### Currency translation risk

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
- all non-US dollar functional currency 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 borrowing that qualifies as a hedging instrument may be designated as a hedge of the Australian dollar ultimate parent entity's net investments 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 entity 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.

QBE may, however, elect to use derivatives to manage currency translation risk in order to preserve capital.

Currency management processes are actively monitored by Group Treasury 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 *Financial Instruments*.

Further information on derivatives and borrowings designated as hedges of net investments in foreign operations is provided in note 5.6.1.

Foreign exchange gains or losses arising on translation of the Group's foreign operations from the ultimate 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 1.2.4. 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 investments in foreign operations. The basis for the sensitivity calculation is the Group's actual residual exposure at the balance date.

EXPOSURE CURRENCY	2021			2020		
	RESIDUAL EXPOSURE US\$M	SENSITIVITY %	EQUITY INCREASE (DECREASE) US\$M	RESIDUAL EXPOSURE US\$M	SENSITIVITY %	EQUITY INCREASE (DECREASE) US\$M
Australian dollar	2,702	+10 -10	270 (270)	2,962	+10 -10	296 (296)
Euro	1,538	+10 -10	154 (154)	1,632	+10 -10	163 (163)
Sterling	782	+10 -10	78 (78)	150	+10 -10	15 (15)
New Zealand dollar	278	+10 -10	28 (28)	222	+10 -10	22 (22)
Singapore dollar	121	+10 -10	12 (12)	120	+10 -10	12 (12)
Hong Kong dollar	116	+10 -10	12 (12)	36	+10 -10	4 (4)



# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 4. RISK MANAGEMENT

### 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's liquidity risk appetite which is set by the Board and is summarised below.

QBE manages liquidity risk using a number of tools, as follows:

- cash flow targeting;
- maintenance of 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 are conducted at a legal entity level and involve 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
<b>As at 31 December 2021</b>						
Derivative financial instruments	130	322	–	–	–	452
Trade payables	2,123	191	2	1	5	2,322
Other payables and accrued expenses	767	46	5	–	5	823
Treasury payables	19	–	–	–	–	19
Investment payables	51	–	–	–	–	51
Lease liabilities	56	90	60	148	–	354
Borrowings <sup>1</sup>	442	1,106	1,188	541	–	3,277
Contractual undiscounted interest payments	162	268	108	17	–	555
<b>As at 31 December 2020</b>						
Derivative financial instruments	316	231	298	–	–	845
Trade payables	1,475	122	3	–	4	1,604
Other payables and accrued expenses	679	26	3	–	6	714
Treasury payables	16	–	–	–	–	16
Investment payables	4	–	–	–	–	4
Lease liabilities	68	103	84	176	–	431
Borrowings <sup>1</sup>	200	854	1,000	909	–	2,963
Contractual undiscounted interest payments	191	326	194	23	–	734

<sup>1</sup> Excludes capitalised finance costs of \$9 million (2020 \$8 million).

The maturity profile of the Group's net discounted central estimate is analysed in note 2.3.6.

The maturity of the Group's interest-bearing financial assets is shown in the table below.

		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
<b>As at 31 December 2021</b>								
Fixed rate	US\$M	9,353	4,105	2,636	2,038	1,348	3,369	22,849
Weighted average interest rate	% p.a.	0.3	0.7	1.0	1.2	1.2	1.3	0.7
Floating rate	US\$M	1,517	705	762	337	294	723	4,338
Weighted average interest rate	% p.a.	0.1	0.3	0.6	0.7	0.8	1.1	0.5
<b>As at 31 December 2020</b>								
Fixed rate	US\$M	5,867	4,095	3,677	2,314	2,030	3,374	21,357
Weighted average interest rate	% p.a.	0.4	0.2	0.3	0.4	0.4	0.6	0.4
Floating rate	US\$M	1,578	630	610	297	341	857	4,313
Weighted average interest rate	% p.a.	0.1	0.3	0.4	1.0	0.8	1.2	0.5

## 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 (e.g. losses arising from breaches of employment, health or safety laws), improper business practices (e.g. 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;
- operational risk appetite statement, which sets out the nature and level of risk that the 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; and
- scenario analysis process, which assesses the impact of potentially extreme scenarios and the appropriateness of our contingency planning.

Key residual risks from the above processes are monitored by the Executive Risk Committee.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 4. RISK MANAGEMENT

### 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 refer to those in legislation, regulation, industry codes and standards, internal policies and ethical and business standards.

QBE's approach to managing compliance risk is underpinned by the Group risk appetite as set by the 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 processes;
- communicate and train staff on compliance requirements;
- monitor obligations and controls;
- identify and rectify incidents, issues 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 Group, including financial impact and loss of support from the Company.

QBE's approach to managing Group risk is supported by divisional Group risk appetite statements where divisions define the Board-approved plan to address identified Group risk exposures. Sources of Group risk are summarised below.

Sources of Group risk may include:

- shared global reinsurance program, including counterparty risk of Equator Re;
- intercompany loans;
- contagion reputational risk;
- credit agency dependency;
- use of Group functions where there is a global operating model in place;
- use of QBE's internal asset management function – Group Investments;
- Group initiatives or decisions with a material impact on one or more divisions; and
- liquidity and central foreign exchange management.

QBE manages Group risk through various systems, controls and processes, including the management of reinsurance arrangements, use of intercompany transactions and balances accounting guidance, transfer pricing guidelines, investment management agreements, capital planning and assessments of the use of Group functions, Group initiatives and contagion reputational events.

## 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 while 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.

The Company is listed on the Australian Securities Exchange and its share capital is denominated in Australian dollars. The Group also accesses international debt markets to diversify its funding base and maintain an appropriate amount of leverage. Borrowings are diversified across currencies and tenure.

Details of the Group's approach to capital risk management are disclosed in note 4.1.

### 5.1 Borrowings

FINAL MATURITY DATE	ISSUE DATE	PRINCIPAL AMOUNT	2021 US\$M	2020 US\$M
<b>Senior debt</b>				
25 May 2023	25 September 2017	\$6 million	6	6
			6	6
<b>Subordinated debt</b>				
25 August 2036	25 August 2020	A\$500 million <sup>1</sup>	362	385
13 September 2038	13 September 2021	£400 million (2020 nil)	538	–
24 May 2041	24 May 2011	Nil (2020 \$167 million)	–	167
24 May 2041	24 May 2011	Nil (2020 £24 million)	–	33
24 May 2042	24 May 2016	£327 million	442	445
24 November 2043	21 November 2016	\$400 million/A\$689 million <sup>1</sup>	400	400
2 December 2044	2 December 2014	\$700 million/A\$1,169 million <sup>1</sup>	698	697
12 November 2045	12 November 2015	\$300 million	300	300
17 June 2046	17 June 2016	\$524 million	522	522
			3,262	2,949
Total borrowings <sup>2</sup>			3,268	2,955
Amounts expected to be settled within 12 months			442	200
Amounts expected to be settled in greater than 12 months			2,826	2,755
Total borrowings			3,268	2,955

1 Details of related hedging activity are included in note 5.6.1.

2 \$3 million of finance costs (2020 \$2 million) were capitalised during the year.

#### Subordinated debt key terms

##### Subordinated debt due 2036

Interest is payable quarterly in arrears at a rate equal to the three-month BBSW rate plus a margin of 2.75% per annum.

##### Subordinated debt due 2038

Interest is payable semi-annually in arrears at a fixed rate of 2.5% per annum until 13 September 2028. The rate will reset in 2028 and 2033 to a rate calculated by reference to the then five-year gilt rate plus a margin of 2.061% per annum.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 5. CAPITAL STRUCTURE

### Subordinated debt due 2041

The securities were redeemed on 8 March 2021. Interest was payable semi-annually in arrears at a fixed rate of 7.25% per annum on the US dollar denominated debt and 7.5% per annum on the sterling debt.

### Subordinated debt due 2042

Interest is payable semi-annually in arrears at a fixed rate 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% per annum. The securities are intended to be redeemed.

### Subordinated debt due 2043

Interest is payable semi-annually in arrears at a fixed rate 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% per annum.

QBE has an option to defer payment of interest in certain circumstances and such deferral will not constitute an event of default.

### Subordinated debt due 2044

Interest is payable semi-annually in arrears 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% per annum. The rate will reset again, on the same basis, on 2 December 2034.

### Subordinated debt due 2045

Interest is payable semi-annually in arrears 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% per annum. The rate will reset again, on the same basis, on 12 November 2035.

### Subordinated debt due 2046

Interest is payable semi-annually in arrears at a fixed rate 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% per annum.

### Redemption terms

The securities are redeemable at the option of QBE, with the prior written approval of APRA, at any time in the event of certain tax and regulatory events and on:

- 25 August 2026 and each interest payment date thereafter for securities due 2036;
- any business day within the six-month period up to and including the first reset date of 13 September 2028 and on each reset date thereafter for securities due 2038; and
- each reset date for securities due 2042, 2043, 2044, 2045 and 2046.

### Conversion terms

The securities due 2036, 2038, 2042, 2043, 2044, 2045 and 2046 must be converted into a variable number of the Company's 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.



### 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

	2021 US\$M	2020 US\$M
Senior debt	6	6
Subordinated debt	3,475	3,220
Total fair value of borrowings	3,481	3,226

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 is 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 at par plus accrued interest.

### 5.1.2 Financing and other costs

	2021 US\$M	2020 US\$M
Interest expense on borrowings	177	188
Other costs	70	64
Total financing and other costs	247	252

### 5.1.3 Movement in borrowings

	2021 US\$M	2020 US\$M
At 1 January	2,955	3,095
Net changes from financing cash flows	348	218
Reclassification of Additional Tier 1 instrument	—	(399)
Other non-cash changes	2	(1)
Foreign exchange	(37)	42
At 31 December	3,268	2,955

## 5.2 Cash and cash equivalents

	2021 US\$M	2020 US\$M
Fixed interest rate	14	13
Floating interest rate	805	753
	819	766

#### Restrictions on use

Included in cash and cash equivalents are amounts totalling \$74 million (2020 \$73 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 \$125 million (2020 \$110 million) relating to policyholder trust accounts in the United Kingdom 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 consolidated statement of cash flows.

The reconciliation of profit or loss after income tax to net cash flows from operating activities is included in note 8.4.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 5. CAPITAL STRUCTURE

### 5.3 Contributed equity and reserves



#### Overview

Contributed equity comprises share capital and capital notes.

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.

Capital notes are Additional Tier 1 instruments with discretionary and non-cumulative distributions, and no fixed redemption date.

#### 5.3.1 Contributed equity

	2021 US\$M	2020 US\$M
Issued ordinary shares, fully paid	8,891	9,387
Capital notes	886	886
Contributed equity	9,777	10,273

#### Share capital

	2021		2020	
	NUMBER OF SHARES MILLIONS	US\$M	NUMBER OF SHARES MILLIONS	US\$M
Issued ordinary shares, fully paid at 1 January	1,471	9,387	1,305	7,594
Shares issued on-market net of transaction costs	–	–	157	813
Shares issued under the Employee Share and Option Plan	4	31	3	26
Shares issued under Dividend Reinvestment Plan	1	11	5	27
Shares issued under Bonus Share Plan	1	–	1	–
Foreign exchange	–	(538)	–	927
Issued ordinary shares, fully paid at 31 December	1,477	8,891	1,471	9,387
Shares notified to the Australian Securities Exchange	1,477	8,894	1,471	9,390
Less: plan shares subject to non-recourse loans, de-recognised under accounting standards	–	(3)	–	(3)
Issued ordinary shares, fully paid at 31 December	1,477	8,891	1,471	9,387

#### Capital notes

ISSUE DATE	PRINCIPAL AMOUNT	2021 US\$M	2020 US\$M
12 May 2020	\$500 million	493	493
16 July 2020 <sup>1</sup>	\$400 million	393	393
		886	886

<sup>1</sup> In July 2020, the terms of these instruments (originally issued in November 2017) were amended such that the notes are written off at a point of non-viability, as determined by APRA, with no possibility of conversion into ordinary shares of the Company. This resulted in the classification of these instruments as equity.

#### Key terms

##### Capital note issued 12 May 2020

Distributions of 5.875% per annum are paid semi-annually in arrears until 12 May 2025. The rate will reset in 2025 and on every fifth anniversary thereafter to a rate calculated by reference to the then five-year US Treasury rate plus a margin of 5.513% per annum.

##### Capital note issued 16 July 2020

Distributions of 5.250% per annum are paid semi-annually in arrears until 16 May 2025. The rate will reset in 2025 and on every fifth anniversary thereafter to a rate calculated by reference to the then five-year US Treasury rate plus a margin of 3.047% per annum.

#### Redemption terms

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 would be written off.

## 5.3.2 Reserves

	2021 US\$M	2020 US\$M
<b>Owner occupied property revaluation reserve<sup>1</sup></b>		
At 1 January	1	1
At 31 December	1	1
<b>Cash flow hedge reserve<sup>2</sup></b>		
At 1 January	(25)	(4)
Hedging amounts recognised in other comprehensive income	92	(157)
Hedging amounts reclassified to profit or loss	(56)	127
Taxation	(11)	9
At 31 December	–	(25)
<b>Cost of hedging reserve<sup>3</sup></b>		
At 1 January	2	(2)
Amounts recognised in other comprehensive income	7	11
Amounts reclassified to profit or loss	(2)	(5)
Taxation	(2)	(2)
At 31 December	5	2
<b>Foreign currency translation reserve<sup>4</sup></b>		
At 1 January	(2,031)	(1,479)
Net movement on translation	218	(525)
Net movement on hedging transactions	48	(27)
At 31 December	(1,765)	(2,031)
<b>Share-based payment reserve<sup>5</sup></b>		
At 1 January	168	164
Options and conditional rights expense	32	20
Transfers from reserve on vesting of options and conditional rights	(30)	(28)
Foreign exchange	(6)	12
At 31 December	164	168
<b>Premium on purchase of non-controlling interests<sup>6</sup></b>		
At 1 January	(13)	(15)
Reclassification to retained profits on disposal	–	2
At 31 December	(13)	(13)
<b>Total reserves at 31 December</b>	<b>(1,608)</b>	<b>(1,898)</b>

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 and interest rate 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 foreign controlled entities 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 interests in controlled entities that do not result in a loss of control and represent the difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received.



# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 5. CAPITAL STRUCTURE

### 5.4 Dividends



#### Overview

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.

	2021	2020	
	INTERIM	FINAL	INTERIM
Dividend per share (Australian cents)	11	—	4
Franking percentage	10%	—	10%
Franked amount per share (Australian cents)	1.1	—	0.4
Dividend payout (A\$M)	162	—	59
Payment date	24 September 2021	N/A	25 September 2020

On 18 February 2022, the directors declared a 10% franked final dividend of 19 Australian cents per share payable on 12 April 2022. The final dividend payout is A\$281 million (2020 nil).

	2021 US\$M	2020 US\$M
Previous year final dividend on ordinary shares – Nil (2019 30% franked)	—	224
Interim dividend on ordinary shares – 10% franked (2020 10% franked)	118	41
Bonus Share Plan dividend forgone	(1)	(3)
Total dividend paid	117	262

#### 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 ordinary shares of the Company.

#### 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, 116,016 (2020 523,532) ordinary shares were issued under the BSP.

#### Franking credits

The franking account balance on a tax paid basis at 31 December 2021 was a surplus of A\$54 million (2020 A\$71 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 income 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.

	2021 US CENTS	2020 US CENTS
<b>For profit (loss) after income tax</b>		
Basic earnings (loss) per share	47.5	(108.5)
Diluted earnings (loss) per share	47.2	(108.5)

### 5.5.1 Reconciliation of earnings used for earnings per share measures

Earnings per share is based on profit or loss after income tax attributable to ordinary equity holders of the Company, as follows:

	2021 US\$M	2020 US\$M
Profit (loss) after income tax attributable to ordinary equity holders of the Company	750	(1,517)
Less: distributions paid on capital notes classified as equity (note 5.3.1)	(50)	(25)
Profit (loss) used in calculating basic and diluted earnings per share	700	(1,542)

### 5.5.2 Reconciliation of weighted average number of ordinary shares used for earnings per share measures

	2021 NUMBER OF SHARES MILLIONS	2020 NUMBER OF SHARES MILLIONS
Weighted average number of ordinary shares on issue and used as the denominator in calculating basic earnings per share	1,474	1,421
Weighted average number of dilutive potential ordinary shares issued under the Employee Share and Option Plan <sup>1</sup>	8	—
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	1,482	1,421

1 In the prior year, eight million potential ordinary shares issued were excluded from the calculation because they were anti-dilutive.



### How we account for the numbers

Basic earnings (loss) per share is calculated by dividing profit or loss after income tax attributable to members of the Company, adjusted for the cost of servicing capital notes classified as equity, 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 (loss) per share adjusts the weighted average number of shares to include dilutive potential ordinary shares and instruments with mandatory conversion features. As there are no impacts on interest and other financing costs from such instruments, diluted earnings (loss) per share utilises the same earnings (loss) figure used in the determination of basic earnings (loss) per share.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 manage 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 cash flow hedging of foreign currency borrowings and/or exposure to net investments in foreign operations (NIFO).

Interest rate swaptions 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 foreign exchange 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:

	2021			2020		
	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 not in designated hedges	2,143	118	161	2,603	505	394
Forward foreign exchange contracts used in cash flow hedges	(1,599)	—	291	(1,796)	—	419
Forward foreign exchange contracts used in NIFO hedges	489	11	—	(345)	13	32
Interest rate swaptions	363	13	—	385	2	—
		142	452		520	845

The fair value of forward foreign exchange contracts and interest rate swaptions 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, and remeasured to fair value at each reporting date. Remeasurements are recognised in profit or loss at each reporting date, unless the derivative is designated as part of a qualifying hedge relationship (refer to 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 with reference to 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 were used to hedge foreign currency risk associated with highly probable forecast transactions in relation to \$400 million of subordinated notes maturing in 2043 and \$700 million of subordinated notes maturing in 2044. Foreign currency risk on future coupons and principal amounts is hedged up to and including the first call dates of the notes, being 2023 and 2024 respectively. Similarly, an interest rate swaption was put in place to hedge interest rate risk in relation to coupons on A\$500 million of subordinated notes maturing in 2036. The swaption is exercisable in August 2023 and hedges coupon payments from that date to the first call date in August 2026. These hedges were put in place to more effectively manage currency exposures and costs of funding.

Only the spot components of the forward foreign exchange contracts and the intrinsic value of the interest rate swaption are designated in hedge relationships. For forward foreign exchange contracts, reclassifications of hedging gains and losses to profit or loss are included in foreign exchange (refer to note 3.1), consistent with the currency movement of the hedged borrowings. For the interest rate swaption, reclassifications of any cumulative hedging gains or losses to profit or loss will occur as related coupon payments are made during the period from August 2023 to August 2026. A 'cost of hedging' election was made in respect of these hedges, as described below, and amortisation of the forward and currency basis components is included in financing costs (refer to note 5.1.2) where they relate to hedged coupons, or in foreign exchange (refer to note 3.1) where they relate to principal amounts.

The interest rate swaption does not generate any cash flows until August 2023, when the potential settlement would occur if the swaption is in-the-money at that point in time. The timing of cash flows relating to the forward foreign exchange contracts and corresponding average forward rates are provided in the following table:

		2021			2020		
		LESS THAN 1 YEAR	MATURING IN: 1 TO 5 YEARS	OVER 5 YEARS	LESS THAN 1 YEAR	MATURING IN: 1 TO 5 YEARS	OVER 5 YEARS
Nominal amounts	Buy US\$/ Sell A\$/	77/130	1,225/2,071	—	77/129	1,301/2,200	—
Average forward rate	US\$/A\$	0.60	0.59	—	0.60	0.59	—

### 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 included in foreign exchange (refer to 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, are provided in the following table, with borrowings being disclosed by reference to their first call dates (refer to note 5.1):

		2021			2020		
		MATURING IN:			MATURING IN:		
		LESS THAN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	LESS THAN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS
Debt instruments used in US dollar NIFO hedges							
Subordinated debt	US\$M	—	528	—	—	—	49
Senior debt	US\$M	—	6	—	—	6	—
Debt instruments used in sterling NIFO hedges							
Subordinated debt	£M	327	—	—	25	327	—
Forward foreign exchange contracts used in sterling NIFO hedges							
Nominal amounts	Buy A\$M/ Sell £M	—	—	—	657/367	—	—
Average forward rate	A\$/£	—	—	—	0.56	—	—
Forward foreign exchange contracts used in Hong Kong dollar NIFO hedges							
Nominal amounts	Buy A\$M/ Sell HKDM	175/970	—	—	177/970	—	—
Average forward rate	A\$/HKD	5.55	—	—	5.48	—	—
Forward foreign exchange contracts used in Indian rupees NIFO hedges							
Nominal amounts	Buy A\$M/ Sell INRM	—	—	—	27/1,484	—	—
Average forward rate	A\$/INR	—	—	—	54.89	—	—
Forward foreign exchange contracts used in US dollar NIFO hedges							
Nominal amounts	Buy A\$M/ Sell US\$M	—	497/350	—	—	—	—
Average forward rate	A\$/US\$	—	0.70	—	—	—	—

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 5. CAPITAL STRUCTURE



### 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 accumulated 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 to 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 other 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 to 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 the hedged item is a forecast transaction that 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.

## 6. TAX



### Overview

Income tax expense or credit is the accounting tax outcome 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 or loss and income tax expense or credit is provided in the reconciliation of prima facie tax to income tax expense or credit (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 credit 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.

Details of franking credits available to shareholders are disclosed in note 5.4.

### 6.1 Reconciliation of prima facie tax to income tax expense or credit

	NOTE	2021 US\$M	2020 US\$M
Profit (loss) before income tax		913	(1,472)
Prima facie tax expense (credit) at 30%		274	(442)
Tax effect of non-temporary differences:			
Untaxed dividends		(2)	(1)
Differences in tax rates		(93)	109
Other, including non-allowable expenses and non-taxable income		(2)	75
Prima facie tax adjusted for non-temporary differences		177	(259)
Deferred tax assets (re-recognised) de-recognised		(18)	278
(Overprovision) underprovision in prior years		(3)	20
Income tax expense		156	39
<b>Analysed as follows:</b>			
Current tax		169	59
Deferred tax		(13)	(20)
		156	39
<b>Deferred tax (credit) expense comprises:</b>			
Deferred tax assets recognised in profit or loss	6.2.1	(57)	(125)
Deferred tax liabilities recognised in profit or loss	6.2.2	44	105
		(13)	(20)



### How we account for the numbers

The current income tax expense or credit 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.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 6. TAX

### 6.2 Deferred income tax

	NOTE	2021 US\$M	2020 US\$M
Deferred tax assets	6.2.1	521	546
Deferred tax liabilities	6.2.2	31	51

#### 6.2.1 Deferred tax assets

	NOTE	2021 US\$M	2020 US\$M
<b>Amounts recognised in profit or loss</b>			
Financial assets – fair value movements		6	4
Provision for impairment		13	14
Employee benefits		70	55
Intangible assets		159	161
Insurance provisions		706	696
Tax losses recognised		197	204
Other		159	136
		1,310	1,270
<b>Amounts recognised in other comprehensive income and equity</b>			
Defined benefit plans		30	32
Other		4	4
		34	36
<b>Deferred tax assets before set-off</b>		<b>1,344</b>	<b>1,306</b>
Set-off of deferred tax liabilities	6.2.2	(823)	(760)
	6.2	521	546

#### Movements

	NOTE	2021 US\$M	2020 US\$M
At 1 January		1,306	1,150
Amounts recognised in profit or loss	6.1	57	125
Amounts recognised in other comprehensive income		1	(1)
Foreign exchange		(20)	32
At 31 December		1,344	1,306



## 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 each 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 deferred tax asset relating to the North American tax group of \$295 million (2020 \$295 million) comprises \$105 million (2020 \$117 million) of carry forward tax losses and \$190 million (2020 \$178 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 North American tax group will be able to generate sufficient taxable profits over the foreseeable future, based upon its future business plans. Key assumptions include an expectation of future 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 19 years, with the majority expiring between 2031 and 2040. 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 profits.

We continue to monitor developments in global tax reform led by the Organisation for Economic Co-operation and Development (OECD) for potential impacts on the Group's deferred tax balances.

## 6.2.2 Deferred tax liabilities

	NOTE	2021 US\$M	2020 US\$M
<b>Amounts recognised in profit or loss</b>			
Intangible assets		155	143
Insurance provisions		556	531
Financial assets – fair value movements		2	7
Other provisions		38	27
Other		83	92
		<b>834</b>	<b>800</b>
<b>Amounts recognised in other comprehensive income and equity</b>			
Defined benefit plans		20	11
		<b>20</b>	<b>11</b>
<b>Deferred tax liabilities before set-off</b>		<b>854</b>	<b>811</b>
Set-off of deferred tax assets	6.2.1	(823)	(760)
	6.2	<b>31</b>	<b>51</b>

### Movements

	NOTE	2021 US\$M	2020 US\$M
At 1 January		811	686
Amounts recognised in profit or loss	6.1	44	105
Amounts recognised in other comprehensive income		8	6
Foreign exchange		(9)	14
At 31 December		<b>854</b>	<b>811</b>



# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 6. TAX



### 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 controlled entity 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 \$402 million (2020 \$414 million) of tax losses, which includes the benefit arising from tax losses in overseas countries. \$78 million (2020 \$66 million) of tax losses not brought to account have an indefinite life and the remaining \$324 million (2020 \$348 million) expire in nine to 19 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.

### 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.

## 7. GROUP STRUCTURE



### Overview

This section provides information to help users understand the 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 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 eight 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 licences

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, assets are amortised over the remaining period, up to 15 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.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

**7. GROUP STRUCTURE**

	IDENTIFIABLE INTANGIBLES						GOODWILL	TOTAL
	LLOYD'S SYNDICATE CAPACITY US\$M	CUSTOMER RELATION- SHIPS US\$M	BRAND NAMES US\$M	INSURANCE LICENCES US\$M	SOFTWARE US\$M	OTHER US\$M	US\$M	US\$M
<b>2021</b>								
<b>Cost</b>								
At 1 January	87	455	27	148	442	19	2,107	3,285
Additions	–	–	–	–	91	–	–	91
Impairment	–	–	–	(2)	–	–	–	(2)
Disposals	–	–	–	–	(1)	–	–	(1)
Foreign exchange	(1)	(1)	(1)	(7)	(40)	–	(91)	(141)
At 31 December	86	454	26	139	492	19	2,016	3,232
<b>Amortisation</b>								
At 1 January	–	(412)	(22)	(79)	(219)	(19)	–	(751)
Amortisation <sup>1</sup>	–	(16)	–	(2)	(51)	–	–	(69)
Foreign exchange	–	2	–	4	31	–	–	37
At 31 December	–	(426)	(22)	(77)	(239)	(19)	–	(783)
<b>Carrying amount</b>								
At 31 December	86	28	4	62	253	–	2,016	2,449

1 Amortisation of \$50 million is included in underwriting expenses as it relates to intangible assets integral to the Group's underwriting activities.

	IDENTIFIABLE INTANGIBLES						GOODWILL	TOTAL
	LLOYD'S SYNDICATE CAPACITY US\$M	CUSTOMER RELATION- SHIPS US\$M	BRAND NAMES US\$M	INSURANCE LICENCES US\$M	SOFTWARE US\$M	OTHER US\$M	US\$M	US\$M
<b>2020</b>								
<b>Cost</b>								
At 1 January	84	454	26	152	378	19	2,330	3,443
Additions	–	–	–	–	71	–	–	71
Impairment	–	(3)	–	(11)	(34)	–	(390)	(438)
Disposals/transfer to assets held for sale	–	–	–	(3)	(1)	–	–	(4)
Foreign exchange	3	4	1	10	28	–	167	213
At 31 December	87	455	27	148	442	19	2,107	3,285
<b>Amortisation</b>								
At 1 January	–	(388)	(21)	(70)	(155)	(18)	–	(652)
Amortisation <sup>1</sup>	–	(21)	–	(2)	(50)	(1)	–	(74)
Foreign exchange	–	(3)	(1)	(7)	(14)	–	–	(25)
At 31 December	–	(412)	(22)	(79)	(219)	(19)	–	(751)
<b>Carrying amount</b>								
At 31 December	87	43	5	69	223	–	2,107	2,534

1 Amortisation of \$46 million is included in underwriting expenses as it relates to intangible assets integral to the Group's underwriting activities.

**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.

## 7.1.1 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 cash-generating 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 QBE. 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 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:

	2021 US\$M	2020 US\$M
North America	358	358
International	524	546
Australia Pacific	1,134	1,203
	<b>2,016</b>	<b>2,107</b>

### Impairment losses

During 2021, insurance licences of \$2 million were impaired.

During 2020, \$390 million of goodwill relating to North America and \$48 million of identifiable intangible assets were impaired.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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). Cash flow forecasts are based on a combination of actual performance to date and expectations of future performance based on prevailing and anticipated market factors.
- Discount rates 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 reflect combined operating ratio and investment return assumptions that build from the latest three-year business plan. These forecasts cover a period of five years, with the final two years determined with reference to the terminal growth rates discussed below. The cash flow forecasts are based on a combination of historical performance and 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 from the end of the cash flow forecast period. Growth rates reflect the long-term average growth rates 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 impairment testing are: North America 2.3% (2020 2.3%), Australia Pacific 2.5% (2020 2.5%) and International 2.0% (2020 2.0%).
- Discount rates 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 9.7% (2020 9.8%), Australia Pacific 12.8% (2020 12.5%) and International 8.9% (2020 9.0%). The post-tax discount rates used were: North America 7.6% (2020 7.8%), Australia Pacific 9.1% (2020 9.1%) and International 7.2% (2020 7.3%).



### Critical accounting judgements and estimates

Based on the detailed impairment test completed in respect of goodwill relating to North America, the headroom (being the excess of recoverable value over carrying value) at the current balance date increased to \$83 million compared with nil at 31 December 2020. 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 these 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 ON CARRYING VALUE OF GOODWILL	ASSUMPTION AT WHICH HEADROOM IS NIL %
Terminal value combined operating ratio	98.5 (2020 98.5)	+1 -1	Impairment of \$358 million Increase headroom to \$641 million	98.7
Long-term investment return	3.43 (2020 3.75)	+1 -1	Increase headroom to \$863 million Impairment of \$358 million	3.33
Post-tax discount rate	7.6 (2020 7.8)	+1 -1	Impairment of \$358 million Increase headroom to \$733 million	7.8

## 7.2 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 2021 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.

### 7.2.1 Controlled entities

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING	
		2021 %	2020 %
<b>Ultimate parent entity</b>			
QBE Insurance Group Limited	Australia		
<b>Controlled entities</b>			
Anex Jenni & Partner SA (liquidated 19 March 2021)	Switzerland	–	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.	United States	100.00	100.00
Elders Insurance (Underwriting Agency) Pty Limited	Australia	80.00	80.00
Equator Reinsurances Limited	Bermuda	100.00	100.00
General Casualty Company of Wisconsin	United States	100.00	100.00
General Casualty Insurance Company	United States	100.00	100.00
Greenhill BAIA Underwriting GmbH	Germany	100.00	100.00
Greenhill International Insurance Holdings Limited	United Kingdom	100.00	100.00
Greenhill Sturge Underwriting Limited	United Kingdom	100.00	100.00
Greenhill Underwriting Espana Limited	United Kingdom	100.00	100.00
Insurance Box Holdings Pty Limited (deregistered 22 March 2021)	Australia	–	100.00
Insurance Box Pty Limited (deregistered 4 February 2021)	Australia	–	100.00
Lifeco s.r.o.	Czech Republic	100.00	100.00
NAU Country Insurance Company	United States	100.00	100.00
North Pointe Insurance Company	United States	100.00	100.00
Praetorian Insurance Company	United States	100.00	100.00
QBE (PNG) Limited	PNG	100.00	100.00
QBE Administration Services, Inc.	United States	100.00	100.00
QBE Americas, Inc.	United States	100.00	100.00
QBE Asia Pacific Holdings Limited	Hong Kong	100.00	100.00
QBE Asia Services Sdn. Bhd (incorporated 3 May 2021)	Malaysia	100.00	–
QBE Blue Ocean Re Limited	Bermuda	100.00	100.00
QBE Capital Funding III Limited (dissolved 16 December 2021)	Jersey	–	100.00
QBE Capital Funding IV Limited (dissolved 16 December 2021)	Jersey	–	100.00
QBE Corporate Limited	United Kingdom	100.00	100.00
QBE Emerging Markets Holdings Pty Limited	Australia	100.00	100.00
QBE Employee Share Trust <sup>1</sup>	Australia	–	–
QBE Europe Intermediary Services SAS (deregistered 27 December 2021)	France	–	100.00
QBE Europe SA/NV	Belgium	100.00	100.00
QBE European Operations plc	United Kingdom	100.00	100.00
QBE European Services Limited	United Kingdom	100.00	100.00
QBE European Underwriting Services (Australia) Pty Limited	Australia	100.00	100.00
QBE Finance Holdings (EO) Limited	United Kingdom	100.00	100.00
QBE FIRST Enterprises, LLC	United States	100.00	100.00
QBE FIRST Property Tax Solutions, LLC	United States	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	United Kingdom	100.00	100.00



Notes to the financial statements *continued*

FOR THE YEAR ENDED 31 DECEMBER 2021

**7. GROUP STRUCTURE**

	COUNTRY OF INCORPORATION/FORMATION	EQUITY HOLDING	
		2021 %	2020 %
QBE Holdings (AAP) Pty Limited	Australia	100.00	100.00
QBE Holdings (EO) Limited	United Kingdom	100.00	100.00
QBE Holdings, Inc.	United States	100.00	100.00
QBE Hongkong & Shanghai Insurance Limited	Hong Kong	100.00	100.00
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	United States	100.00	100.00
QBE Insurance Holdings Pty Limited	Australia	100.00	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.	United States	100.00	100.00
QBE Irish Share Incentive Plan <sup>1</sup>	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.	United States	100.00	100.00
QBE Management Services (Philippines) Pty Limited	Australia	100.00	100.00
QBE Management Services (UK) Limited	United Kingdom	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	United Kingdom	100.00	100.00
QBE Regional Companies (N.A.), Inc.	United States	100.00	100.00
QBE Reinsurance Corporation	United States	100.00	100.00
QBE Reinsurance Services (Bermuda) Limited	Bermuda	100.00	100.00
QBE Services Inc	Canada	100.00	100.00
QBE SK s.r.o. (dissolved 19 January 2021)	Slovakia	—	100.00
QBE Specialty Insurance Company	United States	100.00	100.00
QBE s.r.o.	Czech Republic	100.00	100.00
QBE Stonington Insurance Holdings Inc	United States	100.00	100.00
QBE Strategic Capital (Europe) Limited	United Kingdom	100.00	100.00
QBE Strategic Capital (International) Limited	United Kingdom	100.00	100.00
QBE Strategic Capital Company Pty Limited	Australia	100.00	100.00
QBE UK Finance IV Limited	United Kingdom	100.00	100.00
QBE UK Limited	United Kingdom	100.00	100.00
QBE UK Share Incentive Plan <sup>1</sup>	United Kingdom	—	—
QBE Underwriting Limited	United Kingdom	100.00	100.00
QBE Underwriting Services (Ireland) Limited	Ireland	100.00	100.00
QBE Underwriting Services (UK) Limited	United Kingdom	100.00	100.00
QBE Ventures Pty Limited	Australia	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) Pte Limited (in liquidation)	Fiji	100.00	100.00
Regent Insurance Company	United States	100.00	100.00
Ridgwell Fox & Partners (Underwriting Management) Limited (dissolved 20 February 2021)	United Kingdom	—	100.00
Sinkonamahasarn Company Limited <sup>2</sup>	Thailand	49.00	49.00
Southern National Risk Management Corporation	United States	100.00	100.00

	COUNTRY OF INCORPORATION/ FORMATION	EQUITY HOLDING	
		2021 %	2020 %
Southern Pilot Insurance Company	United States	100.00	100.00
Standfast Corporate Underwriters Limited	United Kingdom	100.00	100.00
Stonington Insurance Company	United States	100.00	100.00
Trade Credit Collections Pty Limited	Australia	100.00	100.00
Trade Credit Underwriting Agency NZ Limited	New Zealand	100.00	100.00
Trade Credit Underwriting Agency Pty Limited	Australia	100.00	100.00
Westwood Insurance Agency	United States	100.00	100.00

- 1 QBE Employee Share Trust, QBE Irish Share Incentive Plan and QBE United Kingdom 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.
- 2 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 and with 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.



# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 accounting standards and amendments adopted by the Group

The Group adopted the following new or amended accounting standards from 1 January 2021:

#### TITLE

AASB 2020-4 *Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions*

AASB 2020-8 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2*

The adoption of these revised standards did not significantly impact the Group's accounting policies or financial statements.

In March 2021, the IFRIC issued an agenda decision on *Configuration or Customisation Costs in a Cloud Computing Arrangement*. The IFRIC decision is consistent with the Group's accounting policies and did not materially impact the Group's financial statements.

### 8.1.2 New accounting standards and amendments issued but not yet effective

#### TITLE

#### OPERATIVE DATE

AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

1 January 2022

AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*

1 January 2022

AASB 2021-3 *Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions beyond 30 June 2021*

1 January 2022

AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*

1 January 2023

AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*

1 January 2023

AASB 2021-5 *Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

1 January 2023

AASB 17 *Insurance Contracts*

1 January 2023

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 below.

#### AASB 17 Insurance Contracts

AASB 17, a new accounting standard for insurance contracts, was adopted by the AASB in July 2017. In June 2020, the IASB issued *Amendments to IFRS 17* which deferred the effective date from 1 January 2021 to 1 January 2023 and made significant amendments to the standard in response to feedback from, and implementation issues raised by, stakeholders. These amendments were adopted by the AASB in July 2020.

#### Measurement of insurance contracts

##### Measurement models

The standard introduces a new 'general model' for the recognition and measurement of insurance contracts. The liability for remaining coverage (which represents insurance coverage to be provided after the balance date) under the general model is measured as the sum of:

- the present value of expected future cash flows and a risk adjustment (collectively referred to as the 'fulfilment cash flows'); and
- a contractual service margin, being the unearned profit, which is recognised as insurance revenue in profit or loss over the coverage period of the contracts. The contractual service margin is earned based on a pattern of coverage units which may not be the same as the pattern of incidence of risk used to earn gross written premium under AASB 1023 *General Insurance Contracts* (AASB 1023).

AASB 17 permits the use of a simplified approach (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 approach is not expected to materially differ from that under the general model, or if the coverage period of the contracts is less than one year. QBE has developed a model and methodology for assessing eligibility of contracts with coverage periods of greater than one year to apply the simplified approach. Our preliminary assessment, which involves detailed modelling under a range of scenarios as well as a qualitative assessment of contract features, has determined that the simplified approach is expected to apply to more than 98% of the Group's business based on gross written premium.

For groups of contracts that apply the simplified approach and have a coverage period of one year or less, AASB 17 provides an option to recognise any insurance acquisition costs as expenses when incurred. QBE does not plan to apply this option and expects to amortise acquisition costs over the coverage period of the related insurance contracts, consistent with current accounting under AASB 1023.

#### *Onerous contracts*

AASB 17 requires the identification of 'groups' of onerous contracts which are expected to be determined at a more granular level of aggregation than the level at which the liability adequacy test is performed under AASB 1023. Contracts that are measured using the simplified approach are assumed not to be onerous unless facts and circumstances indicate otherwise. QBE has developed a framework for identifying relevant facts and circumstances that may be indicators of possible onerous contracts which includes consideration of management information provided to the Group Executive Committee for planning and performance management purposes.

If such facts and circumstances that may be indicators of possible onerous contracts exist, the onerous contract losses are measured based on an estimation of fulfilment cash flows and are recognised in profit or loss. Models for measuring potential onerous contract losses are currently being developed, tested and approved. Onerous contract losses must be measured on a gross basis (excluding the effect of reinsurance), with the impact on equity and profit or loss mitigated by the deduction of related income on reinsurance recoveries to the extent that the onerous contracts are covered by reinsurance. The financial impact is still being determined but the application of the onerous contracts requirements could result in a decrease in opening equity on adoption of AASB 17.

#### *Risk adjustment*

The measurement of insurance contract liabilities will include a risk adjustment which replaces the risk margin under AASB 1023. The risk margin under AASB 1023 reflects the inherent uncertainty in the net discounted central estimate, whereas the risk adjustment is defined as the compensation required for bearing the uncertainty that arises from non-financial risk. Similar to the risk margin, the risk adjustment includes the benefit of diversification. AASB 17 requires the disclosure of the confidence level that corresponds to the risk adjustment used in the measurement of insurance contract liabilities. The application of the AASB 17 requirements is one of substantial judgement and QBE is currently defining the methodology for determining the risk adjustment and, in doing so, is giving consideration to evolving industry interpretation. Given QBE's ongoing work on this complex component of the standard, the financial impact cannot be reasonably estimated at the balance date.

#### *Discount rates*

AASB 1023 requires the net central estimate of outstanding claims to be discounted using risk-free rates as described in note 2.3.4. AASB 17 requires estimates of future cash flows to be discounted to reflect the time value of money and financial risks related to those cash flows but does not prescribe a methodology for determining the discount rates used. QBE expects to apply a 'bottom-up approach' which uses risk-free rates adjusted to reflect the illiquidity characteristics of the insurance contracts, which could result in higher discount rates relative to current requirements. The methodology and impact of reflecting illiquidity within discount rates is currently being determined.

#### *Foreign exchange*

Insurance contract assets and liabilities that are denominated in foreign currency are treated as monetary items under AASB 17. This differs from current industry practice in respect of unearned premium and deferred insurance costs which are treated as non-monetary items. The financial impact of this change will be known once the other measurement impacts of AASB 17 have been determined and will be impacted by the exchange rates at the balance date. QBE will reassess its operational and translational currency exposures, as well as related risk management strategies, once the impacts are reasonably estimable.

#### *Interim reporting*

AASB 17 provides an option to change the treatment of accounting estimates made in interim financial statements when applying AASB 17 in the subsequent annual financial statements (i.e. a 'year-to-date basis'). QBE expects to apply this option and will measure accounting estimates on a year-to-date basis which is consistent with current practice.

#### **Presentation and disclosure**

The standard introduces significant changes to the presentation and disclosure of insurance line items in the financial statements, introducing new line items on the balance sheet and statement of comprehensive income and increased disclosure requirements compared with existing reporting requirements.

Existing insurance and reinsurance contract line items on the balance sheet (including trade debtors arising from general insurance contracts, unearned premium, deferred insurance costs, gross outstanding claims and reinsurance and other recoveries on outstanding claims) will be replaced with insurance contract assets and liabilities, and reinsurance contract assets and liabilities. Insurance contract liabilities under AASB 17 will include all cash flows that directly relate to the fulfillment of insurance contracts (direct and inward reinsurance), including acquisition, claims settlement, policy administration and maintenance costs. It also includes other costs such as direct overheads which are currently recognised in trade and other payables on the balance sheet.



# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 8. OTHER

### Transition

AASB 17 will be applied retrospectively to all of QBE's insurance contracts on transition except to the extent that it is impracticable to do so, in which case either a modified retrospective or fair value approach may be applied. QBE expects to apply a modified retrospective approach to certain contracts acquired in the past (e.g. as part of a business combination) that, at the time of acquisition, were considered past expiry and were in their claims settlement period. For these contracts, the related liabilities are expected to be classified as liabilities for incurred claims, on the basis that it would be impracticable to treat these liabilities as related to unexpired coverage. QBE is currently performing an assessment to conclude on the expected transition approach to be applied for the remainder of the business.

### Financial impact

The requirements of AASB 17 are complex and the expectations noted above are subject to change as the implementation progresses and as QBE continues to analyse the impacts of the standard and recent amendments. Market developments also continue to be monitored in order to assess the impact of evolving interpretations and other changes. The financial impact of adopting AASB 17 cannot be reasonably estimated at the date of this report. QBE intends to disclose the potential financial impact of adopting AASB 17 once it is practical to provide a reliable estimate.

### Implementation progress

QBE has performed an impact assessment which identified the key areas of expected impact. Group-wide accounting guidance and application methodologies are being developed, and a global implementation team has been mobilised to progress the detailed design and implementation of required changes to financial reporting systems.

In addition to concluding on methodology decisions in relation to the areas of judgement described above, the implementation team is currently focused on the development and testing of actuarial models as well as the implementation of changes to finance systems and reporting processes. Complementing these changes, QBE's transition approach also includes the development and delivery of training to the global finance teams and relevant stakeholders on the new requirements and their practical application.

## 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 including corporate members at Lloyd's. 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 \$2,177 million (2020 \$2,085 million) were in place in respect of the Group's participation in Lloyd's, along with cash and investments of \$106 million (2020 \$250 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 insurance and non-insurance litigation including but not limited to regulatory test cases and class actions, taxation and compliance matters, which may result in legal or regulatory penalties and financial or non-financial losses and other impacts. QBE is currently defending a representative class action in Australia relating to policyholders with business interruption policies (refer to note 1.2.3).

Entities in the Group may also provide guarantees to support representations in commercial transactions.

## 8.3 Offsetting financial assets and liabilities

The Group has \$243 million (2020 \$261 million) receivable from and payable to a single counterparty which are fully set off in the balance sheet in accordance with Australian Accounting Standards, on the basis that the Group intends to settle these on a net basis and has a legally enforceable right to do so.

## 8.4 Reconciliation of profit or loss after income tax to net cash flows from operating activities



### Overview

AASB 1054 *Australian Additional Disclosures* requires a reconciliation of profit or loss after income tax to net cash flows from operating activities.

	2021 US\$M	2020 US\$M
Profit (loss) after income tax	757	(1,511)
Adjustments for:		
Depreciation and impairment of property, plant and equipment	37	40
Amortisation of right-of-use lease assets	60	68
Amortisation/impairment of intangibles	71	512
Loss on sale of entities and businesses	–	2
Share of net loss of associates	7	5
Net foreign exchange losses	4	29
Fair value losses on financial assets	409	206
Equity-settled share-based payments expense	32	20
Balance sheet movements:		
Increase in trade debtors	(1,920)	(433)
Increase in net operating assets	(229)	(142)
Increase in trade payables	1,755	378
Increase in gross outstanding claims liability	753	1,760
Increase in unearned premium	1,422	635
Increase in deferred insurance costs	(474)	(262)
Increase in net defined benefit obligation	2	1
Decrease (increase) in net tax assets	68	(74)
Net cash flows from operating activities	2,754	1,234

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 8. OTHER

### 8.5 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.

#### 8.5.1 Share schemes

A summary of deferred equity award plans is set out below:

PLAN	AVAILABLE TO:	NATURE OF AWARD	VESTING CONDITIONS
<b>Executive Incentive Plan (EIP) (2017–2021)</b>	Executives (before 1 Jan 2019) and other key senior employees	<ul style="list-style-type: none"> <li>• 40%-50% delivered in cash.</li> <li>• 50%-60% deferred as conditional rights<sup>1</sup> to fully paid ordinary shares of the Company.</li> </ul>	<p>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.</p> <p>EIP outcomes are subject to the achievement of:</p> <ul style="list-style-type: none"> <li>• a blend of divisional combined operating ratios (COR) for 2021, or Group COR for 2017-2020, and cash ROE targets;</li> <li>• divisional COR targets in the case of divisional employees; and</li> <li>• individual performance objectives reflecting QBE's strategic priorities.</li> </ul>
<b>Short-term Incentive (STI) (2014–2021)</b>	Executives and other key senior employees	<ul style="list-style-type: none"> <li>• 67% delivered in cash (50% in the case of the Group CEO).</li> <li>• 33% deferred as conditional rights to fully paid ordinary shares of the Company (50% in the case of the Group CEO).</li> </ul>	<p>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.</p> <p>STI outcomes are subject to the achievement of:</p> <ul style="list-style-type: none"> <li>• a blend of divisional CORs for 2021, or Group COR for 2017-2020, and cash ROE targets;</li> <li>• divisional COR targets<sup>2</sup> in the case of divisional employees; and</li> <li>• individual performance objectives reflecting QBE's strategic priorities.</li> </ul>
<b>Long-term incentive (LTI) (2019–2021)</b>	Executives	<ul style="list-style-type: none"> <li>• Conditional rights to fully paid ordinary QBE shares.</li> </ul>	<p>On achievement of the performance measures at the end of a three-year performance period, conditional rights vest in three tranches as follows:</p> <ul style="list-style-type: none"> <li>• 33% at the end of the three-year performance period;</li> <li>• 33% on the first anniversary of the end of the performance period; and</li> <li>• 34% on the second anniversary of the end of the performance period.</li> </ul> <p>Vesting is subject to performance conditions as follows:</p> <ul style="list-style-type: none"> <li>• 50% of each tranche is subject to the achievement against the Group ROE performance target based on the average of three individual annual performance ranges set over three individual years (for 2021 awards), or a three-year average target (for 2019 and 2020 awards); and</li> <li>• 50% of each tranche is based on the Group's relative total shareholder return, compared against two independent peer groups, over a three-year performance period.</li> </ul>

1 For participants outside Australia, the deferred component may be delivered in equal shares of conditional rights and cash.

2 Divisional return on allocated capital targets until 31 December 2016.

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 BSP 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, with clawback provisions applicable to 2021 allocations under the plan;
- under good leaver provisions (e.g. retirement, redundancy, ill health, injury or mutually agreed separation), conditional rights remain subject to the performance and vesting conditions; and
- once vested, conditional rights can be exercised for no consideration.

## 8.5.2 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:

	2021 NUMBER OF RIGHTS	2020 NUMBER OF RIGHTS
At 1 January	13,247,240	13,484,807
Granted	4,061,715	3,999,178
Dividends attaching	83,887	357,956
Vested and transferred to employees	(4,196,217)	(2,827,980)
Forfeited	(2,212,696)	(1,766,721)
At 31 December	10,983,929	13,247,240
Weighted average share price at date of vesting of conditional rights during the year	A\$9.41	A\$13.10
Weighted average fair value of conditional rights granted during the year	A\$9.23	A\$12.35

## 8.5.3 Fair value of conditional rights

The fair value of conditional rights granted during the year was determined using the following significant assumptions:

		2021	2020
Five-day volume weighted average price of instrument at grant date	A\$	9.30–12.01	7.49–14.91
Expected volatility	%	25–27	21–24
Risk-free rate	%	0.09–0.81	0.18–0.68
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.

## 8.5.4 Employee options

The market value of all shares underlying the options at the balance date was A\$0.2 million (2020 A\$0.1 million). During 2021, no options were cancelled or forfeited. At 31 December 2021, 17,000 remained, excluding notional dividends (2020 17,000). 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.

## 8.5.5 Share-based payment expense

This expense, which includes amounts in relation to cash-settled share-based payment awards, was \$36 million (2020 \$20 million). These amounts are included in underwriting and other expenses.

## 8.5.6 Shares purchased on-market

The Group may purchase shares on-market to satisfy entitlements under employee share schemes. The Group acquired 0.1 million (2020 0.2 million) such shares during the period at an average price of A\$11.07 (2020 A\$13.18).



### 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.

# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 8. OTHER

### 8.6 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.

	2021 US\$000	2020 US\$000
Short-term employee benefits	15,711	10,060
Post-employment benefits	166	162
Other long-term employment benefits	82	38
Share-based payments	11,254	2,793
Termination benefits	–	622
	<b>27,213</b>	<b>13,675</b>



#### 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 employment benefits

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.

##### Share-based payments

Further information in relation to remuneration under equity-based compensation schemes is provided in note 8.5.

##### 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
- 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.



## 8.7 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.

	DATE OF LAST ACTUARIAL ASSESSMENT	FAIR VALUE OF PLAN ASSETS		PRESENT VALUE OF PLAN OBLIGATIONS		NET RECOGNISED SURPLUSES (DEFICITS)	
		2021 US\$M	2020 US\$M	2021 US\$M	2020 US\$M	2021 US\$M	2020 US\$M
<b>Defined benefit plan surpluses</b>							
Iron Trades Insurance staff trust	31 Dec 2021	<b>365</b>	363	<b>(285)</b>	(299)	<b>80</b>	64
Janson Green final salary superannuation scheme <sup>1</sup>	31 Dec 2021	<b>197</b>	209	<b>(185)</b>	(208)	<b>12</b>	1
		<b>562</b>	572	<b>(470)</b>	(507)	<b>92</b>	65
<b>Defined benefit plan deficits</b>							
QBE the Americas plan <sup>1</sup>	31 Dec 2021	<b>214</b>	258	<b>(224)</b>	(259)	<b>(10)</b>	(1)
Other plans <sup>2</sup>	31 Dec 2021	<b>34</b>	44	<b>(53)</b>	(65)	<b>(19)</b>	(21)
		<b>248</b>	302	<b>(277)</b>	(324)	<b>(29)</b>	(22)

1 Defined benefit plan obligations are funded.

2 Other plans include \$11 million (2020 \$12 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 trustees 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 (2020 \$3 million) is included in underwriting expenses. Total employer contributions expected to be paid to the various plans in 2022 amount to \$1 million.



### How we account for the numbers

The surplus or deficit recognised in the balance sheet in respect of defined benefit 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.



# Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2021

## 8. OTHER

### 8.8 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.

	2021 US\$000	2020 US\$000
<b>PricewaterhouseCoopers (PwC) Australian firm</b>		
Audit or review of financial reports of the ultimate parent entity	2,022	1,868
Audit of financial reports of controlled entities	2,258	1,805
Audit of statutory returns	591	483
Other assurance services	515	920
Taxation services	14	32
Advisory services	524	505
	<b>5,924</b>	<b>5,613</b>
<b>Related practices of PwC Australian firm (including overseas PwC firms)</b>		
Audit of financial reports of controlled entities	9,157	9,654
Audit of statutory returns	2,640	2,824
Other assurance services	53	130
Taxation services	34	74
Advisory services	72	102
	<b>11,956</b>	<b>12,784</b>
	<b>17,880</b>	<b>18,397</b>
Audit and assurance services	17,236	17,684
Other services	644	713
	<b>17,880</b>	<b>18,397</b>
<b>Other auditors</b>		
Audit of financial reports of controlled entities	1,101	15

## 8.9 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.

### 8.9.1 Summarised financial data of QBE Insurance Group Limited (the Company)

	2021 US\$M	2020 US\$M
Loss after income tax	(73)	(78)
Other comprehensive loss	(727)	(1,011)
Total comprehensive loss	(800)	(1,089)
Assets due within 12 months <sup>1</sup>	1,737	1,366
Shares in controlled entities	14,012	14,860
Total assets	15,749	16,226
Liabilities payable within 12 months <sup>2</sup>	451	504
Borrowings	3,511	3,016
Total liabilities	3,962	3,520
Net assets	11,787	12,706
Contributed equity	9,777	10,273
Treasury shares held in trust	(2)	(1)
Foreign currency translation reserve	137	315
Other reserves	112	116
Retained profits	1,763	2,003
Total equity	11,787	12,706

1 Includes amounts due from QBE companies of \$667 million (2020 \$977 million).

2 Includes amounts due to QBE companies of \$379 million (2020 \$255 million).

### 8.9.2 Guarantees and contingent liabilities

	2021 US\$M	2020 US\$M
Support of the Group's participation in Lloyd's	2,177	2,085
Support of other insurance operations of controlled entities	2,512	2,187
Guarantees to investors in subordinated debt <sup>1</sup>	–	1,443

1 Excludes subordinated debt owned by the ultimate parent entity.

### 8.9.3 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 2021

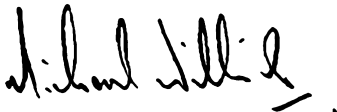
In the directors' opinion:

- (a) the financial statements and notes set out on pages 82 to 153 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 2021 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 18th day of February 2022 in accordance with a resolution of the directors.



Michael Wilkins AO  
**Director**



Andrew Horton  
**Director**

# 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:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2021 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 2021
- 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\$60 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. To conduct this risk assessment, we considered the inherent risks facing the Group, including those arising from its respective business operations, and how the Group manages these risks.
- In conjunction with component auditors, 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 direction and supervision we needed to have over 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 competence and capabilities 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.



## 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
<p><b>Valuation of net outstanding claims liability</b> (Refer to note 2.3) \$17,525 million</p> <p>The liability for outstanding claims relates to claims incurred during the year or prior periods, net of any reinsurance and other recoveries.</p> <p>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 the liability to pay future claims.</p> <p>We considered the valuation of the net outstanding claims liability a key audit matter due to:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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 as a result of ongoing legal test cases, wider macroeconomic impacts and other factors.</li> <li>• 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.</li> <li>• 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 payments.</li> <li>• The audit effort required the use of experts with specialised skills and knowledge.</li> </ul>	<p>Together with PwC actuarial experts, our procedures included:</p> <p><b>Gross discounted central estimate</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Evaluating whether the Group's actuarial methodologies were consistent with recognised practices and with prior periods.</li> <li>• Evaluating the appropriateness and reliability of data used to derive the central estimate, including testing a sample of case estimates and settlement by agreeing to underlying documentation.</li> <li>• Assessing the appropriateness of significant actuarial assumptions such as patterns of claims incidence, reporting and payments, 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.</li> <li>• 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.</li> </ul> <p><b>Reinsurance and other recoveries</b></p> <ul style="list-style-type: none"> <li>• 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 making inquiries regarding legal advice obtained by the Group.</li> <li>• Assessing the recoverability of reinsurance recoveries by considering the payment history and credit worthiness of reinsurer counterparties for a sample of reinsurance recoveries.</li> </ul>

# 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 calculation of the probability of adequacy for reasonableness and consistency with previous valuations by developing an understanding of and testing the actuarial techniques applied by the Group.

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

#### Carrying value of goodwill

(Refer to note 7.1.1) \$2,016 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.

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 in relation 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 adopted against 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 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 rates, market premiums and unlevered betas) to industry and 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.



## Key audit matter

## How our audit addressed the key audit matter

### Recoverability of deferred tax assets in the North American tax group

(Refer to note 6.2.1) \$295 million

The Group holds deferred tax assets comprised of carry forward tax losses and deductible temporary differences related to the North American 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 American CGU, as well as the period over which tax losses will be available for recovery, and the execution of any future tax planning strategies.

We considered the recoverability of the deferred tax assets in the North American 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 appropriateness of the recoverability assessment against the requirements of Australian Accounting Standards, and in particular the “convincing other evidence” test under AASB 112 *Income Taxes*.
- Evaluating the appropriateness of significant assumptions used to derive the cash flow projections, by comparing with external market and industry data where available, and current and past performance of the North American CGU.
- Comparing cash flow projections and other assumptions used in the recoverability assessment to those used for the goodwill impairment assessment for the North American 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) \$1,697 million

The Group held US\$28,111 million of investments at 31 December 2021, of which US\$1,697 million were classified as level 3 in accordance with AASB 13 *Fair Value Measurements*.

The Group exercises judgement in valuing level 3 investments as there are significant unobservable inputs as a result of market illiquidity and/or instrument complexity.

The level 3 investments held at fair value largely consist of infrastructure assets and unlisted property trusts.

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 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 2021 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.

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

#### 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 IT 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 key 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 and management's monitoring controls over third parties.



## 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 2021, 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](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf). This description forms part of our auditor's report.