

Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2022

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at, or during, the year ended 31 December 2022.

Directors

Michael Wilkins AO (Chair)
 Andrew Horton
 Yasmin Allen (from 1 July 2022)
 Stephen Fitzgerald AO (until 5 May 2022)
 John M Green (Deputy Chair) (until 5 May 2022)
 Tan Le
 Kathryn Lisson
 Sir Brian Pomeroy
 Jann Skinner
 Eric Smith
 Rolf Tolle

Consolidated results

	STATUTORY RESULT	
	2022 US\$M	2021 US\$M
Gross written premium	20,001	18,457
Gross earned premium revenue	19,067	17,035
Net earned premium	14,327	13,408
Net claims expense	(8,330)	(8,371)
Net commission	(2,119)	(2,070)
Underwriting and other expenses	(1,836)	(1,829)
Underwriting result	2,042	1,138
Net investment (loss) income on policyholders' funds	(509)	77
Insurance profit	1,533	1,215
Net investment (loss) income on shareholders' funds	(267)	45
Financing and other costs	(245)	(247)
Gain on sale of entities and businesses	38	–
Share of net loss of associates	(7)	(7)
Restructuring and related expenses	(106)	(72)
Amortisation and impairment of intangibles	(27)	(21)
Profit before income tax	919	913
Income tax expense	(141)	(156)
Profit after income tax	778	757
Net profit attributable to non-controlling interests	(8)	(7)
Net profit after income tax attributable to ordinary equity holders of the Company	770	750

Result

The Group reported a net profit after tax attributable to ordinary equity holders of the Company of \$770 million for the year ended 31 December 2022, compared with \$750 million for the prior year. Risk-free rates increased across all currencies throughout the year as central banks undertook aggressive actions to combat inflation. This resulted in a \$1,214 million benefit to the underwriting result, which was more than offset by a \$1,343 million adverse mark-to-market impact on our fixed income portfolio.

Gross written premium increased by \$1,544 million mainly as a result of continued premium rate increases, stable retention and targeted new business growth, with particularly strong growth in Crop. Reinsurance expense increased by \$1,113 million mainly reflecting the growth in Crop, where net retention was managed through the placement of an external quota share, combined with the cost of the transaction to reinsure prior accident year North American Excess and Surplus (E&S) liabilities.

The Group reported a statutory underwriting profit of \$2,042 million compared with \$1,138 million in the prior year, equating to a combined operating ratio of 85.7% compared with 91.5%. Excluding the impacts of changes in risk-free rates, the combined operating ratio was 94.2% compared with 93.7% in the prior year, reflecting the impacts of the E&S transaction and the Australian pricing promise review.

The net claims ratio was 58.1% compared with 62.4% in the prior year. Excluding the impact of changes in risk-free rates, the net claims ratio was 66.6% compared with 64.6% in the prior year. The beneficial impact of the E&S transaction and the release of the remaining \$160 million of COVID-19 risk margin was more than offset by an increase in ex-cat and catastrophe claims and prior accident year claims development.

The combined commission and expense ratio decreased to 27.6% from 29.1% in the prior year. The net commission ratio reduced to 14.8% from 15.5% in the prior year, primarily due to income from the increased quota share in Crop and favourable business mix, partly offset by the impacts of the E&S reinsurance transaction. The Group's expense ratio decreased to 12.8% from 13.6% in the prior year, mainly reflecting disciplined cost management, favourable business mix and ongoing operating leverage driven by strong premium growth.

Total investment loss was \$776 million compared with an investment income of \$122 million in the prior year. Excluding the impacts of changes in risk-free rates, total investment income was \$567 million compared with \$382 million in the prior year. Wider credit spreads and unrealised losses on developed and emerging market equity and enhanced fixed income investments were more than offset by favourable returns from unlisted property and infrastructure assets.

The Group's effective tax rate was 15.3% compared with 17.1% in the prior year reflecting the mix of corporate tax rates in the jurisdictions in which QBE operates and the recognition of previously unrecognised tax losses in the North American tax group.

Dividends

The directors are announcing a final dividend of 30 Australian cents per share (2021 19 Australian cents per share). The final dividend will be 10% franked (2021 10%). The 2022 full year dividend payout is A\$578 million compared with A\$443 million for 2021. Further details of dividends paid during the year are set out in note 5.4 to the financial statements.

Activities

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

Presentation currency

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

Operating and financial review

Information on the Group's results, operations, business strategy, prospects and financial position is set out in the operating and financial review on [pages 16 to 25](#) of this Annual Report.

Outstanding claims liability

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

As in previous years, the directors consider that substantial risk margins are required to mitigate the inherent uncertainty in the net central estimate. The probability of adequacy of the outstanding claims liability at 31 December 2022 was 90.0% compared with 91.7% last year. The Australian Prudential Regulation Authority (APRA) prudential standards provide a capital credit for risk margins in excess of a probability of adequacy of 75%.

Group indemnities

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

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

The indemnity extends to legal costs other than where:

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

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

Directors' Report continued

FOR THE YEAR ENDED 31 DECEMBER 2022

Directors' and officers' insurance

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

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

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

Significant changes

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

Likely developments and expected results of operations

Likely developments in the Group's operations in future financial years and the expected results of those operations have been included in the operating and financial review on pages 16 to 25 of this Annual Report.

Events after balance date

On 17 February 2023, the Group entered into a transaction to reinsure certain prior accident year claims liabilities in North America and International. The transaction remains subject to regulatory approval and is expected to result in an upfront net cost of around \$100 million before tax.

Other than the above and the declaration of the final dividend, no matter or circumstance has arisen since 31 December 2022 that, in the opinion of the directors, has significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future financial periods.

Material business risks

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

Some of the material business risks that QBE faces include strategic, insurance, credit, market, liquidity, operational, compliance and Group risks. Explanations of these risks and their mitigations are set out in detail in note 4 to the financial statements which we recommend you read. Further details of how QBE manages risk are set out in the Group Chief Risk Officer's Report on pages 32 to 33, the climate change section on pages 34 to 43 and the risk management section of the corporate governance statement on page 57 of this Annual Report.

The Group makes judgements and estimates in respect of the reported amounts of certain assets and liabilities, the most significant of which are in relation to the determination of the net outstanding claims liability, the application of the liability adequacy test and the valuation of deferred tax assets. Details of these, and information on how QBE has responded to uncertainties created by COVID-19, are included in the notes to the financial statements.

Meetings of directors

	FULL MEETINGS OF DIRECTORS ¹		MEETINGS OF INDEPENDENT DIRECTORS		MEETINGS OF COMMITTEES													
					GOVERNANCE & NOMINATION				INVESTMENT		OPERATIONS & TECHNOLOGY		PEOPLE & RE-MUNERATION		RISK & CAPITAL		SUB-COMMITTEES ²	
	H	A	H	A	H	A	H	A	H	A	H	A	H	A	H	A	H	A
Yasmin Allen ³	5	5	3	3	3	3	–	–	–	–	–	–	3	3	–	–	3	3
Stephen Fitzgerald ³	4	4	2	2	–	–	2	2	1	1	–	–	1	1	2	2	–	–
John M Green ³	4	3	2	2	1	1	2	2	1	1	–	–	1	1	2	1	3	3
Andrew Horton	10	10	–	–	–	–	–	–	–	–	–	–	–	–	–	–	6	6
Tan Le	10	10	6	6	1	1	6	6	–	–	1	1	3	3	–	–	–	–
Kathryn Lisson	10	10	6	6	1	1	2	2	–	–	1	1	3	3	4	4	1	1
Sir Brian Pomeroy	10	9	6	6	5	5	2	2	1	1	–	–	–	–	6	6	–	–
Jann Skinner	10	10	6	6	5	5	6	6	–	–	–	–	1	1	6	6	8	8
Eric Smith	10	9	6	6	4	4	2	2	–	–	1	1	–	–	6	6	–	–
Rolf Tolle	10	10	6	6	1	1	6	6	–	–	–	–	4	4	6	6	–	–
Michael Wilkins	10	10	6	6	5	5	6	6	1	1	1	1	4	4	6	6	9	9

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

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

1 All directors attended all scheduled Board meetings. Some of the 2022 Board meetings were unscheduled and called at short notice, resulting in some directors being unable to attend.

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

3 Stephen Fitzgerald and John M Green retired from the Board effective 5 May 2022. Yasmin Allen was appointed to the board effective 1 July 2022. The composition of the Board Committees was changed effective 6 May 2022.

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

Directorships of listed companies held by the members of the Board

From 1 January 2020 to 17 February 2023, the directors also served as directors of the following listed entities:

DIRECTOR	POSITION	DATE APPOINTED	DATE CEASED
John M Green Challenger Limited	Director	6 December 2017	–
Michael Wilkins AMP Limited	Director	12 September 2016	14 February 2020
Medibank Private Limited	Director	25 May 2017	–
Scentre Group Limited	Director	8 April 2020	–
Jann Skinner Telix Pharmaceuticals Limited	Director	19 June 2018	–
Yasmin Allen Cochlear Limited	Director	2 August 2010	–
Santos Limited	Director	22 October 2014	–
ASX Limited	Director	9 February 2015	–

Qualifications and experience of directors

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

Qualifications and experience of company secretaries

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

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

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

Peter is Deputy Company Secretary of QBE Insurance Group Limited and a company secretary of various QBE subsidiaries in Australia. He has over 30 years of insurance experience, which includes 25 years as a corporate lawyer. In addition to his current company secretarial duties, he acts as a corporate lawyer advising Group head office departments.

Directors' interests and benefits

Ordinary share capital

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

DIRECTOR	NUMBER OF SHARES HELD
Yasmin Allen	18,333
Andrew Horton	235,959
Tan Le	8,753
Kathryn Lisson	49,010
Sir Brian Pomeroy	42,425
Jann Skinner	70,000
Eric Smith	8,767
Rolf Tolle	73,806
Michael Wilkins	83,783

Options and conditional rights

At the date of this report, Andrew Horton has 611,437 conditional rights to ordinary shares of the Company. No executives hold options at the date of this report. Details of the schemes under which options and conditional rights are granted are provided in the Remuneration Report and in note 8.5 to the financial statements.

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

Environmental regulation

While the Group is not currently required to report under any significant environmental regulations under Commonwealth, State or Territory legislation, climate change disclosures are provided on pages 34 to 43 of this Annual Report and operational GHG emissions and other environmental data are disclosed in the 2022 Sustainability Report.