



QBE Insurance Group Limited

Sustainability review

23 February 2016

Environmental, social and governance

As a global insurer and reinsurer with operations in 37 countries, QBE follows environmental, social and governance (ESG) standards across a range of jurisdictions. However, we believe our responsibilities extend beyond compliance. We are actively focused on the sustainability of all aspects of our business and on making a positive contribution to the economies and communities in which we operate. In this report, our first consolidated ESG report, we have set out the range of initiatives, actions and plans in place to deliver on our commitment to our people, customers, investors and the communities in which we do business.

Our commitment to the environment and sustainability

As part of our commitment to sustainability, in 2015 QBE became a signatory to the *United Nations Environment Programme Finance Initiative: Principles for Sustainable Insurance* (UNEP:PSI).

Developed by the UN Environment Programme Finance Initiative, the PSI provides a framework for the global insurance industry to address ESG risks and opportunities. The PSI sets out four principles, which range from integrating ESG issues into a company's management and operational DNA to working together with clients, suppliers and governments to raise awareness of ESG issues, alongside the development of new kinds of risk management products and services.

We believe that to be most effective, ESG initiatives should be seen as best practice for operational excellence. QBE focuses on areas and opportunities where we see a social or environmental benefit as well as a business benefit. It is important that our efforts make sense for all our stakeholders including customers, employees, regulators and investors.

This section of the report provides a practical and pragmatic understanding of our efforts to translate the UNEP:PSI into actions, together with some specific initiatives and achievements from 2015.

PRINCIPLE 1: Embedding awareness of ESG issues into our decision-making

Risk management is at the heart of QBE's business as a global insurer and reinsurer. While our attention is primarily focused on helping our customers manage their risks, we apply the same approach to managing the risks and sustainability challenges we face as a business.

In relation to **company strategy**, QBE has robust corporate governance and ensures ESG issues are considered in our decision-making. QBE's corporate governance framework encompasses the eight principles issued by the ASX Corporate Governance Council, which include principles relating to recognition and management of risk. QBE's Risk and Capital Committee is responsible for overseeing the design and implementation of QBE's risk management framework, which includes reviewing the process of risk identification, assessment and management. Reviewing material risks, including emerging risks, is also within the scope of this committee.

Awareness of emerging risks, including ESG issues, is also addressed within our divisions by local boards and committees. For example, QBE European Operations established an Emerging Risks Group (ERG) in 2007 in order to better co-ordinate the process for identification and management of emerging risks.

ESG issues, particularly environmental risks, are reflected in our approach to **underwriting** across the business. QBE recognises the impact climate change can have in terms of potential claim activity as well as the potential for extending and adapting our product lines and services in response to the changing world. Early identification is the key to managing these risks. It is also central to instilling confidence in our customers that QBE has the capability to assess the risks they face, and to recommend mitigation actions to manage exposures.

More broadly, QBE has a strong track record in developing products and services which encourage better risk management and that improve community understanding in relation to risk, insurance and ESG issues. Our Risk Solutions offering is the UK market leader in providing a broad suite of services to encourage better risk management. The product focuses on reducing risk, including environmental risk.

In 2015, QBE pioneered an initiative that combines our **investment management** activities with the integration of ESG messages into QBE's **sales and marketing** of insurance products. Known as Premiums4Good, this initiative allows targeted customers to direct a proportion of their premium to be invested in securities with an additional social objective. Examples of these investments include Social Impact Bonds, green bonds and investments into infrastructure projects with social benefits. Through this project, QBE is playing a part in stimulating the development of new investment products which offer strong risk-adjusted returns as well as supporting beneficial social outcomes.

An investment consistent with the Premiums4Good ethos was QBE's \$20 million investment in the Future Generation Global Investment Company (FGG) initial public offering on the Australian Securities Exchange in 2015. FGG is a listed investment company committed to transforming youth mental health in Australia. Investment managers selected to manage the FGG portfolio donate their professional services while FGG donates 1% of net tangible assets to selected Australian non-profit organisations with a focus on youth mental health.

UN Finance Initiative Signatory

In 2015, QBE became a signatory to the UN Environment Programme Finance Initiative: Principles for Sustainable Insurance.

Premiums4Good

A program which allows policyholders to nominate part of their premium to be invested with an additional social objective - launched in QBE's European and North American operations.

Green Bonds

In 2015, QBE confirmed its intention to include green bonds in its investment portfolio to improve environmental outcomes while generating appropriate risk-adjusted returns.



Addressing environmental risk at UK waste sites

QBE participated in a working group with fire brigade authorities and Willis, advocating better usage of fixed fire protection systems to reduce the scale and environmental impact of fires.

PRINCIPLE 2: Working together with clients and business partners to raise awareness of ESG issues, manage risks and develop solutions

QBE creates and offers a wide range of events, seminars and publications to assist clients and brokers to build on their risk management knowledge and raise awareness of ESG issues.

Events include forums which bring together large groups of sector-specific clients to discuss the issues facing their markets. Client workshops are also held to provide smaller gatherings of clients with the opportunity to discuss specific business issues in a confidential setting, and share different approaches and solutions.

A wide range of publications are provided by QBE's Risk Solutions team to assist insured clients of all sizes in meeting their risk management objectives. These publications range from best practice and technical guidance through to briefings on industry standards and case studies that demonstrate how businesses can protect lives and save money.

QBE is also an active participant in insurance industry events that promote an improved understanding of ESG issues across industries and geographies.

As detailed later in this report, the QBE Underwriting Academy will run a dedicated program to assist current and aspiring underwriters in the development of their skills and expertise. This program incorporates topics relating to ESG issues, consistent with QBE's commitment to supporting the inclusion of ESG issues in professional education.

PRINCIPLE 3: Working with governments, regulators and other key stakeholders to promote widespread action on ESG issues

QBE has a strong track record of engaging with governments and regulators on ESG issues.

As a global insurer with operations in 37 jurisdictions, QBE is well-placed to share expertise gained from dealing with catastrophes in multiple locations when working with local authorities as they respond to a natural disaster. In the aftermath of Cyclone Pam, the most intense tropical cyclone in the southern hemisphere in 2015, QBE and the regulatory officials in Vanuatu agreed on a regular update program and immediately QBE took a leading role by initiating standing weekly meetings. For several months after the March storm, information sharing meetings were held weekly and then fortnightly as the country recovered from one of the worst natural disasters in its history. QBE staff were able to provide guidance and direction to Vanuatu officials in relation to both the recovery process and future disaster preparation.

QBE also contributed to the Northern Australia Insurance Premiums Taskforce (Taskforce) established by the Australian Government in March 2015. The Taskforce was established in response to concerns over affordability and access to insurance, in particular strata title cover, in Northern and Far Northern Queensland. By virtue of geography and climate, communities in this region are exposed to particular risks from severe weather and cyclones.

Following detailed consideration of the issues under review, QBE provided a submission to the Taskforce in September 2015. QBE supports the Insurance Council of Australia (ICA) proposal focusing on short-term targeted Federal Government subsidies that improve the cyclone resilience of older homes in North Queensland. This is considered as the most effective, low-cost and sustainable way of protecting communities while also reducing insurance premiums.

QBE and the ICA also propose the following initiatives: a focus on hazard awareness education; a forum for consumers to provide evidence when they believe that premium prices do not accurately represent the relevant risks; and a centralised database where mitigation work conducted can be registered to ensure that premiums accurately correlate with the level of risk to a property.

QBE is a leader in promoting action on ESG issues through socially responsible investment. This is reflected in our sponsorship of socially responsible investment products through our stated intention to invest \$100 million in social impact bonds over the next three years. Social impact bonds are social policy-driven investments that pay a return based on the performance of a social service provider improving a specific social outcome. The key participants in social impact bonds are governments, social service providers (generally not for profit organisations) and private sector investors with a focus on areas of social and welfare services.

Social impact bonds have the potential to benefit the whole community as achievement of the targeted outcome should reduce the need for, and therefore government spending on, acute social or welfare services. Part of the resultant public sector savings are then used to repay investors' principal and make additional reward payments (the return on investment), the level of which is dependent on the degree of improvement achieved.

QBE is also an active investor in green bonds, which are a funding source for eligible development programs that are designed to address the challenges of climate change.

2015 was also the first full year in which QBE was a signatory to the UN's Principles for Responsible Investment. These principles provide a framework under which QBE formally integrates and tracks ESG considerations, such as environmental and social impacts of business practices or stakeholder expectations, throughout our investment process.

PRINCIPLE 4: Demonstrate accountability and transparency

The fourth principle requires QBE to demonstrate accountability and transparency in regularly disclosing our progress in implementing the Principles.

We participate in ongoing constructive dialogue with clients, intermediaries, investors, regulators and other stakeholder groups affecting and affected by our business decisions. By doing so, we endeavour to ensure that our approach is sound and informed by a broad range of insights and experiences.

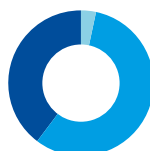
As part of this, we are committing to producing an ESG report annually in addition to our existing ESG reporting activities such as involvement in the Carbon Disclosure Project (CDP), an independent, not-for-profit organisation which acts as an intermediary between shareholders and corporations on all climate change data reporting.

Given the nature of the business QBE conducts, measurement of the Group's environmental impact to date has focused on two key carbon emission metrics, being business air travel and power usage. Based on these metrics the Group's estimated carbon emissions (CO₂e tonnes) for 2015 are listed in the table below.

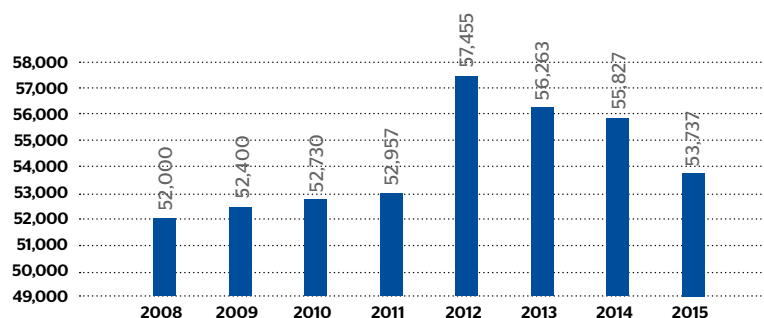
	TWELVE MONTHS TO DEC 2015 TONNES	TWELVE MONTHS TO DEC 2014 TONNES	TWELVE MONTHS TO DEC 2013 TONNES	TWELVE MONTHS TO DEC 2012 TONNES
Scope 1	1,900	1,019	1,019	1,160
Scope 2	30,639	33,517	33,639	36,396
Scope 3	21,198	21,291	21,606	19,899
Total	53,737	55,827	56,263	57,455

Carbon emissions by scope

- **Scope 1 - Direct emissions:** direct greenhouse emissions due to natural gas and oil consumption used for heating
- **Scope 2 - Electricity consumption:** indirect greenhouse emissions from electricity consumption
- **Scope 3 - Other indirect emissions:** indirect greenhouse emissions defined as emissions relating to travel



Group carbon emissions (CO₂e) (tonnes)



As QBE continues to review and consolidate our property footprint, efforts are being made to work with building owners who subscribe to official environmental rating systems for that geography, such as NABERS¹, and to create workspaces that not only minimise environmental impact, but also encourage activities that create greater environmental awareness in our employees. Initiatives implemented to date include follow-me printing to reduce paper usage; full recycling of appropriate materials in all operational locations; introduction of automatic lighting and monitor management; and the introduction of hot-desking and activity-based working across a number of our locations.

1 National Australian Built Environment Rating System.

Risk roundtable in Malaysia

In July 2015, QBE partnered with a regional risk management publication to host a roundtable for risk managers. Topics included environmental risks, climate change, political uncertainty and business sustainability.

Association of Risk Managers roundtable in France

In February 2015, QBE participated in discussion of issues faced by the insurance market including climate change, cyber risk, emerging technologies and innovation.

Carbon Disclosure Project (CDP)

QBE is a voluntary participant in the CDP which reports on climate change data for investors.

Project Advance

QBE is improving the working environment at its European headquarters in London. To date, more than 125 tonnes of waste has been diverted from landfill to other forms of recycling.

Our commitment to our people

QBE is focused on creating a dynamic, diverse and inclusive workplace where people are able to achieve their personal and professional ambitions. Equally, we are committed to making a positive impact in the communities in which we operate, whether it is through the work we do with our customers or the range of positive activities we undertake through the QBE Foundation and our social investing initiatives.

Attracting, retaining and developing our people

As an employer of over 14,500 people globally, QBE is constantly exploring ways to attract, retain and develop the very best people. With a range of roles from underwriting through to claims, sales and operations, having a diverse group of employees with a range of skills, backgrounds and experiences is a critical part of our ongoing success.

Through centres of excellence focused on talent, leadership and learning, we have been able to develop an approach that not only builds a sustainable future talent pipeline, but also gives our employees the opportunity to develop a fulfilling career pathway at QBE.

Our promise to our people

At the core of our commitment to our people is our employee value proposition (EVP) which was refined and shared with our people in 2013. The EVP is based on three critical pillars that capture the promise we have made, and keep, with our people across all parts of our business.

We are committed to creating:

- a dynamic, diverse and inclusive **culture**;
- consistent systems that **reward** and recognise contribution; and
- **opportunity** for people to fulfil their personal and professional ambitions

Creating a dynamic, diverse and inclusive culture

Creating a culture where difference is celebrated is not just good business practice, it is also the foundation of differentiation from our competitors. In a business where we rely so heavily on the experience, expertise and intelligence of our people, we are working to embed diversity and inclusion into all aspects of our business, rather than as an "add on" to what we do every day.

Central to this approach was the formation of a Group Diversity and Inclusion (D&I) Council in January 2014 that is chaired by our Group CEO, John Neal. This council ensures we have a clear baseline understanding of the opportunities we have for improved diversity and inclusion across QBE, as well as an understanding of the key metrics that can be used to track progress.

The Group D&I Council reviewed the gender diversity target set in 2010 for 20% representation of women in senior management. Pleasingly, this target has been met and a significantly higher target of 35% has now been set for 2020. In order to meet the new target, we will seek to promote and

hire more women into management roles, together with a focus on retaining the services of women who currently hold such roles.

Locally, our divisions are each working on establishing D&I Councils responsible for setting and monitoring the impact of the D&I strategy. Importantly, divisions are working on comprehensive strategies and enabling initiatives that allow for D&I to be embedded in the operating rhythm of the business.

Driving engagement across our divisions

QBE conducts an annual staff survey that measures four key elements:

- Engagement
- Understanding of QBE's vision and values
- Embedding of diversity and inclusion
- Priority areas for improvement

Pleasingly, we have seen significant improvements across all our key measures since first conducting the survey in 2013, with all divisions reporting positive improvements in both the drivers and outcomes of engagement. This has been achieved alongside broader progress in stabilising the business and establishing a platform for growth. That said, we know there is much we can do to improve employee engagement across the company. The resetting of our purpose and vision, as discussed in both the Chairman's Report and CEO's Report, is a major part of this improvement program, as are the range of initiatives implemented in divisions to better connect our people and their actions to our overall strategy and approach.

Attracting and retaining talent

Attracting and retaining the diverse talent required by our business is fundamental to our future success and we have put in place a range of measures to ensure that we not only attract the best and brightest people to our business, but that we also do all we can to develop and retain great people at all levels of our operations.

As a result of ongoing internal talent reviews, we have identified a pool of existing leaders across the top three levels of our organisation who are meeting or exceeding performance expectations in their current role and may have the potential to progress to more significant leadership roles in the future.

Also, further to reviews of our leadership development, talent and succession practices, we are placing greater focus on identification and progression of female talent.

Following analysis of women in leadership roles to understand their career aspirations, motivations and perceived barriers to and enablers of progression, a number of initiatives have been put in place within the organisation. Group Executives sponsor and actively engage with key women within their divisions and we regularly report on the progress of these initiatives.

To complement our internal focus on talent and broaden the diversity of our talent pipeline, we are actively exploring opportunities to identify specific talent or types of talent within the external market that could fill key roles or improve overall bench strength at the executive level of the organisation within the next five years. This pool of potential candidates will create an external "talent bank" with broader options from outside the insurance industry who have transferable skills, and those with more diverse backgrounds, experiences or capabilities that could support our future strategies.

Developing our people

QBE is one of the few insurers that has invested in a bespoke Leadership Academy and Underwriting Academy, ensuring that our current and future leaders are exposed to innovative, relevant and engaging training to help them progress their careers at QBE.

In its third year of operation, the QBE Leadership Academy had 545 leaders participate in programs globally in 2015, taking the total number of graduates to 1837. Drawing on both internal and external speakers and content, the QBE Leadership Academy continues to be a key pillar in our talent development strategy. Covering critical topics including motivating, leading and engaging others, the Academy is creating both an immediate and long term positive impact across our business. A number of current Group Executive Committee members are graduates of the executive level academy and the majority of other senior leaders promoted into roles in our Group Strategy team have attended either our executive or senior leader program.

The QBE Underwriting Academy will launch in early 2016, with 500 people scheduled to participate in a specific underwriting program by the end of 2017. With underwriting at the core of our business, the objective of the QBE Underwriting Academy is to raise the bar for the industry and our business by establishing a consistent, replicable model of underwriting excellence that incorporates QBE underwriting DNA. Academy content includes QBE modules that explore our markets and products; track networking pathways to knowledge and experience; explore market fluctuations, drive ethical behaviour, ESG considerations and their impact on risk and pricing policy. The program will deliver a level of shared understanding about how QBE does underwriting business globally.

To further enhance the QBE Underwriting Academy, we have chosen three market-based insurance institutes to deliver industry-recognised qualifications to our foundation underwriters in their home regions. The program will provide development for underwriters over two years.

Discrimination and equal opportunity

QBE strives to be an equal opportunity employer in all our locations. We see this as a fundamental part of creating a diverse and inclusive workplace that attracts and retains the best people, irrespective of their point of difference.

Our retention strategies aim to ensure that all our people management practices and decisions are based on fairness and merit, eliminating all forms of discrimination and bias in relation to hiring, identification of talent, and how we reward and develop our people. A recent area of focus has been gender pay equity. This has included analysis of internal and external pay relativity by job family and level, as well as the distribution of performance ratings and merit pools. Our objective in undertaking this analysis is to identify and address any areas of unconscious bias in remuneration decisions.

Talent mapping



USED TO IDENTIFY
**FUTURE
LEADERS
FOR QBE**

QBE Leadership Academy programs

1,837
GRADUATES

QBE Underwriting Academy

500
EMPLOYEES
IDENTIFIED TO
ATTEND IN
2016-2017

Charities supported

OVER

200
IN 2015

Grants and donations to charities

OVER

\$3.4
MILLION

QBE employee volunteer work

OVER

2,300
DAYS
VOLUNTEERED

By QBE employees to nominated charities and causes

QBE fundraising initiatives

ALMOST

\$450,000
RAISED

And matched by QBE Foundation

Our commitment to our community

QBE plays an active role in our communities around the world. We have three main avenues for contribution and participation in each of our divisions, creating opportunities for our people to support and give back to the communities in which they live:

- Through the allocation of grants to registered charities nominated by our people
- Dollar-for-dollar matching of fund-raising efforts by our people
- Designated volunteering day for every employee

In 2015, we supported over 200 charities globally with more than \$3.4 million in grants and donations, in addition to over 2,300 days of volunteering efforts that were made directly by our people.

The QBE Foundation

The QBE Foundation was established in 2011 to partner with charities that help people overcome disadvantage, strengthen their abilities and live more independently, successfully and productively. This philosophy is an extension of our core purpose - to give people the confidence to achieve their ambitions.

Each division has its own QBE Foundation Committee that works with local employees to identify charities that are delivering programs consistent with the purpose and philosophy of the foundation. Through a rigorous application process, including the requirement that no more than 15% of any donation goes to administrative costs, we are able to ensure our philanthropic efforts are directed to charities with whom our people have an affinity or non-financial connection. In 2015, the divisional foundation committees supported many initiatives including literacy, health and education programs, intervention programs for at-risk youth, anti-trafficking programs in South East Asia and several significant programs for disadvantaged children and adults that would not be possible but for the support of the QBE Foundation.

Donation matching

With over 14,500 people across our business, there are a range of very personal causes that our people support in their own time to raise much-needed funding. In all our divisions, we work with employees to match their fundraising efforts dollar-for-dollar. This matching program has been very successful and has allowed us to spread the impact of our efforts across a multitude of causes during 2015.

Creating a strong connection through volunteering

Everyone at QBE has the opportunity to give back and support their local communities through a designated volunteer day that can be used to support a cause they are passionate about. Whether individually or with a number of colleagues, the volunteering day has multiple benefits for the participants, the beneficiary and QBE.

The volunteering in 2015 covered a range of activities including rebuilding homes, assisting our charity partners in fundraising campaigns and initiatives, working in kitchens providing meals to the homeless, house and support centre gardening and maintenance, and packing hampers of clothing and food for those in need.

Our commitment to good governance

QBE places great emphasis on robust corporate governance. As a listed company on the Australian Securities Exchange, QBE has adopted the eight principles issued by the ASX Corporate Governance Council that outline the key areas of governance and disclosures to ensure that QBE's corporate governance standards and practices can be readily understood by our shareholders, policyholders and other stakeholders. QBE also continues to focus on other important issues such as the strength of its outstanding claims provision and the quality of its reinsurance protections.

The QBE Corporate Governance Statement can be found on the QBE website, providing a detailed description of QBE's approach to and compliance with the following principles:

- 1. Lay solid foundations for management and oversight**
- 2. Structure the Board to add value**
- 3. Promote ethical and responsible decision making**
- 4. Safeguard integrity in financial reporting**
- 5. Make timely and balanced disclosure**
- 6. Respect the rights of shareholders**
- 7. Recognise and manage risk**
- 8. Remunerate fairly and responsibly**

Beyond the adoption of these principles, QBE has put in place a global *Code of Business Ethics and Conduct* that applies to all employees. A copy of the Code is available on the QBE website. In addition to this Code, QBE also has put in place a range of additional policies in individual jurisdictions, including policies relating to money laundering, anti-bribery and corruption and whistle-blower protections.

The QBE Code of Business Ethics and Conduct includes the following topics:

Ethics

Compliance with laws and policies

Conflict of interest

Diversity and inclusion

Health and safety

Investments and insider trading

Risk management

Information security

Confidentiality

Record keeping

Social media

Honest dealings

Privacy

Complaint handling

Anti-competitive practices

Intellectual property

Political activities and contributions

Community engagement

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