

QBE INSURANCE GROUP LIMITED

(ABN 28 008 485 014)

U.S. Disclosure Report

for the years ended December 31, 2019, 2018 and 2017

Dated: May 4, 2020

TABLE OF CONTENTS

Introduction.....	ii
Certain Definitions.....	iv
Special Note Regarding Forward-Looking Statements.....	vi
Financial Information Presentation.....	ix
Summary.....	1
Risk Factors.....	13
Selected Consolidated Historical Financial and Other Information.....	34
Management’s Discussion and Analysis of Results of Operation and Financial Condition.....	41
Our Business.....	67
Regulation.....	100
Our Board and Senior Management.....	142
Our Principal Shareholders.....	154
Appendix A: Glossary of Certain Insurance Terms.....	156

INTRODUCTION

All references in this document to “this Report” should be read as referring to this U.S. Disclosure Report for the years ended December 31, 2019, 2018 and 2017.

This Report is dated May 4, 2020 and the information in this document speaks only as of such date. We do not undertake any obligation to update any of the information included in this report.

This Report has been prepared in order to provide U.S. investors with certain information regarding QBE’s business and operations as of, and for the years ended, December 31, 2019, 2018 and 2017. Unless otherwise noted, all balances disclosed in this Report relate to those of the Group.

Certain material information about the Group, including the Group’s consolidated financial statements for the years ended December 31, 2019 and 2018, is included in the extracts of our 2019 Annual Financial Report and our 2018 Annual Financial Report (each as defined under “Certain Definitions” below), which can be found on our U.S. Investor Website, located at <https://www.qbe.com/us/us-investors>.

Divisional Disclosure

Effective January 1, 2019, we restructured our business from five operating segments into the following three segments: North America, International (comprised of entities previously in our Asia and European operations) and Australia Pacific (comprised of entities previously in our Pacific and Australia & New Zealand operations). For an overview of each segment, see “Our Business” in this Report and note 1.3 to our 2019 Annual Financial Statements (as defined under “Certain Definitions” below).

Consistent with our restructuring, beginning with our 2019 Annual Financial Report we reported our financial results based on the new segments, with the results of our captive reinsurers, Equator Reinsurance Limited and QBE Blue Ocean Re Limited (together referred as “**Equator Re**”), no longer separately reported, but rather incorporated into the results of the relevant divisional segments. For purposes of this Report (unless otherwise stated) and our 2019 Annual Financial Report, comparatives for 2018 and 2017 have been restated based on our current three operating segments. For purposes of our 2018 Annual Financial Report (including our 2018 Financial Statements included therein), we reported our financial results for 2018 and 2017 based on the previous five operating segments.

No Offer of Securities

This Report is not an offer to sell, or a solicitation of an offer to buy, any securities in the United States or elsewhere.

References to Credit Ratings

There are references in this Report to credit ratings and such ratings reflect only the views of Standard and Poor’s Ratings Services (“**S&P**”), Moody’s Investors Services, Inc. (“**Moody’s**”), Fitch Ratings (“**Fitch**”) and A.M. Best Company (“**A.M. Best**”), as the case may be. A credit rating of any entity or any security is not a recommendation to buy, sell or hold securities in so far as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for a given period or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances warrant. We are under no obligation to update information regarding such ratings should they change over time. See “Our Business—Ratings” and “Risk Factors—A downgrade in our financial strength ratings may increase policy cancellations and non-renewals, adversely affect relationships with distributors and negatively

impact new business. A downgrade in our debt ratings may increase our borrowing costs and impact our ability to access capital markets” for further information.

Each rating should be evaluated independently of any other rating. Any credit rating in respect of any entity noted in this Report, including QBE, or any securities issued by such entity is for distribution only to persons who are not a “retail client” within the meaning of section 761G of the Corporations Act and are also sophisticated investors, professional investors or other investors in respect of whom disclosure is not required under Parts 6D.2 or 7.9 of the Corporations Act and, in all cases, in such circumstances as may be permitted by applicable law in any jurisdiction in which an investor may be located. Anyone who is not such a person is not entitled to receive this Report and anyone who receives this Report must not distribute it to any person who is not entitled to receive it.

References to Websites

Any references to website addresses provided in this Report or included in any document on our U.S. Investor Website are for reference only and the content of any such internet sites is not incorporated by reference into and does not form part of this Report or any document on our U.S. Investor Website (unless expressly provided in this Report or the applicable document on our U.S. Investor Website). The reference to any websites are inactive textual reference to the uniform resource locator and are included for reference only.

CERTAIN DEFINITIONS

In this Report, unless otherwise specified or the context otherwise requires:

- **“2019 Annual Financial Report”** means our annual financial report for the year ended December 31, 2019, an extract of which is available on our U.S. Investor Website and contains our 2019 Annual Financial Statements;
- **“2019 Annual Financial Statements”** means our audited consolidated financial statements as of, and for the financial years ended, December 31, 2019 and 2018;
- **“2018 Annual Financial Report”** means our annual financial report for the year ended December 31, 2018, an extract of which is available on our U.S. Investor Website and contains our 2018 Annual Financial Statements;
- **“2018 Annual Financial Statements”** means our audited consolidated financial statements as of, and for the financial years ended, December 31, 2018 and 2017;
- **“ABN”** means Australian Business Number;
- **“APRA”** means the Australian Prudential Regulation Authority or any successor;
- **“ASX”** means the Australian Securities Exchange operated by ASX Limited (ABN 98 008 624 691) and its successors;
- **“Australia”** means the Commonwealth of Australia;
- **“Australia Pacific”** means the operations of one of our three reporting segments, which includes our insurance businesses located in Australia, New Zealand and the Pacific region;
- **“Board”** means the board of directors of QBE Insurance Group Limited;
- **“Corporations Act”** means the Corporations Act 2001 of Australia;
- **“Exchange Act”** means the U.S. Securities and Exchange Act of 1934, as amended;
- **“International”** means the operations of one of our three reporting segments, which includes our insurance and reinsurance businesses located in the United Kingdom, Canada, Hong Kong, Singapore, Malaysia, Vietnam and mainland Europe and Asia.
- **“North America”** means the operations of one of our three reporting segments, which includes our insurance and reinsurance businesses located the United States;
- **“QBE,” “QBE Insurance Group Limited,” “QBE Group,” “Group,” “we,” “us” and “our”** each refer to QBE Insurance Group Limited (ABN 28 008 485 014) and its consolidated entities; and
- **“U.S. Investor Website”** means our U.S. investor website located at <https://www.qbe.com/us/us-investors>.

As our financial year ends on December 31, references in this Report to years (such as “2019,” “2018,” “2017,” “year” and “financial year” and like references, including in respect of any discussion of our financial statements, results of operations and financial condition) are to the financial year ended on December 31 of each such year.

Unless otherwise stated, references to “**Australian dollars**” and “**A\$**” are to the lawful currency of Australia, references to “**Euro**” and “**€**” are to the lawful currency of the European Union, references to “**Sterling**” and “**£**” are to the lawful currency of the United Kingdom and references to “**US dollars**,” “**\$**” or “**US\$**” are to the lawful currency in the United States of America.

For definitions of certain insurance terms used in this Report, see “Appendix A: Glossary of Certain Insurance Terms.”

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report contains statements that constitute “forward-looking statements” within the meaning of Section 21E of the Exchange Act. Examples of these forward-looking statements include, but are not limited to (a) statements regarding our future results of operations and financial condition, (b) statements of plans, objectives or goals, including those related to our products or services, (c) statements concerning the effect of the novel coronavirus pandemic (“COVID-19”) on our business, financial condition, liquidity or results of operations and statements regarding our potential future response or responses to COVID-19 and (d) statements of assumptions underlying those statements. Words such as “may,” “will,” “expect,” “intend,” “plan,” “estimate,” “anticipate,” “believe,” “continue,” “probability,” “risk,” “should,” and other similar words are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the impacts on us, our policyholders, our customers and counterparties of COVID-19;
- changes in general economic conditions, including the performance of financial markets and interest rates;
- the performance of our investment portfolios, and changes to investment valuations and investment income;
- changes in exchange rates and economic, political and other risks relating to our international operations;
- deterioration in insurance premium rates;
- the scope and frequency of natural catastrophes, including hurricanes, earthquakes, droughts, floods, climate change (including effects on weather patterns; greenhouse gases; sea, land and air temperatures; sea levels) bushfires and tsunamis, and other catastrophes, including man-made catastrophes, pandemics, terrorist attacks or wars;
- differences between our actual claims experience and our underwriting and reserving assumptions;
- differences between actual experience and assumptions used in establishing liabilities related to other contingencies or obligations;
- the adequacy of our reserves for unpaid claims and claims adjustment expenses;
- our ability to obtain the appropriate level and type of reinsurance;
- the financial condition of our reinsurance and retrocession counterparties and their performance under any reinsurance or retrocession arrangements we have in place;
- unanticipated changes in industry trends;
- ineffectiveness of risk management policies and procedures;
- the financial strength of our insurance and reinsurance subsidiaries;

- heightened competition, including with respect to pricing, entry of new competitors, consolidation, technological innovation and the development of new products by new and existing competitors;
- changes in the value of businesses acquired or goodwill and underlying assumptions;
- downgrades in our and our affiliates' claims paying ability, financial strength or credit ratings;
- changes in accounting and actuarial standards, practices and/or policies;
- changes in laws, regulation and government policies, including in response to COVID-19 with respect to insurance and tax laws and requirements with respect to liquidity, leverage and capital;
- changes in the rules and policies of the Lloyd's of London insurance and reinsurance market ("**Lloyd's**");
- the potential impact of the United Kingdom's vote to withdraw from the European Union, including political, regulatory, social, and economic uncertainty and market and exchange rate volatility;
- changes in the requirements and practices of ratings agencies, including with respect to capital;
- actions by government agencies, including actions which could result in a reduction of the premium rates we charge or an increase in disclosure or other requirements, which could add to our expenses;
- the implementation of our strategy, including achieving economies of scale and operational efficiencies, integration of our various businesses and existing acquisitions and rationalization of costs;
- potential adverse results from litigation, arbitration or regulatory investigations and/or inquiries;
- our ability to integrate existing acquisitions and complete future acquisitions on successful terms;
- acquisitions made by us performing differently than expected, or failure to realize anticipated efficiencies or growth from acquisitions and to achieve estimates we have made in connection with acquired businesses, and the impact of acquisitions on our pre-existing organization;
- loss of significant client relationships and distribution sources;
- our ability to harmonize technology platforms and processes across our businesses;
- systems and technology risks and technological changes, including the failure to maintain security, confidentiality or privacy of sensitive data residing on such systems;
- our dependency on, and competition for, key personnel;
- our reliance on insurance agents and brokers;
- failure to maintain or expand distribution channels;

- our holding company structure, our reliance on dividends from our subsidiaries to meet debt payment obligations and any restrictions on the ability of our subsidiaries to pay such dividends;
- the effects of business disruption or economic contraction due to global political conditions, the occurrence of terrorism, cyber-attacks or other hostilities or the COVID-19 pandemic;
- demographic change and change in political, social and economic conditions in any of the major markets in which we operate; and
- other factors discussed under “Risk Factors.”

The foregoing list of factors is not exhaustive. Statements that include forward-looking statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of the risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Report as anticipated, believed, estimated, expected or intended.

Forward-looking statements are based upon management’s good faith assumptions relating to the financial, market, regulatory and other relevant environments that will exist and affect our businesses and operations in the future. We cannot give investors any assurance that the assumptions upon which management based its forward-looking statements will prove to be correct, or that our businesses and operations will not be affected in any substantial manner by other factors not currently foreseeable by management or beyond its control. Any forward-looking statements contained in this Report speak only as of the date of this Report. We are under no obligation, and we disclaim any obligation, to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise, after the date of this Report.

FINANCIAL INFORMATION PRESENTATION

Historical Financial Information

This Report contains financial information as of, and for the years ended, December 31, 2019, 2018 and 2017, which has been derived from, and is qualified in its entirety by reference to, our 2019 Annual Financial Statements and our 2018 Annual Financial Statements, which are included in the extracts of our 2019 Annual Financial Report and 2018 Annual Financial Report, respectively, available on our U.S. Investor Website. This Report also contains selected financial information as of, and for the fiscal years ended, December 31, 2016 and 2015, which has been derived from our audited consolidated financial statements for such periods filed with the ASX, through which they are publicly available.

Our consolidated 2019 Annual Financial Statements and 2018 Annual Financial Statements contained in our 2019 Annual Financial Report and our 2018 Annual Financial Report, respectively, have been audited by PricewaterhouseCoopers, an Australian partnership (“**PwC Australia**”), independent auditors, as stated in their report appearing therein.

Our 2019 Annual Financial Statements and 2018 Annual Financial Statements have been prepared in accordance with Australian Accounting Standards (“**AAS**”), including Australian Accounting Interpretations (each as issued by the Australian Accounting Standards Board), and International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board.

AAS and IFRS differ from generally accepted accounting principles in the United States, which may be material to the financial information contained herein.

Any discrepancies between totals and sums of components within tables contained in this Report are due to rounding.

Information for Periods or Dates after December 31, 2019

This Report contains statements and information regarding certain financial information for periods and/or dates occurring after December 31, 2019. Any such information has been prepared by, and is the responsibility of, our management and has not been audited, reviewed, compiled or subjected to any other procedures by PwC Australia, the Group’s independent auditors. Accordingly, PwC Australia does not express an opinion or any other form of assurance with respect thereto.

Disposal of Latin American Operations

During 2018, we announced our exit from Latin America and our plans for the disposal of our operations therein, resulting in its classification as held for sale and as a discontinued operation under AAS. Information relating to profit or loss from discontinued operations is disclosed separately from that relating to continuing operations in our 2018 Annual Financial Statements and 2019 Annual Financial Statements prepared under AAS and IFRS. Profit or loss information in this Report is therefore prepared on a consistent basis and relates only to continuing operations unless otherwise specified. Similarly, information relating to asset and liability line items also excludes Latin America, unless otherwise specified. The disposal of our operations in Latin America was completed during 2019.

Changes to Operating Segments

During 2019, we announced changes to the way our operating segments are managed, with corresponding changes to the way information is presented to management. These changes impacted the presentation of our operating segment information in our 2019 Annual Financial Statements under

AAS and IFRS, which also required restatement of corresponding 2018 information therein. As a result:

- Operations in Asia Pacific, which were previously reported as a separate operating segment, were re-allocated and combined with other segments as follows:
 - Entities in Asia were combined with European Operations to form the new International segment.
 - Entities in the Pacific were combined with Australian & New Zealand Operations to form the Australia Pacific segment.
- The results of the Group's captive reinsurer, Equator Re, which was previously reported as a separate operating segment, were incorporated into the results of other segments, providing a more holistic view of performance in each operating segment including reinsurance.

For purposes of our 2018 Annual Financial Report (including our 2018 Annual Financial Statements contained therein), we reported our financial results for 2018 and 2017 based on the previous five operating segments. For purposes of this Report, comparatives for 2018 and 2017 have been restated based on our current three operating segments.

New Accounting Standards

During 2019, we adopted new accounting standards relating to financial instruments and leases. A summary of impacts is provided below. For additional information see note 8.1.1 to our 2019 Annual Financial Statements. Adoption of these standards from January 1, 2019 did not require restatement of comparative information in our 2019 Annual Financial Statements under AAS and IFRS, and information in this Report is prepared on a basis consistent with that.

- **AASB 9 Financial Instruments (equivalent to IFRS 9).** AASB 9 does not apply to financial instruments arising from the Group's insurance contracts as they are within the scope of AASB 1023 *General Insurance Contracts*. The material impacts of adoption relate to three debt exchanges executed by QBE during 2016. Prior to adoption of AASB 9, these were accounted for as modifications to financial liabilities, resulting in the capitalization of US\$117 million of premium which was being amortized to the first call dates of the respective borrowings. Under AASB 9, this premium would have been expensed immediately; therefore, on adoption of AASB 9, opening retained earnings was reduced by the remaining unamortized premium of US\$83 million, as shown in the statement of changes in equity, and borrowings increased by the same amount. The impact will be offset by reduced interest expense over the remaining period to the first call dates, which for the year ended December 31, 2019 resulted in a reduction in financing costs of US\$13 million.
- **AASB 16 Financial Instruments (equivalent to IFRS 16).** The impacts of AASB 16 are summarized as follows:
 - In the balance sheet, right-of-use lease assets and lease liabilities were recognized on January 1, 2019, increasing the Group's total assets and total liabilities by US\$276 million and US\$282 million, respectively. These were measured as the present value of future lease payments, discounted using the Group's incremental borrowing rate and other factors specific to each lease where relevant. Including consequential impacts on tax balances, which were not material, the difference between all amounts recognized and derecognized on initial application of AASB 16 was nil. This amount, being the cumulative retrospective effect of adoption, was recognized as an adjustment to the opening balance of retained earnings as shown in the statement of changes in equity.

- In the statement of comprehensive income:
 - costs of leases of low value assets and leases with a term of 12 months or less (which do not give rise to right-of-use lease assets or lease liabilities on the balance sheet) are recognized in underwriting and other expenses;
 - depreciation charge associated with right-of-use lease assets is also recognized in underwriting and other expenses; and
 - interest expense associated with lease liabilities is recognized in financing and other costs.

These replace operating lease costs which were previously recognized entirely in underwriting and other expenses. The impact of these changes on the current period was not material.

- In the statement of cash flows:
 - payments relating to leases of low value assets and leases with a term of 12 months or less are recognized in acquisition and other underwriting costs paid;
 - payments of interest relating to lease liabilities are recognized in interest paid; and
 - payments of principal relating to lease liabilities are recognized in lease payments.

These replace operating lease payments which were previously recognized entirely in acquisition and other underwriting costs paid.

See notes 1.2, 2.3, 2.5, 6.2 and 7.2 to our 2019 Annual Financial Statements for a summary of our critical accounting judgments and estimates under AAS and IFRS.

Non-GAAP Financial Measures

In addition to our statutory financial results contained in this Report, we have included certain “non-GAAP financial measures” (as defined in Regulation G under the Securities Act) in respect of the financial performance and results of the Group, such as adjusted combined operating ratios. Our adjusted combined operating ratios are prepared excluding the impacts of changes in risk-free rates used to discount net outstanding claims liabilities and other transactions, as specified. Results presented on this basis are not calculated in accordance with AAS or IFRS.

We believe that presenting certain results on this basis provides a useful supplemental measure to readers by allowing them to examine the underlying performance of our business, and management considers this metric in measuring our operating performance. This measure, however, should not be considered to be an indication of, or alternative to, corresponding financial measures determined in accordance with GAAP (as defined in Regulation G), which, for us, means AAS and IFRS. In addition, such measures may not be comparable to similar measures presented by other companies.

For a quantitative reconciliation of our adjusted combined operating ratio presented in this Report to the most comparable financial measures calculated in accordance with GAAP, please see “Selected Consolidated Historical Financial and Other Information—Reconciliation of Non-GAAP Financial Measures.”

SUMMARY

The following is a summary of certain information contained elsewhere in this Report. It does not contain all the information that may be important in assessing QBE and is qualified in its entirety by the more detailed information appearing elsewhere in this Report. You should carefully read this Report in its entirety, particularly the “Risk Factors” section, the extracts of our 2019 Annual Financial Report and 2018 Annual Financial Report, including our financial statements and the notes related thereto included within such reports (each as available on our U.S. Investor Website). This summary contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from future results contemplated in the forward-looking statements as a result of certain factors such as those set forth in “Risk Factors” and “Special Note Regarding Forward-Looking Statements.”

As we use a number of technical insurance terms throughout this Report, you should also refer to the definitions of such terms included in “Appendix A: Glossary of Certain Insurance Terms.”

Our Company

QBE is a major international insurance and reinsurance company, with operations in key insurance markets. QBE’s ordinary shares are listed on the ASX and its headquarters are in Sydney, Australia. As of December 31, 2019, QBE employed more than 11,700 people in 28 countries.

The following table sets forth information about our gross written premium, gross earned premium, net earned premium and general insurance and inward reinsurance premiums for the periods indicated.

	For the year ended December 31,		
	2019	2018	2017
Gross written premium (US\$ millions).....	13,442	13,657	13,328
Gross earned premium (US\$ millions)	13,257	13,601	13,611
Net earned premium (US\$ millions).....	11,609	11,640	11,351
Direct and facultative as a percentage of gross earned premium (%).....	92	92	92
Inward reinsurance as a percentage of gross earned premium (%).....	8	8	8

As of December 31, 2019, our shareholders’ funds totaled US\$8,153 million and our assets totaled US\$40,035 million.

Operations

As of January 1, 2019, our Asian operations were consolidated into our European operations to form a new International segment, and our operations in the Pacific were combined with our Australian & New Zealand operations to form the Australia Pacific segment. At the same time, the results of our captive reinsurer, Equator Re, were incorporated into the results of other segments. We believe that these changes should help drive efficiencies across our Group, with much of the administration of the former standalone Asia Pacific operations absorbed by the larger and better resourced International and Australia Pacific divisions.

Our operations are conducted through the following three segments:

- **North America** writes general insurance and reinsurance business in the United States, providing specialty, commercial, program, crop and assumed reinsurance products;

- **International** writes general insurance business, including commercial and specialty products and risk management solutions, principally in the United Kingdom, continental Europe, Canada and worldwide through Lloyd's (both general insurance and reinsurance) and worldwide reinsurance through offices in Belgium, Ireland and Bermuda; and provides personal and commercial insurance covers in Hong Kong, Singapore, Malaysia and Vietnam; and
- **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.

For purposes of our 2018 Annual Financial Report (including our 2018 Annual Financial Statements included therein), we reported our financial results for 2018 and 2017 based on the previous five operating segments. For purposes of this Report, comparatives for 2018 and 2017 have been restated based on our current three operating segments.

Below is a table showing our gross written premium, gross earned premium, net earned premium and operating ratios for each of our divisions, before corporate adjustments and eliminations, and for the Group for the years ended December 31, 2019, 2018 and 2017, restated as appropriate to align with our divisional structure as of January 1, 2019.

	For the year ended December 31,		
	2019	2018	2017
Group			
Gross written premium (US\$ millions).....	13,442	13,657	13,328
Gross earned premium (US\$ millions)	13,257	13,601	13,611
Net earned premium (US\$ millions).....	11,609	11,640	11,351
Net claims ratio (%).....	69.8	63.6	71.5
Net commission ratio (%).....	15.6	16.9	17.1
Expense ratio (%).....	14.6	15.4	15.9
Combined operating ratio (%)	100.0	95.9	104.5
Adjusted combined operating ratio (%) ⁽¹⁾⁽²⁾⁽³⁾	97.5	95.7	103.9
North America			
Gross written premium (US\$ millions).....	4,637	4,711	4,556
Gross earned premium (US\$ millions)	4,646	4,612	4,622
Net earned premium (US\$ millions).....	3,942	3,796	3,411
Net claims ratio (%).....	80.4	67.8	78.3
Net commission ratio (%).....	15.2	15.6	18.2
Expense ratio (%).....	12.8	14.4	16.3
Combined operating ratio (%)	108.4	97.8	112.8
Adjusted combined operating ratio (%) ⁽¹⁾⁽²⁾	106.5	98.7	112.2
International			
Gross written premium (US\$ millions).....	4,924	4,876	4,671
Gross earned premium (US\$ millions)	4,739	4,889	4,658
Net earned premium (US\$ millions).....	4,089	4,034	3,966
Net claims ratio (%).....	67.0	61.2	68.0
Net commission ratio (%).....	16.9	19.6	18.6
Expense ratio (%).....	15.5	15.9	16.4
Combined operating ratio (%)	99.4	96.7	103.0
Adjusted combined operating ratio (%) ⁽¹⁾⁽³⁾	95.4	95.9	100.8
Australia Pacific			
Gross written premium (US\$ millions).....	3,920	4,104	4,139

	For the year ended December 31,		
	2019	2018	2017
Gross earned premium (US\$ millions)	3,885	4,103	4,252
Net earned premium (US\$ millions).....	3,568	3,758	3,895
Net claims ratio (%).....	62.3	61.5	62.7
Net commission ratio (%).....	14.8	14.9	14.1
Expense ratio (%).....	14.5	14.4	13.7
Combined operating ratio (%)	91.6	90.8	90.5
Adjusted combined operating ratio (%) ⁽¹⁾	90.0	90.3	90.5

Notes:

- (1) All years exclude impacts of changes in risk-free rates used to discount net outstanding claims.
- (2) 2017 excludes the impact of an outward reinsurance transaction to reinsure our U.S. commercial auto run-off liabilities.
- (3) 2019 and 2017 exclude impacts due to changes in the Ogden Rate (as defined below). 2018 excludes the impact of an outward reinsurance transaction to reinsure our Hong Kong construction workers' compensation liabilities.

Market Conditions and Overview of Performance

The last several years through December 31, 2019 have proved challenging for insurers and reinsurers, with reduced investment yields and slow or limited economic growth in many of the countries in which we operate. We have seen central banks maintain interest rates at record lows, with the majority of global sovereign bonds having yields below 1% and a significant portion with negative yields. Prior to the emergence of COVID-19, generally low levels of unemployment and stronger pricing momentum across the insurance industry helped to partially offset pressures created by these themes. However, these themes have also been playing out against a backdrop of severe weather conditions and events, continually evolving capital and solvency requirements for insurers, varying levels of political and trade tension globally, technological innovation, and increasing responsiveness to environmental and social matters. More recently, as a result of COVID-19, the insurance industry has experienced strained balance sheets as asset shocks impact capital levels and investment portfolios remain subject to exceptionally high levels of volatility, with impacts on claims yet to fully manifest.

In response to such challenges, we have pursued a strategy of:

- (a) driving focused operational improvement, including through our ongoing efficiency initiatives and our strategic priorities (such as our cell review program (the “**Cell Review Program**”) through which we review business cells to identify areas of improvement, drive accountability and enable timely responses to changes in the market, and Brilliant Basics (“**Brilliant Basics**”), which seeks to ensure a consistent level of excellence across underwriting, pricing and claims management across all countries and portfolios and to drive improved accountability and financial discipline, as well as leverage best in class AI, data and digital capabilities to improve our underwriting capabilities and customer experience);
- (b) remediating, revising, de-risking and, in some cases, completely exiting underperforming businesses and portfolios (such as our exits from (i) Latin America, (ii) personal lines in North America and (iii) Hong Kong construction workers' compensation, along with the disposal of our insurance operations in Indonesia, the Philippines and Thailand), as well as restructuring our existing operations (such as combining our European and Asian operations into an International segment, and combining our operations in Australia, New Zealand and the Pacific into an Australia Pacific segment);

- (c) strengthening our culture and risk management capabilities, which are designed to enable us to be more resilient and better equipped to respond to a changing environment (as evidenced, for example, by our climate change action plan, which is focused on progressing our understanding of climate-related risks and opportunities and developing a strategic response to such (the “**Climate Change Action Plan**”), our development of new underwriting and claims standards as part of the Brilliant Basics initiative, and our implementation of compulsory risk training modules to promote risk awareness and understanding); and
- (d) implementing a comprehensive capital plan, responding to the uncertainties created by COVID-19. The plan is designed to allow us to withstand a range of severe economic and investment market downside scenarios and continue to grow organically as crises abates. See “—Recent Developments—Comprehensive Capital Plan” for more information.

See “Management’s Discussion and Analysis of Results of Operation and Financial Condition—Factors and Trends Affecting our Results—Operational and Capital Improvements” for more information.

For the year ended December 31, 2019, our combined operating ratio increased to 100.0% from 95.9% in the year ended December 31, 2018, primarily due to weather-related claims in the North American crop business, the expected higher net cost of large individual risk and catastrophe claims following a restructuring of our external reinsurance program, a reduction in risk-free rates used to discount outstanding claims and a change in the statutory discount rate used to calculate lump sum compensation in relation with personal injury liabilities in the United Kingdom (the “**Ogden Rate**”), which became effective on August 5, 2019.

During 2019, the combined operating ratio of our North America segment deteriorated to 108.4% from 97.8% in 2018, primarily due to the weather-impacted crop result, adverse prior accident year claims development and a reduction in risk-free rates used to discount net outstanding claims. Our International segment combined operating ratio deteriorated to 99.4% in 2019 from 96.7% in 2018, primarily due to the one-off impact arising from the change of the Ogden Rate in the United Kingdom, a heightened level of large individual risk claims and a reduction in risk-free rates used to discount net outstanding claims. Our Australia Pacific segment combined operating ratio deteriorated to 91.6% in 2019 from 90.8% in 2018, primarily due to increased catastrophe costs, a reduced level of positive prior accident year claims development, normalization in lenders’ mortgage insurance (“**LMI**”) profitability and a reduction in risk-free rates used to discount net outstanding claims.

During 2018, our combined operating ratio decreased to 95.9% from 104.5% in the prior year. This improvement was primarily due to significantly reduced catastrophe activity, a strong improvement in the attritional claims ratio, the impact on 2017 of reinsuring our U.S. commercial auto run-off liabilities (which increased both reinsurance recoveries and reinsurance expense in 2017) and slightly increased positive prior accident year claims development. This was partly offset by an increase in risk-free rates during 2018 combined with the impact of a transaction to reinsure our Hong Kong construction workers’ compensation liabilities.

During 2018, the combined operating ratio of our North America segment decreased to 97.8% from 112.8% in 2017, driven by an improved attritional claims ratio coupled with materially lower catastrophe incidence, the impact on 2017 of reinsuring our U.S. commercial auto run-off liabilities and an increase in risk-free rates during 2018. Our International segment combined operating ratio decreased to 96.7% in 2018 from 103.0% in 2017, mainly due to an improvement in the attritional claims ratio, which includes benefits from remediation activity in Asia, and the impact in 2017 of a change to the Ogden Rate effective March 20, 2017, partly offset by the impact of the aforementioned transaction to reinsure our Hong Kong construction workers’ compensation liabilities in 2018. Our Australia Pacific segment combined operating ratio increased to 90.8% in 2018 from 90.5% in 2017, with a material improvement in the attritional claims ratio largely offset by a reduced level of positive prior accident year claims development and a slight increase in the expense ratio.

The following table shows our net profit / (loss) after tax, investment income (after fair value gains / losses) and combined operating ratio for the periods presented:

	For the year ended December 31,		
	2019	2018	2017
Profit / (loss) after tax attributable to ordinary equity holders of the company (US\$ millions).....	550	390	(1,249)
Investment income (after fair value gains / losses) (US\$ millions).....	1036	547	758
Combined operating ratio (%)	100.0	95.9	104.5
Adjusted combined operating ratio (%) ⁽¹⁾	97.5	95.7	103.9

Notes:

- (1) All years exclude the impact of changes in risk-free rates used to discount net outstanding claims. 2019 and 2017 also exclude impacts due to changes in the Ogden Rate. 2018 excludes the impact of an outward reinsurance transaction to reinsure our Hong Kong construction workers' compensation liabilities. 2017 excludes the impact of an outward reinsurance transaction to reinsure our U.S. commercial auto run-off liabilities.

Current accident year large individual risk and catastrophe claims, which are defined as those claims with a net cost of US\$2.5 million and above, were 11.9% of net earned premium in the year ended December 31, 2019, compared with 10.0% and 15.9% in the years ended December 31, 2018 and 2017, respectively. See "Management's Discussion and Analysis of Results of Operation and Financial Condition—Factors and Trends Affecting our Results—Severity and Frequency of Catastrophes" for additional information.

The gross yield on our investments and cash was 4.6% for the year ended December 31, 2019, 2.3% for the year ended December 31, 2018 and 3.2% for the year ended December 31, 2017.

See "Management's Discussion and Analysis of Results of Operation and Financial Condition" for more information.

Business Strategy

2019

Our purpose is to give people the confidence to achieve their ambition. Our strategy is to build on our position as one of a limited number of commercial and specialty property and casualty insurers operating on a global basis with a business that is stable, predictable and profitable. This strategy combines a high quality claims proposition with our ability to support clients in their risk management needs, as well as underwriting and risk assessment. In line with this, our strategic performance objectives and outcomes for 2019 were as follows:

Deliver the 2019 plan

Strategy. Continue to drive a rigorous performance management focus through the Cell Review Program and deliver our target combined operating ratio for 2019, while reducing operational costs over a three-year period.

2019 Outcomes. We believe the fundamentals of our business remained strong, as evidenced by our results in Australia Pacific and International in 2019. Despite challenging weather conditions which affected our North American crop business, the underlying performance in North America improved and performance management rigor translated into gross written premium growth, continued improvement in the attritional claims ratio and the achievement of our cost reduction targets for 2019.

Brilliant Basics

Strategy. Drive the next phase of the Brilliant Basics agenda, including by upgrading our capabilities in the core areas of underwriting, pricing and claims; and enhancing our underwriting governance and pricing capability through the Group chief underwriting office, which we established in January 2019.

2019 Outcomes. We believe Brilliant Basics continues to grow in its sophistication and maturity. We have made meaningful investments to add talent to our underwriting, pricing and claims teams. In 2019, we further strengthened our underwriting governance, embedded global pricing standards, including a standard definition for rate adequacy across the Group, and made significant improvements to our claims handling processes, which together resulted in the development of our new Group underwriting and claims standards.

Future focus

Strategy. Build a successful QBE for the future and a strong platform for sustainable and targeted growth. Leverage our data and analytics capabilities, technology roadmap and insurtech partnerships. Continue our focus on reducing complexity, increasing automation and simplifying processes.

2019 Outcomes. We have further progressed our work to modernize our technology systems and infrastructure and increase the stability and security of our technology environment, including by establishing a Global Cyber Security Operations Centre. We also adopted a new global operating model to set strategic direction and common goals for security with our people, partners and regulators, and delivered on a range of initiatives such as uplifting cyber threat detection and response, identity and access management and data loss prevention, and we successfully rolled out network solutions across our technology infrastructure and laid foundations that support QBE's journey to the cloud.

We believe we continued to leverage our existing partnerships while targeting new partnerships and investments that accelerate our capabilities. For example, during 2019 we also expanded our partnership with CLARA Analytics by means of an investment through QBE Ventures (our corporate venture fund focused on forming commercial relationships with digital innovation and AI startups), making it our sixth investment through QBE Ventures. CLARA Analytics aims to improve claims outcomes in commercial insurance with easy-to-use artificial intelligence-based and machine learning products. We have used CLARA Analytics' artificial intelligence-based and machine learning products in Australia since 2018, but in 2019 we extended the use of North America.

Operating sustainably

Strategy. Continue our focus on sustainability and making positive contributions where we operate by working with our customers, partners and communities to address key economic social and environmental issues.

2019 Outcomes. During 2019, we published an energy policy applicable Group-wide, which provides shareholders, customers and the wider community with a clear explanation of the Group's approach to investing in and underwriting energy projects, and which focuses on support for our customers in the transition to a low carbon economy consistent with the objectives of the Paris Agreement.

We launched our first global disaster relief and climate resilience partnerships and further reduced our environmental footprint, including by committing to using 100% renewable electricity across our operations by 2025, and announced our ambition to grow Premiums4Good, which allows our customers to ask us to invest up to 25% of their insurance premium in socially responsible investments.

Talent and culture

Strategy. Bring to life the seven behavioral elements of our “QBE DNA” (that we are customer centered, diverse, technical experts, fast-paced, courageous, accountable and a team), which is essential to our ability to deliver for our people, customers, communities and our shareholders. Reward and celebrate our people and create an environment that supports diversity, inclusiveness and flexibility.

2019 Outcomes. We believe we made good progress on improving our business culture through embedding the “QBE DNA” and achieved a 4% increase in employee engagement in our 2019 employee survey. We continued to make progress on our efforts to improve the diversity of our workforce, increasing the percentage of women in senior management to 34% (up 2% from 2018). We have modernized our policies on ways of working including by launching our “Share the Care” program in Australia and New Zealand, which allows men and women equal opportunity to access parenting leave.

Customer focus

Strategy. Bring our new customer commitment program to life, delivering a consistent level of outstanding service to our customers and partners. Through technical expertise and know-how, we intend to provide solutions for our customers’ current and emerging needs.

2019 Outcomes. Our team focused on building their sector knowledge and industry expertise to better enable us to anticipate our customers’ current and emerging needs. We believe the rollout of our global customer commitment program and digital solutions enables us to achieve better customer outcomes and improved claims experiences, with these metrics now integrated into our cell review conversations, reflecting the importance of customer outcomes in our overall performance assessment.

Managing risk

Strategy. Build a stronger and more resilient QBE by continuing to invest in managing our risks in an increasingly dynamic environment.

2019 Outcomes. During 2019, we believe we made significant investments to further strengthen risk management. We have placed a heavy focus on conduct, risk management and governance. Through multiple risk initiatives we believe we have also meaningfully reinforced our risk appetite and policies.

2020

For 2020, we have developed an updated set of priorities intended to concentrate our efforts on our key differentiators, helping us build a reputation for value, service, claims payment and performance:

Performance

Continue to execute our review of business cells to identify areas of improvement and enable the Group to respond to market changes, and better position us to deliver our target combined operating ratio. Deliver against key sustainability and climate commitments. Turn our focus to organic growth opportunities.

Brilliant Basics +

Execute the next phase of Brilliant Basics with a sharper focus on delivering for our customers, by leveraging best in class AI, data, and digital capabilities to embed everyday brilliance in underwriting and pricing and in particular, throughout our customer claims experience.

Talent & culture

Enrich our talent and leadership by building on our “QBE DNA” to empower our people to thrive, now and in the future. Continue to enhance our performance management system, ME@QBE, to provide our employees with a simpler and more modern approach to performance management, supporting our people and leaders in managing career and talent development.

Innovation & technology

Enhance our digital and data capability, update our IT platforms and accelerate the transition to the cloud. Through innovative partnerships with insurtech companies and QBE Ventures (our corporate venture fund focused on forming commercial relationships with digital innovation and AI startups), cultivate skills and capabilities for the future and create an environment that nurtures innovation and continuous improvement.

Customer focus

Expand the breadth and depth of our customer focus by embedding our “Customer@QBE” framework, leveraging customer research to build deeper industry expertise and customer insights. Implement digital technologies intended to create seamless end-to-end experiences for our customers.

Underwriting Strategy

Our underwriting approach is to diversify and limit the type of insurance risks accepted and reduce the variability of the expected outcome by, among other things:

- delegating underwriting authorities to underwriters based on a detailed retrospective and prospective analysis of each class of business (with such authorities reflecting the level of risk that we are prepared to take with respect to each permitted insurance class and the experience of the underwriter);
- pricing risk using in-house pricing models relevant to specific portfolios and the markets in which we operate;
- maintaining pricing and claims analysis for each portfolio;
- maintaining a knowledge of current developments in our respective markets and classes of business;
- maintaining a business portfolio that is diversified across countries and classes of business;
- undertaking quarterly actuarial valuations of insurance liabilities; and
- reinsuring a portion of risks underwritten to limit our exposure to an individual catastrophe or an accumulation of claims.

For additional information, see “Our Business—Underwriting.”

Investment Strategy

The Investment Committee reviews our investment strategy at each quarterly committee meeting and also monitors the level of our cash.

The following table sets forth the percentage of our investments represented by cash (net of overdrafts), short-term deposits, fixed interest and other interest-bearing securities, equities and investment properties as of the dates indicated.

	As of December 31,					
	2019		2018		2017	
	US\$	%	US\$	%	US\$	%
	(US\$ in millions, except percentages)					
Cash and cash equivalents	547	2.2	863	3.8	572	2.2
Short-term money	1,066	4.4	1,283	5.6	3,462	13.2
Government bonds	5,813	23.8	4,975	21.7	5,576	21.3
Corporate bonds	13,268	54.4	12,144	53.1	13,243	50.7
Infrastructure debt.....	386	1.6	495	2.2	562	2.1
Unit trusts.....	-	-	-	-	29	0.1
Developed market equity ⁽¹⁾	281	1.2	565	2.5	520	2.0
Emerging market equity.....	108	0.4	289	1.3	110	0.4
Emerging market debt.....	554	2.3	234	1.0	-	-
High yield debt.....	401	1.6	81	0.4	-	-
Unlisted property trusts.....	716	2.9	913	4.0	1,082	4.1
Infrastructure assets	903	3.7	851	3.7	894	3.4
Private equity	203	0.8	159	0.7	76	0.3
Alternatives	91	0.4	-	-	-	-
Investment properties.....	37	0.2	35	0.2	15	0.1
Total investments and cash	24,374	100	22,887	100	26,141	100

Notes:

- (1) In 2019, strategic equities and other equities were disclosed in aggregate as developed market equities, with comparative information relating to 2018 restated on a consistent basis. For the purpose of this Report, 2017 information in the table above has also been restated on a consistent basis.

Our investment philosophy is to strike an appropriate balance between the return objectives of the organization and our appetite for risk, earnings volatility and capital consumption while managing climate-related and other non-traditional financial risks. We reduce the risk to shareholders by principally investing in fixed interest securities and having only a modest exposure to equity investments and other growth/risk assets, such as infrastructure. We follow this approach because of the risk we believe we have already assumed in our insurance underwriting business. Asset and liability matching is examined at both Group and divisional levels on a quarterly basis. Consideration is given at the divisional level to underlying business lines. Investments are matched with the currency of the underlying liabilities, with mismatches between liability duration and asset duration discussed on a regular basis at divisional and Investment Committee meetings. As of March 31, 2020, and adjusting for actions taken during the first week of April 2020, our fixed-income asset duration is approximately 2.3 years and economically matched to claims duration, approximately 85% of our investment portfolio in fixed-income investments is rated A- or better, our BBB investments have an average maturity of 3.2 years, and none of our credit exposure is trading distressed.

In recent years, we have maintained a small exposure to equity investments intended to achieve yields above those on fixed interest securities. Our direct exposure to developed market, emerging market and private equities was 2.4% of total investments and cash as of December 31, 2019, 4.4% at December 31, 2018 and 2.7% at December 31, 2017. As of March 31, 2020, 82% of our portfolio was in investment grade fixed-income investments, 6% in high yield and emerging market debt and 12% in growth assets; as a result of actions taken during the first week of April 2020 to exit all listed equity and high yield and emerging market debt, 92% of our portfolio was in investment grade fixed-income investments and 8% in growth assets.

Our investment portfolio (including cash) increased by 6.5% to US\$24,374 million as of December 31, 2019 from US\$22,887 million as of December 31, 2018, partly reflecting an increase in reinsurance recovery collections pertaining to the Group's aggregate reinsurance that was in place from 2015 through 2019. Our investment portfolio (including cash) decreased by 12.4% to US\$22,887 million as of December 31, 2018 from US\$26,141 million as of December 31, 2017, the decrease driven by the combined impact of exchange rate movements, the cost of the 2017 loss portfolio transfer of North American commercial auto run-off liabilities (which settled in 2018), the 2018 outward reinsurance of our Hong Kong construction workers' compensation portfolio, debt and equity buybacks, and the disposal of operations in Latin America.

As of December 31, 2019, 2018 and 2017, our cash and fixed interest securities had an average modified duration of 2.6 years, 2.1 years and 1.6 years, respectively.

For the years ended December 31, 2019, 2018 and 2017, our net investment income was US\$1,036 million, US\$547 million and US\$758 million, respectively.

For a discussion of the results of our investments, see "Management's Discussion and Analysis of Results of Operation and Financial Condition" and "Our Business—Investments."

Operational Summary

Our portfolio of insurance and reinsurance business is geographically diversified. For a discussion of our key ratios by division, see "Management's Discussion and Analysis of Results of Operation and Financial Condition."

Our insurance products are classified as either short-tail or long-tail, principally based upon the average amount of time that elapses between when we receive premiums and when we pay claims. The average amount of time that elapses between the time premiums are received and claims are paid for our short-tail lines is generally one year or less and for our long-tail lines is generally more than one year. Our principal short-tail lines of business include commercial and domestic property, such as motor vehicle, physical damage and crop insurance. Our principal long-tail lines of business include liability (casualty), CTP, professional indemnity, workers' compensation and marine, energy and aviation.

The following table shows a breakdown of our gross earned premium generated by short-tail and long-tail lines and the weighted average term to settlement of our outstanding claims, in each case, as of the dates indicated:

	As of December 31,		
	2019	2018	2017
Gross earned premium generated by:			
Short-tail lines (%)	65.1	64.9	65.4
Long-tail lines (%).....	34.9	35.1	34.6
Weighted average term to settlement of			
outstanding claims (years)	3.6	3.3	3.1

We primarily distribute our products through a relatively diverse network of third party-owned insurance agents and brokers.

We maintain comprehensive statistics by product for every country in which we operate. We use these statistics to monitor trends, to correct unprofitable portfolios and to identify businesses that are growing in profitability.

We are a public limited company incorporated in Australia and our principal executive office and registered office is located at Level 27, 8 Chifley Square, Sydney New South Wales 2000, Australia. Our telephone number is +61-2-9375-4444.

Ratings

As of the date of this Report, our parent company has been assigned an “A-” (Issuer Credit), “A3” (Issuer Credit), “A-” (Issuer Default) and “bbb+” rating by each of S&P, Moody’s, Fitch and A.M. Best, respectively.

Our main insurance and reinsurance business is conducted by subsidiaries which have been assigned an “A+,” “A+” (Strong) and “A1” (Insurer Financial Strength) rating by each of S&P, Fitch and Moody’s, respectively (affirmed on May 30, 2019, July 12, 2019 and April 11, 2019, respectively). Furthermore, our main operating subsidiaries have been assigned an “A” (Insurer Financial Strength) rating and an “a+” (Issuer Credit) rating by A.M. Best (effective as of July 5, 2019).

Our ratings are customarily reviewed on an annual basis and following significant corporate events (including, but not limited to, material acquisitions and disposals).

These ratings are based upon factors relevant to policyholders and are not directed toward the protection of investors.

The ratings described above reflect only the views of S&P, Moody’s, Fitch or A.M. Best, as the case may be. A credit rating of any entity or any security is not a recommendation to buy, sell or hold securities in so far as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for a given period or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances warrant. We are under no obligation to update information regarding such ratings should they change over time.

See “Our Business—Ratings” and “Risk Factors—A downgrade in our financial strength ratings may increase policy cancellations and non-renewals, adversely affect relationships with distributors and negatively impact new business. A downgrade in our debt ratings may increase our borrowing costs and impact our ability to access capital markets” for further information.

Distributions of credit ratings are restricted as described under “Introduction—References to Credit Ratings.”

Recent Developments

COVID-19

Beginning in late February 2020, the global pandemic associated with the novel coronavirus COVID-19 and related economic conditions began to impact the Group’s results of operations, predominantly through dislocation of financial markets and effects on our investment portfolio. In light of COVID-19, on March 30, 2020, we withdrew our disclosed combined operating ratio and net investment return targets for the year ending December 31, 2020. During the first quarter of 2020, as a result of the ongoing COVID-19 situation, we experienced a negative return on investments of about 2%, or approximately US\$500 million (including a risk-free rate benefit on investment assets of approximately US\$330 million), due to extreme volatility across all asset classes, including a material increase in global fixed income credit spreads and significant declines in equity markets. We have taken decisive action to curtail further impacts through de-risking initiatives, including exiting all listed equity exposures and high yield and emerging markets debt exposures. Information for the fiscal period since January 1, 2020 has not been audited or reviewed by PwC Australia, our

independent auditors. For more information, see “Financial Information Presentation—Historical Financial Information—Information for Periods or Dates after December 31, 2019.”

During the period from January 1, 2020 to April 27, 2020, we have reduced our trade credit buyer limits by approximately 25% and reduced our exposure to high-risk sectors, including airlines and travel, leisure and hospitality, retail and consumer and automotive sectors. We believe our trade credit portfolio (which in 2019 accounted for US\$195 million of our gross written premium) is well diversified across regions and credit quality.

In relation to LMI, we retain what we believe is strong lending quality and equity buffers, including an average loan-to-value ratio across our portfolio of approximately 51%, with the average loan-to-value ratio for LMI policies written during 2019 being approximately 89%, both as of December 31, 2019.

More broadly across our insurance portfolio, we note that our business interruption policies normally require a physical damage trigger and/or specifically exclude pandemics, that we have only modest exposure to landlord (rental default) insurance, that our Australian & New Zealand travel insurance business was sold in 2019 leaving only a *de minimis* level of travel insurance exposure across the rest of the world, and that we do not write material event cancellation and contingency business.

Comprehensive Capital Plan

In 2020, we initiated a comprehensive capital plan to bolster our Group’s capital, reduce gearing ratios and improve earning resilience. We have completed several initiatives under this plan, including de-risking our investment portfolio by exiting all listed equities and emerging market and high yield debt investments, securing additional reinsurance protection for North American crop and catastrophe risks and completing an institutional placement of approximately US\$750 million of newly issued ordinary shares. We also announced a share purchase plan intended to raise up to US\$75 million and plan to issue Additional Tier 1 capital instruments.

Board changes

On February 13, 2020 we announced the appointment of Mr. Mike Wilkins as chairman of the board, effective March 31, 2020. Mr. Wilkins replaced Mr. Marty Becker as chairman, as Mr. Becker did not stand for re-election and retired from the board on April 30, 2020.

See “Our Board and Senior Management—Board of Directors” for additional information.

Leadership changes

On April 7, 2020 we announced the appointment of Mr. Jason Harris as chief executive officer for our International segment. Mr. Harris will commence his role in the fourth quarter of 2020, succeeding Mr. Richard Pryce who intends to retire at the end of 2020. Mr. Harris previously held the position of chief executive, global property and casualty at AXA XL, where he was responsible for financial lines, construction, engineering, ART and risk engineering. Prior to that, he was the chief executive international property and casualty at XL in the United Kingdom, with responsibility for its property & liability business outside of North America. Before then, he worked at AIG/Chartis Insurance in several senior roles, including executive director, commercial lines.

Dividend

On April 9, 2020, after due consideration of APRA’s guidelines, released on April 7, 2020, regarding the payment of dividends by financial institutions in the currently volatile COVID-19 economic environment, we paid the previously-announced dividend of A\$0.27 per ordinary share to QBE shareholders of record on March 6, 2020.

RISK FACTORS

We are subject to a variety of risks that arise out of our businesses. We manage our ongoing business risks in accordance with our risk management policies and procedures, many of which are described in our 2019 Annual Financial Report.

The risks highlighted below could have a material adverse effect on our business, operations, financial condition or prospects. However, such risks are not the only risks we face and there may be additional risks that, individually or in the aggregate, have a material adverse effect on our business, operations, financial condition or prospects.

Major public health issues, particularly the pandemic caused by the spread of COVID-19, could materially adversely affect our business.

The ongoing COVID-19 pandemic has had a significant impact on the global economy and the ability of individuals, businesses, and governments to operate. Across the globe, travel, trade, business, working arrangements and consumption have been materially impacted by the pandemic. There continues to be considerable uncertainty as to the duration of and further impact of COVID-19 including (but not limited to) in relation to government, regulatory or health authority actions, work stoppages, lockdowns, quarantines and travel restrictions. The impact of some or all of these factors could cause significant direct disruption to our operations and financial performance and could produce claims in a variety of industries and geographies from many of our policyholders at the same time. Furthermore, as an international business with multiple (geographic and jurisdictional) subsidiaries, the pandemic and associated impacts could necessitate further divisional capital requirements / support (either on a standalone basis or concurrently), which creates additional challenges and risks related to our financial position.

A continuation or escalation of the COVID-19 pandemic could also materially affect risk profiles and affect our ability to write new business and reinsure existing risk. Additionally, our investment portfolio (and, specifically, the valuations of investment assets we hold) has been, and may continue to be, adversely affected as a result of market developments from the COVID-19 pandemic and uncertainty regarding its outcome. Furthermore, our financial position may be adversely impacted if certain of our suppliers (including counterparties, suppliers of IT services, and other suppliers of goods and services) are unable to successfully implement business continuity plans in the current environment or if any such suppliers are unable to continue as going concerns as a result of the economic impact of COVID-19. The spread of COVID-19 has already resulted in governmental authorities in Australia, the United States, the United Kingdom and other countries around the world imposing a variety of measures restricting day-to-day life, including quarantines and travel restrictions of varying scope. This has resulted in significant disruptions in the global economy and the economies of particular countries, including travel, retail, tourism, health systems, food and manufacturing supply chains, consumption and overall economic output, which in turn has caused lower interest rates and significant volatility in global financial markets. However, the extent of the impact on our business, results of operations, financial condition, liquidity and cash flows is largely dependent on future developments, which are highly uncertain and not predictable, including the scale of COVID-19 and actions taken to address its impact.

Moreover, changes in interest rates, reduced liquidity or a continued slowdown in Australia, the United States, the United Kingdom or global economic conditions may also adversely affect our business, financial condition, results of operations, liquidity or prospects, as well as our ability to implement our business strategy. Further, extreme market volatility may leave us unable to react to market events in a prudent manner consistent with our historical practices in dealing with more orderly markets. As a result of the COVID-19 pandemic, we may also face increased costs associated with claims under our policies, an increased number of customers experiencing difficulty paying premiums or policies being designated as “no lapse” for periods of time. The cost of reinsurance to us for these policies could increase, and we may encounter decreased availability of such reinsurance.

We may be adversely impacted by policies, practices, laws, or regulations introduced by local, state, and federal governments or regulatory agencies prohibiting insurers from cancelling insurance policies in accordance with policy terms or requiring insurers to defer insurance premiums, refund premiums and pay claims for losses that would not otherwise be payable under the relevant policy or in the normal course of business. Such rules or regulations could apply retroactively and require insurers to make payments to policyholders who have suffered loss in connection with the COVID-19 pandemic who were not eligible for payments under the terms of their policy. For example, certain U.S. states have introduced draft legislation proposing retroactive business interruption coverage for business income loss due to COVID-19 or have declared COVID-19 an “occupational disease” for certain classes of employees, thereby creating a presumption of coverage under workers’ compensation policies. In addition, some jurisdictions have ordered insurers to defer payments of compulsory insurance premiums by certain insureds or provide premium credit or reductions or returns of premium for reduced exposure in certain insurance lines where the risk of loss has fallen substantially as a result of COVID-19. In addition, certain Australian states and territories are progressively enacting legislation affecting the rights of tenants and landlords in response to COVID-19, which may in turn affect us as a provider of landlords’ insurance. We cannot predict the ultimate impact of such legal and regulatory change due to COVID-19, but we are monitoring these issues closely.

Furthermore, a continued or worsening general economic downturn and further increases in unemployment or other events that negatively impact household or corporate incomes or asset values could have a negative effect on the demand for our products and services, a reduction in the value of our assets and an increase the number of customers who claim on insurance policies and the severity of those claims. It could also materially affect our ability to obtain and retain new policyholders. Furthermore, any action by us in connection with COVID-19 could impact our reputation with the public. The extent to which COVID-19 impacts our business, results of operations, financial condition, liquidity or prospects will depend on future developments which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions taken to contain or treat its impact.

The foregoing factors are beyond our control and could have an material adverse effect on the overall business sentiment and environment, causing material uncertainties, cause our business to suffer in ways that cannot be predicted, and may materially adversely impact our business, financial condition and results of operations.

Our businesses, and, therefore, our results of operation, financial condition, profitability and liquidity may be adversely affected by disruption in the global financial markets and general economic conditions, including changes in interest rates.

The operating and financial performance of the Group is influenced by a variety of global economic and business conditions. At times during the past 12 years and most recently with the outbreak of COVID-19, global credit and equity markets have experienced extended periods of extreme disruption. These disruptions have included periods of greater volatility, significantly less liquidity, widening of credit spreads and a lack of price transparency in certain markets. Additionally, recent periods have been characterized by low interest rates relative to historical levels.

Most regions in which the Group operates have been significantly and adversely affected by the actions taken to mitigate the spread of COVID-19, with many economies expected to experience severe economic recessions. It is possible that a material deterioration of macroeconomic conditions could occur in the markets in which the Group operates as a result of the impact of COVID-19 and such a deterioration could materially adversely impact the Group’s business, financial condition and results of operations.

Prolonged disruptions, uncertainty or volatility in the credit markets, including those resulting from COVID-19, could result in loss of earnings if we are unable to adapt to cost structures, products,

pricing, claims management or other activities in response to lower than expected revenues, or higher than expected costs (including claims costs), caused by these adverse changes in the economy and general business conditions or operating environment. They may also limit our ability to access funding and capital, particularly our ability to issue longer-dated securities in international capital markets. These market conditions may limit our ability to replace, in a timely manner, maturing liabilities and access the capital necessary to grow our businesses and pursue further acquisitions. We may also be forced to delay raising longer term funding and capital, issue shorter tenors than we prefer, or pay unattractive interest rates, thereby increasing our debt expense, decreasing our profitability and significantly reducing our financial flexibility. If economic conditions remain weak or further deteriorate, it could materially adversely affect our results of operations, financial position and/or liquidity.

Similarly, sustained low interest rates can negatively affect the performance of our investment securities and reduce the level of investment income earned on our investment portfolios, which could result in a lower investment income growth. Due to practical and capital markets limitations, we may not be able to fully mitigate our interest rate risk by matching exposure of our assets relative to our liabilities. Continued low interest rates could also impair our ability to earn the returns assumed in the pricing and the reserving for our products at the time they were sold and issued.

See “Management’s Discussion and Analysis of Results of Operation and Financial Condition—Factors and Trends Affecting our Results” for more information.

We are at risk from the severity and frequency of catastrophes or other events that may lead to an increased frequency or severity of claims.

General insurers and reinsurers may be impacted by an increased frequency or severity of claims arising from a catastrophe or other events, which could have a significant impact on their results of operations and financial condition. Catastrophes include various natural events, such as cyclones, hurricanes, earthquakes, wind, hail, droughts, floods, tsunamis, fires, volcanic eruptions, explosions and pandemics, epidemics or other health crises or outbreaks. Catastrophes can also be man-made such as terrorism, war and other hostilities. The frequency and severity of such events and the losses associated with them are inherently unpredictable or difficult to predict and may materially impact our results of operations. We have experienced, and can expect in the future to experience, claims from catastrophes that may have a material adverse impact on our results of operations and financial condition.

For the years ended December 31, 2019, 2018 and 2017, our net current accident year claims from large individual risk and catastrophe events totaled US\$1,381 million, US\$1,163 million and US\$1,804 million, respectively. Catastrophe events impacting us during the past three years have included floods, earthquakes, bushfires, wildfires and storms (including winter storms, tornadoes, typhoons, hailstorms and cyclones) in the United Kingdom, North America, Australia and other parts of the world where our customers are located. In 2019, catastrophe events affecting our gross cost of catastrophe claims in Australia included bushfires and floods. For more information, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition—Factors and Trends Affecting our Results—Severity and Frequency of Catastrophes.”

The extent of claims from a catastrophe caused by a peril is a function of two factors, namely, the total amount of insured exposure in the area affected by the event and the severity of the event. Many catastrophes are localized to small geographic areas. However, natural disasters have the potential to produce significant damage over large areas. In addition, catastrophes can occur in heavily populated or industrialized areas, which can lead to increased claims. As the world becomes more heavily populated and industrialized areas increase, there may be increases in the value and geographic concentration of insured property in such areas, which could increase the severity of claims from future catastrophes. The cost of such claims may also inflate due to demand surge resulting from increased demand for labor and higher costs of rebuilding and repairs as a consequence of such

events. Although catastrophes can give rise to claims in a variety of general insurance and reinsurance lines, marine and property insurance and reinsurance have in the past generated the vast majority of our catastrophe-related claims.

We monitor our aggregate exposures and the amount of reinsurance protection we buy takes into consideration the estimates of probable maximum loss. These estimates may prove to be incorrect and our aggregate claims may exceed our estimates. In addition, we consider the frequency, severity and potential locations of natural catastrophes on our business. Over the past several years, changing weather patterns and climatic change have added to the unpredictability and frequency of natural disasters in certain parts of the world and created additional uncertainty as to future trends and exposures. The international geographic distribution of our businesses subjects us to catastrophe exposure from natural events occurring in a number of areas throughout the world. One of the significant risks is the potential under-estimation of the impact on our Group of catastrophic events related to changes in weather patterns. There is also the risk of increased claims and related operational costs and changes in the economy due to the impact of climate change scenarios. Over time, the adverse effects of climate change could threaten resilience and financial stability of general insurers.

While we have historically managed our exposure to catastrophes through, among other things, the purchase of catastrophe reinsurance, retrocessional coverage and whole account reinsurance, there can be no assurance that such coverage will continue to be available to us at acceptable rates and levels, that our existing coverage will prove adequate or that counterparties to these arrangements will perform their obligations thereunder.

Our business continuity plans may not adequately protect us from sustained periods of adverse circumstances.

We rely on our business continuity management plan (the “**BCM Plan**”) to ensure we are able to continue our business if adverse circumstances prevent operations in the ordinary course. We are currently operating certain parts of our business under the BCM Plan as a result of COVID-19, which includes a large proportion of our workforce working from home. While the BCM Plan is designed to minimize disruption to the business and is regularly updated in consultation with our regulators, we are exposed to a number of risks when relying on business continuity measures (which includes sustained work from home arrangements), including an increased risk of workplace and occupational health and safety claims from employees, a potential inability of employees to communicate and deliver products and services effectively, increased exposure to cyber-attacks, an increased risk of breaching confidentiality to clients and others, and a curtailment of our ability to monitor compliance and risk, which increases our risk profile. Sustained disruption associated with COVID-19 and or any other events (either in parallel with COVID-19 or in isolation either on a local or global basis) will further strain our continuity plans, including our large scale work from home arrangements, which, together or individually could have a material adverse effect on our operations and financial performance.

Our results of operations are subject to profits generated from our investment portfolio, which is subject to market forces.

Investment returns are an important contributor to our overall profit. While we generally invest in high quality fixed interest securities and have a relatively modest exposure to growth assets, our investment portfolio is naturally subject to market forces. During 2019, we invested in a range of asset classes to meet investment objectives within clearly defined risk appetites. The majority of our investment portfolio is invested in shorter duration, high quality investment grade fixed income, which is consistent with achieving absolute return outcomes. Around 14% of our portfolio as of December 31, 2019 was invested in a mix of growth and/or risk assets, the majority of which includes listed equities, private equities, infrastructure assets and unlisted property.

For the years ended December 31, 2019, 2018 and 2017, our net investment yield on assets backing policyholders' funds was 4.5%, 2.3% and 2.9%, respectively, with net investment yield on assets backing shareholders' funds of 4.6%, 2.2 % and 3.3%, respectively.

As noted below, global debt and equity markets continue to experience significant volatility and the outlook remains relatively uncertain. The increased volatility may make it difficult to predict the value of our investment portfolio and implement our investment strategy in a timely manner. Any further declines in the value of fixed income instruments, declines in equity markets, or changes in interest or foreign exchange rates could materially adversely affect our investment income. There can be no guarantee that investment returns achieved in the past will be sustained in the future.

Our financial results are affected by changes in exchange rates.

Our financial statements are presented in US dollars. As such, a stronger US dollar against certain other major currencies will have a negative impact on our reported revenue and profit and conversely a weaker US dollar will increase our reported revenue and profit. Since reaching historic highs during 2011, the Australian dollar has declined against the U.S. dollar and, as of April 24, 2020, the exchange was US\$0.6377 per A\$1.00, as certified for customs purposes for the Federal Reserve Bank of New York.

For the year ended December 31, 2019, approximately 47% of our gross written premium was in US dollars, 27% was in Australian dollars and 10% was in Sterling. For the year ended December 31, 2018, approximately 45% of our gross written premium was in US dollars, 28% of gross written premium was in Australian dollars and 10% of gross written premium was in Sterling. Although our policy is to carefully manage our operational foreign currency exposures through matching of assets and liabilities in local currencies, we are still exposed to exchange rate risk in our financial reporting. Insofar as entities within our Group do not hedge operational foreign exchange exposures effectively, our reported profit would be affected.

Under AAS, we are only permitted to hedge our exposure to its net investments in foreign operations back to the parent entity's functional currency of Australian dollars. Insofar as our Group does not hedge this exposure, our foreign currency translation reserve would be impacted. This amount would then be recycled to profit or loss in the event that the foreign operation is fully or partially disposed of. AAS do not permit hedging of foreign exchange variability between the Australian dollar and the US dollar as a result of presenting our financial statements in US dollars.

We translate income and expense items of foreign operations that have a non-US dollar functional currency to US dollars for reporting purposes using the cumulative average rate of exchange for that period. On an average basis and compared with 2018, the Australian dollar, Euro and Sterling had depreciated by approximately 7%, 5% and 4%, respectively against the US dollar, adversely impacting 2019 gross written premium relative to 2018. Balance sheet items for our foreign operations that have a non-US dollar functional currency are translated at the period end rate of exchange. On this basis, as of December 31, 2019, the Australian dollar and the Euro had depreciated by around 0.4% and 2%, respectively against the US dollar while Sterling had appreciated by around 4% compared with closing rates as of December 31, 2018.

For more information, see "Management's Discussion and Analysis of Results of Operation and Financial Condition—Factors and Trends Affecting Our Results—Impact of the Fluctuations of the US Dollar."

Our financial results are affected by changes in commodity prices.

U.S. crop insurance comprises a significant portion of our North America segment. One feature of crop insurance is that premium income and profitability can be impacted by fluctuations in crop prices. Crop policies predominantly provide revenue coverage for changes in crop prices from

planting to harvest with premiums locked in prior to planting based on average futures trading prices. After allowing for policy deductibles that are typically around 15-20% of a farmer's projected income, changes in crop prices could therefore have an adverse effect on our financial condition and results of operations. Trade tensions between the United States and China with respect to soy beans coupled with the potential impact of a lower oil price on the demand for corn has already contributed to, or may contribute to, increased soy and corn price volatility with potentially adverse implications for underwriting profitability. We seek to reduce downside exposure to this volatility via the purchase of out-of-the-money corn and soy put options, however, such purchases may not be effective or may have limited effect. In addition, the crop insurance business is subsidized significantly by the U.S. government paying farm insurance subsidies to the agricultural industry. While recent plans to reduce the amount of crop subsidies have not gained support in Congress to date, our crop insurance business could be adversely affected if the U.S. government were to reduce crop subsidies in the future.

Our performance is affected by the cyclical nature of the insurance and reinsurance industries, including emerging claim and coverage trends and issues.

As noted above, our performance is affected by changes in economic conditions, both globally and in the jurisdictions in which we conduct our businesses. Premium and claim trends in the general insurance and reinsurance markets are cyclical in nature; the timing and application of these cycles differ among our geographic and product markets. Additionally, as industry practices and legislative, regulatory, judicial, social, financial, technology and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our businesses by either extending coverage beyond our underwriting intent or by increasing the frequency and severity of claims. In some instances, these changes may not become apparent until after we have issued insurance or reinsurance contracts that are affected by such changes. As a result, the full extent of liability under our insurance or reinsurance contracts may not be known for many years after issuance, which may adversely impact our business, financial condition and results of operation.

Unpredictable developments also affect the industry's profitability, including changes in competitive conditions and pricing pressures, unforeseen developments in loss trends, market acceptance of new coverages, changes in operating expenses, fluctuations in inflation and interest rates and other changes in investment markets that affect market prices of investments and income from such investments. Fluctuations in the availability of capital also have a significant influence on the cyclical nature of general insurance and reinsurance markets. For instance, the recent COVID-19 pandemic and related governmental response has resulted, and is expected to continue to result, in significant disruption in global financial and labor markets. These cycles influence the demand for and pricing of our products and services and, therefore, affect our financial position, profits and dividends. Accordingly, our results of operations may be adversely impacted if actual experience differs from management's estimates.

For more information, see "Management's Discussion and Analysis of Results of Operation and Financial Condition—Factors and Trends Affecting Our Results—Impact of the Fluctuations of the US Dollar."

Differences between our actual claims experience and underwriting and reserving assumptions may require us to increase our outstanding claims provisions.

Our earnings depend significantly upon the extent to which our actual claims experience is consistent with the assumptions we use in pricing and underwriting our products, actuarial reserving techniques we use to analyze and project loss trends and the provisions we establish for our obligations to pay claims. Establishing provisions blends both analysis of emerging trends and expert actuarial judgement (including a continuous diversification and limit of the type of insurance risks we accept and an ongoing reduction of the variability of the expected outcome), and is subject to uncertainty relating to the underlying risks, both internal and external. Due to the level of uncertainty associated

with insurance claims process and emergence we cannot be certain as to the amounts that we will ultimately pay for claims that have occurred but which have not yet been settled. Actual claims outcomes may vary from the estimated amounts, particularly when those payments may not occur well into the future, which is the case for our longer-tailed classes of insurance business. We aim to reduce concentration risk, i.e., the Group's exposure to the occurrence of any event or trend, including exposure to natural or man-made events that have the potential to produce claims from many of the Group's policyholders at the same time (including, but not limited to, pandemics, wars, civil unrest, storms and hurricanes, flood, and other catastrophes) and exposure to certain lines of business. We are reliant on a variety of measures to monitor aggregates and manage catastrophe risk, including the use of catastrophe realistic models from third party vendors, disaster scenarios and group aggregate methodology. We also evaluate our provisions periodically (including through a half-yearly actuarial valuation of insurance liabilities and monitoring the probability of adequacy of booked reserves), allowing for emerging experience and appropriately reflecting this experience in changes to the assumptions used to establish the provisions, as well as our claims experience. However, if the provisions previously established prove inadequate, whether as a result of factors under our control or external factors that we cannot control, we may have to increase our provisions, which could have an adverse impact on our businesses, financial condition and performance.

We hold risk margins to mitigate the potential uncertainty inherent in the net discounted central estimate of outstanding claims, however, such risk margins may not be sufficient or effective. Net outstanding claims provisions as of December 31, 2019 included a risk margin of US\$1,136 million, with a release of risk margin during 2019 contributing US\$23 million to reported net claims incurred for the year. Net outstanding claims provisions as of December 31, 2018 included a risk margin of US\$1,158 million, with a charge during the year of US\$12 million. The probability of adequacy of outstanding claims liabilities (which is a statistical measure of the level of confidence that the outstanding claims provision will be sufficient to pay claims as and when they fall due) was stable at 90.0%, 90.1% and 90.0% as of December 31, 2019, 2018 and 2017, respectively. See "Our Business—Reserving" for more information.

There can be no assurance that the ultimate claims costs will not materially differ from expectations and will not have a materially adverse, or favorable, impact on our businesses, financial condition and performance.

We operate in a highly competitive industry.

There is substantial competition among general insurance and reinsurance companies in Australia, the United Kingdom, Europe, Asia, the United States and the other jurisdictions in which we do business, including from new entrants and from existing competitors, many of which have undergone consolidation as a result of more robust capital requirements, technological change and price competition. We compete with general insurers and reinsurers many of whom have greater financial and marketing resources and greater name recognition than us. If our competitors are able to better innovate and price products or if we otherwise do not compete effectively there will be adverse consequences to our prospects and financial position.

The level of profitability of a general insurance or reinsurance company is significantly influenced by the adequacy of premium income relative to its risk profile and claims exposure, as well as the general level of business costs. The Group achieved an average renewal rate increase of 6.3% during the full year ended December 31, 2019 (reflecting a 4.7% increase during the first half of the year and a 8.3% increase during the second half of the year), compared to a 5.0% increase during 2018 (reflecting a 4.6% increase during the first half of the year and a 5.5% increase during the second half of the year) (in each case, excluding premium rate changes relating to CTP). Premium rate momentum accelerated during 2019, especially in our International (particularly Europe) and North America segments. While we seek to maintain premium rates at targeted levels, the effect of competitive market conditions may have a material adverse effect on our market share and financial condition. In addition, development of alternative distribution channels for certain types of insurance products,

including through the internet, may result in increasing competition as well as pressure on margins for certain types of products.

Because of the competitive nature of the insurance industry and other financial services companies, including competition for agents and brokers and a highly competitive direct market, there can be no guarantee that we will continue to effectively compete with our industry rivals, or that competitive pressure faced by us will not have a material adverse effect on the financial condition or results of operations of our business.

We are dependent on our ability to reinsure risks.

A general insurance company will usually attempt to limit its risks in particular lines of business or from specific events by using outward reinsurance arrangements. We enter into a significant number of reinsurance contracts to limit our risk. Under these arrangements, other reinsurers assume a portion of the claims and related expenses in connection with insurance policies we write. The availability, amount and cost of reinsurance depend on prevailing market conditions and sometimes we are exposed to concentrations of credit risk, in particular to large global reinsurers.

We have stringent controls with respect to the external reinsurers with which we do business, including requiring letters of credit or other collateral arrangements to guarantee the recoverability of the amount involved, but there are risks associated with the determination of the appropriate levels of reinsurance protection and the cost of such reinsurance and the financial security of such reinsurers.

Our wholly owned subsidiaries, Equator Reinsurance Limited and QBE Blue Ocean Re Limited, each a Bermuda corporation, provide both excess of loss and proportional reinsurance protections for our operating subsidiaries globally. QBE Blue Ocean Re Limited started writing reinsurance in 2018.

The use of a captive reinsurer exposes us to additional risks, including placing more of our own capital at risk than would be the case if all or a portion of our excess of loss protections for our insurance subsidiaries were placed in the external markets. The use of a captive reinsurer also exposes us to changes in regulatory requirements related to reinsurers, particularly changes promulgated by the Bermuda Monetary Authority, the chief regulator of the financial services sector in Bermuda. If insurance regulators in the jurisdictions in which we operate were to restrict the use of captive reinsurers or if we otherwise were unable to continue to use a captive reinsurer, the capital management benefits we receive under this reinsurance arrangement could be adversely affected, which could adversely affect our competitive position, capital, liquidity and financial condition and results of operations. A significant deterioration in the financial condition of Equator Reinsurance Limited or QBE Blue Ocean Re Limited would likely have a material adverse effect on our business and financial condition.

While we continue to explore and utilize opportunities to enhance our reinsurance structures, for example through reinsurance of run-off liabilities or through aggregate treaties, there can be no assurance regarding the adequacy of our current reinsurance or retrocessional coverage or the future availability of coverage at adequate rates and levels for our external reinsurance arrangements. In the event that adequate reinsurance capacity at acceptable rates becomes unavailable, we would attempt to reduce our exposures to within available reinsurance capacity or acceptable levels of insurance risk, however, we may not be successful, and we may remain exposed to certain risks unless and until this reduction could be completed.

Ceding of risk to our reinsurers does not relieve us of our primary liability to our insured. Accordingly, we are subject to credit risk with respect to our reinsurers. Although we initially place our reinsurance with reinsurers that we believe to be financially stable, this may change adversely by the time recoveries are due which could be many years later. A reinsurer's failure to make payments under the terms of a significant reinsurance contract would have a material adverse effect on our

businesses, financial condition and results of operations. In addition, after making large claims on our reinsurers, we may have to pay substantial reinstatement premiums to continue reinsurance cover.

There are risks associated with our inward reinsurance business.

In addition to purchasing reinsurance coverage, we (primarily through our International (including our Lloyd's syndicates) and North America segments) provide reinsurance coverage for third-party insurance company cedants. Due to various factors, including reliance on ceding company information concerning the underlying risks, reporting delays and the cyclical nature of reinsurance rates, our inward reinsurance business may be more volatile and present greater risks than our primary insurance business, especially for cover given in respect of catastrophes.

We are subject to risks as a result of operating in the Lloyd's market.

We write business through Lloyd's and are reliant on the effective operation of the Lloyd's market. Any significant matters with respect to the Lloyd's market, such as damage to its reputation or a loss of any of its international licenses, may result in a material adverse effect on our business. If, for whatever reason, Lloyd's members were to be restricted or otherwise unable to write (re)insurance through the Lloyd's market, it could have a material adverse effect on our business and results of operations. In particular, any damage to the brand or reputation of Lloyd's, whether such damage is caused by financial mismanagement, fraudulent activity or otherwise, or any loss of international licenses in relation to the insurance or reinsurance business (which may, for example, arise out of the regulatory risks and uncertainties surrounding the United Kingdom's exit from the European Union) may have a material adverse effect on our ability to write new business and/or its reputation. Additionally, any material increase or amendment to the conditions associated with Lloyd's participation either from a capital or operating perspective could also materially affect our ability to conduct business and therefore result in an adverse financial impact to us. Furthermore, any deterioration or sustained financial and operational pressures on Lloyd's as reflected in its ratings agency ratings and or outlook (downgrades) may directly or indirectly impact our and our subsidiaries' capital and liquidity position.

Changes in government policy, regulation or legislation in the countries in which we operate or to AAS or IFRS may affect our profitability.

We are subject to extensive regulation and supervision in the jurisdictions in which we do business. This includes, by way of example, matters relating to licensing and examination, rate setting, trade practices, policy reforms, limitations on the nature and amount of certain investments, underwriting and claims practices, mandated participation in shared markets and guarantee funds, adequacy of our claims provisions, capital and surplus requirements, insurer solvency, transactions between affiliates, the amount of dividends that may be paid and underwriting standards. Such regulation and supervision is primarily for the benefit and protection of policyholders and not for the benefit of investors or shareholders. In some cases, regulation in one country or jurisdiction may affect business operations in another. As the amount and complexity of these regulations increase, so will the cost of compliance and the risk of non-compliance. If we, as a Group, or one or more of our wholly owned entities do not meet regulatory or other requirements, we may suffer penalties including fines, suspension or cancellation of our insurance licenses, which could adversely affect our ability to do business. In addition, significant regulatory action against us could have material adverse financial effects, cause significant reputational harm or harm our business prospects.

We are experiencing and expect to continue to experience a number of changes in regulation in certain markets in which we do business, including in the Australian, United Kingdom, European and United States markets, which may affect the Group as a whole or one or more of our wholly owned entities. Regulatory changes are currently occurring across the financial, taxation, regulatory and supervisory landscape. Of particular focus are regulatory expectations and changes to laws and regulation in the areas of data protection or privacy, conduct or consumer protection, risk management, financial crime

and competition. In addition, insurance, corporate and tax regulators are becoming more assertive and are requiring companies to provide increasing levels of evidence of compliance.

Additionally, changes to AAS and IFRS for insurance companies have been proposed in recent years and further changes may be proposed in the future. The International Accounting Standards Board (“IASB”) has issued a new insurance contract standard, IFRS 17, which has been adopted into AAS as AASB 17. The current effective date is January 1, 2021; however, the IASB has tentatively agreed to postpone this to January 1, 2023, which is expected to also apply to AAS. Replacing IFRS 4, IFRS 17 will change the presentation of insurance contracts in the financial statements and the recognition and measurement criteria thereof. These and any other changes to IFRS that may be proposed in the future, whether or not specifically targeted at insurance companies, could adversely affect our Group’s reported results of operations and financial position.

United Kingdom and Europe

On March 29, 2017, the United Kingdom notified the European Council of its intention to leave the European Union. This notification triggered a withdrawal process under article 50 of the Treaty of the European Union and the United Kingdom left the European Union at 23:00 (Greenwich Mean Time) on January 31, 2020. Prior to the United Kingdom leaving the European Union, the European Union (Withdrawal Agreement) Act 2020 (the “**Withdrawal Act**”) entered into law in the United Kingdom on January 23, 2020. The Withdrawal Act provides for an “implementation period”, during which time existing arrangements between the United Kingdom and the European Union will continue to apply until at least December 31, 2020 (the “**Brexit Transition Period**”).

The ongoing trading relationship (if any) to be established between the United Kingdom and the European Union following the expiry of the Brexit Transition Period is yet to be finalized and the outcome remains uncertain. We have established a Belgian entity, QBE Europe SA/NV (“**QBE Europe**”) to write our European business so as to ensure continuity for our business partners and customers in a post-Brexit Europe (and the entirety of the reinsurance business previously underwritten by QBE Re (Europe) Limited (now dissolved) and the European branch business of QBE UK Limited (“**QBE UK**”) transferred to QBE Europe pursuant to separate (re)insurance business portfolio transfers on January 1, 2019). QBE UK is currently undertaking an additional (re)insurance business portfolio transfer, pursuant to which the business QBE UK previously wrote on a freedom of services basis from the United Kingdom into the European Economic Area will also transfer to QBE Europe prior to expiry of the Brexit Transition Period. Notwithstanding these changes, our European operations will remain headquartered in London. Once the Brexit Transition Period ends, there may be adverse changes in the fiscal, monetary and regulatory environment in which we operate. For example the capital requirements that will apply to the regulated entities within European operations may increase (particularly when the U.K. branch of QBE Europe becomes authorized as a third country branch post-Brexit). These changes may adversely affect our business, results of operations and financial condition. In the alternative, it is also possible that regulators in the United Kingdom may use Brexit as an opportunity to reduce some of the regulatory requirements of the Solvency II Directive (the “**Solvency II Directive**”) on insurers (as described below), while still ensuring that equivalence is recognized (this is not a potential outcome for QBE Europe in Belgium, however, given that it will continue to be part of the European Union). It should also be noted that there is a risk that the U.K. branch of QBE Europe (which currently writes U.K. or rest of the world and European business) will no longer be permitted to write European business from the United Kingdom.

The Solvency II Directive came into force in the European Union on January 1, 2016. It represents the most significant regulatory development in European insurance markets for a number of decades. Its risk-based solvency framework links business strategies, risk management and governance to an insurer’s required capital. It is supported by a comprehensive reporting regime both in respect of reporting to European Union member state (“**EU Member State**”) regulators and public disclosure.

The Solvency II Directive allows insurers and reinsurers in the European market to make use of internal models including the use of economic capital models when calculating their capital requirements, provided the prior approval of the relevant regulator has been obtained. In accordance with the internal model approval process being run in parallel in a number of EU Member States, QBE European Operations plc sought the approval of the Prudential Regulation Authority of the United Kingdom (the “PRA”) to enable it to make use of an internal model to set regulatory capital for its group. QBE Europe submitted a corresponding internal model application in August 2018 to the PRA (as the QBE European Operations plc group regulator), for decision in a college with the National Bank of Belgium (*Banque Nationale de Belgique/Nationale Bank van België*) as the regulator of QBE Europe, which was approved on February 1, 2019.

Following the expiration of the Brexit Transition Period, it may be necessary to amend the existing approvals or to apply for a separate approval for a QBE Europe internal model. In addition, regulators continue to issue guidance and other interpretations of the applicable requirements set out in Solvency II and a full review of the directive is due to be conducted by the European insurance supervisory authorities in 2020, which could require us to make further adjustments in the future.

A failure to implement the measures required by Solvency II in our European operations in a timely manner could lead to regulatory action and have a material adverse effect on our business, results of operations and financial condition. These adjustments may require our European operations to incur more cost or suffer greater restrictions on its business than expected which will have a material adverse effect on its operations, financial position or business prospects. Any significant changes in government policies or political structures in the jurisdictions in which we operate could have an impact on our business.

Our United Kingdom business includes insurance in respect of liability for personal injury. Where a personal injury claim is determined or settled with a lump sum payment, the payment is calculated in accordance with the Ogden Rate, which is set by the United Kingdom government and is applied when calculating the present value of loss of earnings for claims settlement purposes. A change in the Ogden Rate impacts all relevant claims settled after that date, regardless of whether the insurance to which the claim relates was priced on that basis or not (or occurred after that date or not). A reduction in the Ogden Rate increases lump sum payments to personal injury claimants, and in consequence the amount of reserves required to be held by insurers in relation to outstanding claims. The Ogden Rate was reduced from 2.5% to -0.75% effective as of March 20, 2017 and then increased to -0.25% effective as of August 5, 2019 in England and Wales.

The European Union’s General Data Protection Regulation (the “GDPR”), effective as of May 25, 2018 (and implemented in the United Kingdom by the new Data Protection Act 2018 of the United Kingdom), applies to our European business and, among other things, requires businesses to perform data protection impact assessments and entitles data subjects to data portability rights. It also grants increased enforcement powers to national data protection authorities (and provides for maximum fines for non-compliance of the higher of €20 million and 4% of an organization’s worldwide turnover). The concept of accountability is at the heart of the GDPR rules, meaning that organizations need to be able to demonstrate that they have analyzed the GDPR’s requirements in relation to their processing of personal data and that they have implemented a system or program that allows them to achieve compliance. It is not anticipated that the substantive law on data protection will change in the United Kingdom after the expiration of the Brexit Transition Period, although depending on the outcome of ongoing negotiations between the United Kingdom and the European Union, it is possible that it may be more difficult for firms in the European Economic Area to transfer personal data to the United Kingdom.

Australia

In Australia, APRA completed a process of refinement to the general insurance prudential framework in 2008 which reflected APRA’s intention to treat, in principle, any general insurance group as one

economic entity. New prudential standards relating to capital for “Level 1” individual insurers and “Level 2” insurance groups commenced on January 1, 2013. These standards introduced a common framework for required capital and eligible capital across general insurers and life insurers. APRA’s intention was to make its capital requirements more risk-sensitive and to improve the alignment of its capital standards across the industries it regulates.

Effective July 1, 2017, APRA extended the prudential supervision framework to Level 3 conglomerate groups to protect individual entities from contagion risks associated with conglomerate group membership. We remain regulated on a Level 2 basis and not on a Level 3 basis. A change in our Group composition or in APRA’s approach to regulation of conglomerate groups may result in increased costs to us.

The Australian federal government’s Financial System Inquiry (“FSI”) released its final report in December 2014. The FSI was charged with examining how Australia’s financial system could be positioned to best meet Australia’s evolving needs and support its economic growth. While the FSI made 44 recommendations in respect of the Australian financial system, the FSI did not see a compelling case for further changing stability settings in the insurance sector. The FSI found that while the insurance sector has become more concentrated, with the top five insurers making up 80% of the market, the main barriers to entry are commercial rather than regulatory. The Australian federal government released its response to the FSI on October 20, 2015. The Australian federal government’s response to the FSI in relation to general insurance is foregrounded on promoting industry-led initiatives to increase guidance and disclosure in general insurance, as well as aligning the interests of financial firms and consumers. As part of the Australian federal government’s response, legislative measures have been pursued to address consumer outcomes including the Treasury Laws Amendment (Putting Consumers First – Establishment of the Australian Financial Complaints Authority) Act 2018 of Australia that amends the Corporations Act and 12 other acts to introduce a new external dispute resolution scheme, known as the Australian Financial Complaints Authority to resolve disputes about products and services provided by financial forms, and five acts to, among other things, require firms that must participate in the enhanced internal dispute resolution (“IDR”) framework to report their IDR activities to the Australian Securities and Investments Commission (“ASIC”). The Australian parliament also passed the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 of Australia which imposes design and distribution obligations on the issuers, providers and distributors of financial products and provide ASIC with product intervention powers. Also in the response to the FSI has been the establishment of an industry funding model for ASIC. Therefore, we expect the cost of regulatory compliance and supervision of our Australian operations to increase.

The Australian federal government also completed a Review of Competition Policy to ensure an effective competition framework that promotes a strong and innovative business sector and better outcomes for consumers across the Australian economy. The final report was released on March 31, 2017. The report made numerous recommendations, the most significant of which was a shift from a “purpose” test to a test of purpose, effect or likely effect of substantial lessening of competition which has recently been accepted by the Australian federal government. In response, the Australian parliament passed the Competition and Consumer Amendment (Competition Policy Review) Act 2017 of Australia, and the Competition and Consumer Amendment (Misuse of Market Power) Act 2017 of Australia that became effective on November 6, 2017. This legislation contains a broad range of amendments to the Competition and Consumer Act 2010 of Australia in areas such as cartels, price signaling and concerted practices, exclusionary provisions, third line forcing, resale price maintenance and merger and non-merger authorizations. The ‘purpose’ test for misuse of market power was replaced with a ‘purpose or effects test’. In addition, there are a number of ongoing federal government inquiries relating to competition in the financial (including insurance) sector, including the final report issued by the Productivity Commission on ‘Competition in the Financial Sector’ on August 3, 2018.

The implementation of any recommendations from these reviews will ultimately be a decision for the Australian federal government and its agencies. We are assessing the impact on us of the strategic policies set out in that response.

On December 14, 2017 the Australian federal government established a Royal Commission into misconduct in the banking, superannuation and financial services industry (the “**Royal Commission**”). On February 4, 2019, the Royal Commission issued its final report and made a number of recommendations for policy makers, regulators and the financial services and insurance industry. The Royal Commission has led to, and may continue to lead to, regulatory enforcement activity, litigation and changes in laws, regulations or regulatory policy and has resulted in, and may continue to result in, ongoing reputational damage to the banking, superannuation and financial services industry, all of which has had, and may continue to have, an adverse effect on the business and prospects of the banking, superannuation and financial services industry. We continue to monitor developments in respect to these recommendations.

United States

Following the global financial crisis, the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “**Dodd-Frank Act**”) represented a comprehensive overhaul of the financial services industry within the United States and established the Federal Insurance Office (“**FIO**”) within the U.S. Treasury Department to monitor all aspects of the insurance industry and of lines of business other than certain health insurance, certain long-term care insurance and crop insurance. The director of the FIO is vested with the ability to recommend that an insurance company or an insurance holding company deemed “too big to fail” or that is “systemically significant” be subject to heightened prudential standards. The Dodd-Frank Act also provides for the pre-emption of state laws in certain instances involving the regulation of reinsurance and other limited insurance matters and established the federal Bureau of Consumer Financial Protection (the “**CFPB**”) which requires the CFPB and other federal agencies to implement many new rules. In addition, the National Association of Insurance Commissioners (“**NAIC**”), pursuant to its “Solvency Modernization Initiative,” reviewed the U.S. financial regulatory system and all aspects of the financial regulation affecting insurance companies, focusing on: (1) capital requirements; (2) corporate governance and risk management; (3) group supervision; (4) statutory accounting and financial reporting; and (5) reinsurance. As part of the initiative, NAIC adopted the Own Risk and Solvency Assessment Model Act, which, when adopted by a state, requires certain U.S. insurers and insurance groups to regularly perform own risk and solvency assessments and file a confidential summary report of such assessment with the relevant regulators. The assessment is a confidential internal assessment, in accordance with NAIC guidelines, appropriate to the nature, scale and complexity of an insurer of the material and relevant risks identified by such insurer associated with such insurer’s current business plan and the sufficiency of capital resources to support those risks. The ORSA Model Act (“**ORSA Act**”) has been adopted by all states and now applies to us. The Dodd-Frank Act also generally imposed comprehensive regulation with respect to agreements or arrangements with respect to derivatives transactions that fall within the ‘swap’ or ‘security-based swap’ definitions in the Dodd-Frank Act, under rules adopted (or in some cases to be adopted or implemented) by the Commodity Futures Trading Commission (“**CFTC**”) for swaps and by the Securities and Exchange Commission (the “**SEC**”) for security-based swaps. Among other things, absent an exemption, transactions in swaps or security-based swaps designated for mandatory clearing by the CFTC or SEC, respectively, are now, or will be, required to be centrally cleared through regulated central clearinghouses; transactions in such swaps or security-based swaps are required, or will be required, to be traded on a regulated swap execution facility or exchange (the mandatory clearing and trading requirement currently only apply to certain standardized interest rate swaps and index credit default swaps). There are also requirements that impose mandatory minimum levels of margin for non-cleared transactions when one counterparty is a swap dealer or security-based swap dealer. These requirements as well as other CFTC and SEC rules implementing, or expected to implement, the provisions of the Dodd-Frank Act, have increased our costs and may inhibit our ability to engage in various derivatives transactions due to the added costs and/or the availability of such transactions.

Tax reform was signed into law in the United States on December 22, 2017 and effective from January 1, 2018 with the effect of implementing extensive reform to the U.S. Internal Revenue Code (the “Code”). The U.S. Congress made broad changes to the Code with the stated intent of reducing tax rates and modifying various policies. The modifications relevant to us include changes to the manner in which the U.S. Internal Revenue Service may require the treatment, and valuation, of certain deferred tax assets, as discussed above. Additionally, the tax reform moves the United States closer to a territorial based system with respect to foreign income and contains certain base erosion rules relevant to our operations in North America. It is not certain what the overall impact that the passage of the tax reform will have on us and such changes may adversely affect our business, results of operations, and financial condition.

Other

In addition, we may be adversely affected by changes in government policy or legislation applying to companies in the insurance industry. These include possible changes in regulations covering pricing and benefit payments for certain statutory classes of business (e.g., the removal of the ability to use gender in pricing of insurance in the European Union, CTP and workers’ compensation in Australia and employers’ liability in the United Kingdom), the deregulation and nationalization of certain classes of business, the regulation of selling practices, the regulations covering policy terms and the imposition of new taxes and assessments or increases in existing taxes and assessments. Regulatory changes may affect our existing and future businesses by, for example, causing customers to cancel or not renew existing policies or requiring us to change our range of products or to provide certain products (such as terrorism, flood or pandemic cover where it is not already required) and services, redesign our technology or other systems, retrain our staff, pay increased tax or incur other costs. It is not possible to determine what changes in government policy or legislation will be adopted in any jurisdiction and, if so, what form they will take or in what jurisdictions they may occur. Insurance laws or regulations that are adopted or amended may be more restrictive than our current requirements, may result in higher costs or limit our growth or otherwise adversely affect our operations.

In addition, in November 2019, the International Association of Insurance Supervisors (the “IAIS”) adopted a model common framework (“ComFrame”) for the supervision of “internationally active insurance groups” (“IAIGs”), which includes enhanced group-wide supervisory oversight across national boundaries. In connection with ComFrame, the IAIS announced a five-year monitoring period for a risk-based global insurance capital standard (“ICS”) applicable to IAIGs. APRA has confirmed that we meet the definition of an IAIG. However, we cannot predict how ComFrame may be implemented in any of the jurisdictions in which we operate, and what additional capital requirements and other compliance costs these requirements could impose on us.

For more information on certain key regulations impacting our business, see “Regulation”.

Our ability to access funds from our subsidiaries is limited.

As QBE Insurance Group Limited is a non-operating insurance holding company, we depend on dividends, distributions and other payments from our subsidiaries to make the payments due on our obligations, including outstanding debt, and pay dividends to our shareholders. The majority of our investments are held by our regulated subsidiaries. Our subsidiaries may be limited in their ability to make dividend payments or advance funds to us in the future because of the need to support their own capital requirements or because of regulatory limits (which may be imposed in times of economic distress or otherwise and may be beyond our control) or rating agency requirements. Most recently, each of APRA, the PRA and the European Insurance and Occupational Pensions Association released guidelines regarding the payment of dividends by financial institutions, including (re)insurers, in the current economic environment. Although not currently mandatory, these guidelines could limit our subsidiaries’ ability to pay dividends.

For more information on certain key regulations impacting our business, see “Regulation”.

The inability of our subsidiaries to make payments, dividends or distributions in an amount sufficient to enable us to meet our cash requirements could have an adverse effect on our operations or our ability to meet our debt service obligations or our ability to pay dividends on our shares.

Our internal sources of liquidity may be insufficient to meet our needs.

We need liquidity to pay claims and other operating expenses, pay interest on our debt, satisfy our maturing debt obligations and meet any statutory capital requirements of our subsidiaries. If our liquidity is insufficient to meet our needs, we may need to seek third-party financing, including in the external debt or equity capital markets, which may not be available or could be prohibitively expensive. The availability and cost of any additional financing at any given time depends on a variety of factors, including general market conditions, the volume of trading activities, the overall availability of credit, regulatory actions and our credit ratings and credit capacity. It is also possible that, as a result of such recourse to external financing, customers, lenders or investors could develop a negative perception of our long- or short-term financial prospects. Disruptions, volatility and uncertainty in the financial markets, and downgrades in our credit ratings, may limit our ability to access external capital markets at times and on terms favorable to us to meet our capital and liquidity needs.

For a further discussion of our liquidity, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition—Liquidity and Capital Resources.”

A downgrade in our financial strength ratings may increase policy cancellations and non-renewals, adversely affect relationships with distributors and negatively impact new business. A downgrade in our debt ratings may increase our borrowing costs and impact our ability to access capital markets.

Our insurer financial strength ratings are important factors in establishing and maintaining our competitive position. As of the date of this Report, our credit ratings are as follows:

- Our main insurance and reinsurance business is conducted by subsidiaries which have been assigned an “A+,” “A+” (Strong) and “A1” financial strength rating by each of S&P, Fitch and Moody’s, respectively (affirmed on May 30, 2019, July 12, 2019 and April 11, 2019, respectively).
- Our main operating subsidiaries have been assigned an “A” (Insurer Financial Strength) rating and an “a+” (Issuer Credit) rating by A.M. Best (effective as of July 5, 2019).
- QBE Insurance Group Limited has been assigned an “A-” (Issuer Credit), “A-” (Issuer Default) and “A3” (Issuer Credit) rating by each of S&P, Fitch and Moody’s, respectively (affirmed on May 30, 2019, July 12, 2019 and April 11, 2019, respectively). AM Best has assigned QBE Insurance Group Limited a “bbb+” (Issuer Credit) rating (affirmed on July 5, 2019).

These ratings are based upon factors relevant to policyholders and are not directed toward the protection of investors.

For further information, see “Our Business—Ratings.”

The rating agencies regularly review our rating and the ratings of our main insurance and reinsurance subsidiaries. Rating agencies may change their methodology or requirements for determining ratings, or they may become more conservative in assigning ratings. Rating agencies or regulators may also increase capital requirements for us and/or our subsidiaries. Our ratings could be negatively affected by such increased capital requirements or amendments to the rating agencies’ criteria.

Future downgrades in the ratings of any of our insurance or reinsurance subsidiaries (or the potential for such a downgrade) could, among other things, materially increase the number of policy cancellations and non-renewals, adversely affect relationships with the distributors of our products and services, including new sales of our products, and negatively impact the level of our premiums and adversely affect our ability to obtain reinsurance at reasonable prices or at all.

If one or more of our debt ratings were downgraded, we could also incur higher borrowing costs, and our ability to access the debt capital markets could be impacted. This could adversely affect our businesses, financial condition, results of operations and our cost of capital.

A credit rating of any entity or any security is not a recommendation to buy, sell or hold securities in so far as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for a given period or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances warrant. We are under no obligation to update information regarding such ratings should they change over time.

Our extensive international operations subject us to various risks.

We have insurance operations in 27 countries around the world and continually assess opportunities to expand our operations. Even though we typically have management and shareholder control of our non-Australian affiliates, we are subject to the attendant risks of doing business in many foreign countries such as:

- political instability;
- difficulties in enforcing our rights;
- changes in foreign regulation or their interpretation or enforcement;
- unstable economic conditions;
- foreign taxes;
- adverse currency fluctuations; and
- lack of experience in new markets.

Acquisitions or dispositions may adversely affect our businesses.

Historically, acquisitions have played a significant role in the growth of some of our businesses, and we may continue to pursue growth through acquisitions in the future. We may not, however, be able to identify suitable acquisition candidates or to finance or complete such transactions on acceptable terms. Additionally, the integration of acquired businesses may result in significant challenges, and we may be unable to accomplish such integration smoothly or successfully.

Acquisitions are subject to many risks, including the following:

- acquisitions may cause a disruption to our ongoing businesses, distract our management and other resources and make it difficult to maintain our standards, internal controls and procedures;
- our current ratings by S&P, Moody's, A.M. Best or Fitch may be jeopardized;

- we may not be able to successfully integrate services, products and personnel into our operations, especially if we acquire large businesses;
- we may experience difficulties in realizing projected efficiencies, synergies and cost savings;
- we may not be successful in acquiring all entities that we seek to acquire;
- we may be required to dispose or cancel certain product lines that we have acquired;
- we may be required to incur debt or issue equity securities to pay for acquisitions, for which financing may not be available or may only be available on unacceptable terms;
- our acquisitions may not achieve anticipated revenues, earnings or cash flow;
- our acquisitions may not result in any return on our investment and/or we may lose our entire investment;
- we may assume unforeseen liabilities and exposures; and
- we may overpay for acquisitions and need to impair goodwill or intangible assets.

We may also seek to dispose of certain businesses or entities, and over 2019 and 2018 we disposed of our operations in Latin America, Thailand, Indonesia and the Philippines, in addition to disposing of our travel and wool and livestock-in-transit businesses in Australia and the Unigard Indemnity entity and personal lines business in North America, additional information on which is provided in note 7.1 to our 2019 Annual Financial Statements.

Disposals are subject to many risks including:

- there may be delays in regulatory approvals in each jurisdiction;
- regulators may place conditions or restrictions on the disposals;
- we may ultimately be unable to obtain the required regulatory approvals;
- the final consideration might be lower than estimated consideration;
- the buyer may be unable to pay us for any or all of the operations being disposed of; and
- we may retain liabilities or be subject to post-closing indemnification obligations related to the disposed operations.

There can be no assurance that any future disposal or acquisition will provide us with the benefits that we anticipate when entering into the transaction. Our failure to adequately address these disposal and acquisition risks could materially adversely affect our liquidity, results of operations, ratings and financial condition.

Failure to retain our senior management team and execute our succession plan could harm our businesses and operations.

We do not have key person insurance on any personnel. If we were to lose the services of Patrick Regan, our Group chief executive officer since January 1, 2018, or other executive officers, such losses could have a material adverse effect on our business.

Our financial success and development are also dependent upon our ability to hire additional personnel as necessary to meet our management, underwriting, investment, administration and other needs. Although we believe that, to date, we have been successful in attracting and obtaining the highly qualified professionals we require, there can be no assurance that we will continue to be successful in this regard.

We rely on third party insurance agents and brokers to distribute our products and any failure by them to do so may have an adverse effect on our businesses.

We primarily distribute our products through third party-owned insurance agents and brokers. Even though we are not reliant on any individual distribution outlet, the failure, inability or unwillingness of third party-owned insurance agents and brokers to successfully market our insurance products (whether as a result of emerging technology, regulation, or as a result of other factors, including, for example COVID-19) could have a material adverse effect on our businesses, financial condition and results of operations. Third party-owned brokers and insurance agents are not obligated to promote our insurance products and third party-owned agents and brokers may sell competitors' insurance products. As a result, our business depends to a significant extent on our relationships with those agents and brokers, the marketing efforts of those agents and brokers and our ability to offer insurance products and services that meet the requirements of the clients and customers of those agents and brokers.

In addition, in recent years there has been an increased focus on actual and alleged mis-selling of certain lines of insurance business by regulators in certain jurisdictions. In certain cases, such mis-selling investigations have resulted in the underlying insurer being held liable for the mis-selling practices of insurance brokers and has resulted, amongst other things, in significant fines. Although we are not currently aware of being the subject of such an investigation nor of any facts that may give rise to such an investigation, there is no guarantee that we will not be subject to any such regulatory investigation and, ultimately, fines and other sanctions in the future.

Significant legal proceedings, litigation and regulatory actions may adversely affect our business, financial condition and results of operations.

From time to time, we may be subject to a variety of legal and regulatory actions relating to our current and past business operations, including, but not limited to:

- actions by regulatory authorities that may challenge our ability to increase or maintain our premium rates, require us to reduce premium rates, impose fines or penalties and/or result in other fees;
- disputes regarding our lender-placed insurance products, including those relating to rates, agent compensation, consumer disclosure, continuous coverage requirements, loan tracking services and other services that we provide to mortgage servicers;
- disputes over coverage or claims adjudication;
- disputes over our treatment of claims;
- disputes with tax and insurance authorities regarding our tax liabilities;
- disputes relating to customers' claims that the customer was not aware of the full cost or existence of the insurance or limitations on insurance coverage;
- industry-wide investigations regarding business practices including, but not limited to, the use and the marketing of certain types of insurance policies or certificates of insurance; and
- class actions in respect of our operations or continuous disclosure obligations to our investors.

We are frequently involved in legal proceedings relating to claims lodged by policyholders, some of which involve claims for substantial damages and other relief. Judicial decisions may expand

coverage beyond our pricing and reserving assumptions by widening liability on our policy wording or by restricting the application of policy exclusions. From time to time we are also joined as one of the numerous defendants in actions brought against the insurance industry or sections of the insurance industry. Australia has become an active jurisdiction for class actions as a result of its strict continuous disclosure regime. This creates increased risks of litigation, regulatory penalties and regulatory review for listed companies. There can be no assurance that the outcome of any of our judicial proceedings will be covered by our existing provisions for outstanding claims or our reinsurance protections or that litigation or regulatory proceedings or significant problems in our relationships with regulators would not otherwise have a material adverse effect on our businesses, reputation, financial condition and results of operations.

For more information, see “Our Business—Legal Proceedings.”

We rely to a significant degree on our computer systems, the failure or impairment of which may adversely impact our businesses, financial condition and results of operations.

We rely to a significant degree on our computer systems in our daily operations, as well as in calculating underwriting risks, and incur considerable expense on systems development and maintenance. We are exposed to a number of systems risks, including:

- complete or partial failure of the computer systems;
- lost or impaired functionality of the computer systems;
- temporary and/or intermittent failure of the computer systems;
- lack of capacity;
- system integration; and
- lack of experienced staff to maintain systems, including legacy systems.

The above events may cause a loss of customers, damage to our reputation and significant remediation costs, resulting in a material adverse effect on our businesses, financial condition and results of operations.

System security risks, data protection breaches and cyber-attacks could adversely affect our businesses and results of operations.

Our information technology systems are vulnerable to threats from computer viruses, natural disasters, unauthorized access, cyber-attack and other similar disruptions. Although we have network security measures in place, experienced computer programmers and hackers may be able to penetrate our network and misappropriate or compromise confidential information, create system disruptions or cause shutdowns. As an insurer, we receive and are required to protect confidential information from customers, vendors and other third parties that may include financial information. To the extent any disruption or security breach results in a loss or damage to our data, or inappropriate disclosure of our confidential information or that of others, it could cause significant damage to our reputation, affect our relationships with our customers and clients, lead to claims against us, result in regulatory action and ultimately harm our business and results of operations. In addition, we may be required to incur significant costs to mitigate the damage caused by any security breach, or to protect against future damage.

Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk, which could negatively affect our businesses.

We have devoted significant resources to developing our risk management policies and procedures and expect to continue to do so in the future. See “Our Board and Senior Management—Risk Management” and note 4 to our 2019 Annual Financial Statements. Nonetheless, our policies and procedures may not be fully effective. Many of our methods for managing risk and exposures are based upon the use of observed historical market behavior or statistics based on historical models. As a result, these methods may not predict future exposures, which could be significantly greater than our historical measures indicate. Other risk management methods depend upon the evaluation of information regarding markets, clients, catastrophe occurrence or other matters that is publicly available or otherwise accessible to us. This information may not always be accurate, complete, up-to-date or properly evaluated.

Employee error and misconduct may be difficult to detect and prevent and may result in significant losses and/or reputational damage to our businesses.

Instances of fraud, illegal acts, errors, failure to document transactions properly or to obtain proper internal authorization, misuse of customer or proprietary information, or failure to comply with regulatory requirements or our internal policies may result in losses and/or reputational damage to our businesses. It is not always possible to deter or prevent employee misconduct, and the controls that we have in place to prevent and detect this activity may not be effective in all cases.

Errors in critical accounting judgments and estimates may have an adverse impact on our financial results, which may be material.

We prepare our consolidated financial statements in accordance with AAS and IFRS, the application of which often requires management to make judgements and estimates that affect amounts reported. In determining and applying accounting policies, judgment is often required in respect of items where the choice of a specific policy, accounting estimate or assumption to be followed could materially affect our reported results or net asset position. Although we generally make such choices in line with external advice and based on forecasts aligned with management’s understanding of our position as it pertains to both the current and future macro and microeconomic prospects, it may later be determined that a different choice would have been more appropriate.

Management considers that certain accounting estimates and assumptions relating to the net outstanding claims liability and associated risk margin, liability adequacy tests, impairment testing of intangible assets and recoverability of deferred tax assets are its critical accounting estimates. A discussion of these critical accounting estimates is provided under “Management’s Discussion and Analysis of Results of Operation and Financial Condition—Critical Accounting Judgments and Estimates” and in notes 1.2, 2.3, 2.5, 6.2 and 7.2 to our 2019 Annual Financial Statements. There is a risk that these judgments and estimates may be incorrect or that over time the valuations of the assets and liabilities develop differently to the judgments or estimates, any of which could have a material adverse effect on our businesses, financial condition and results of operations.

We may incur losses associated with our counterparty exposures.

Although we seek to actively manage our counterparty risk, we face the possibility that a counterparty will be unable to honor its contractual obligations to us. These counterparties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons (including as a result of COVID-19). This risk may arise, for example, from entering into swap or other derivative contracts under which counterparties have obligations to make payments to us, executing currency or other trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. We are also exposed to ordinary course credit risk in respect of our trade debtors. A dispute, or a breakdown in

the relationship, between us and our suppliers or customers, a failure to reach a suitable arrangement with a particular supplier or customer, or the failure of a supplier or customer to pay or otherwise satisfy its contractual obligations, could have an adverse effect on the reputation and/or our financial performance. Additionally, we are reliant on the integrity of the representations made by our customers when pricing and underwriting risks and when paying claims. We are exposed to the possibility of paying claims under insurance contracts where misrepresentations have been made to us or fraud committed.

SELECTED CONSOLIDATED HISTORICAL FINANCIAL AND OTHER INFORMATION

The selected consolidated historical financial information as of, and for the years ended, December 31, 2019, 2018 and 2017 presented below has been derived from our audited 2019 Annual Financial Statements and 2018 Annual Financial Statements, which are each presented in accordance with AAS and IFRS and available on our U.S. Investor Website. The selected consolidated historical financial information as of, and for the years ended, December 31, 2016 and 2015 presented below has been derived from our audited consolidated financial statements for such periods filed with the ASX, through which they are publicly available. AAS and IFRS differ in certain respects from U.S. GAAP. See “Financial Information Presentation.”

You should read the following financial information together with the information included elsewhere in this Report, including under “Financial Information Presentation,” “Risk Factors” and “Management’s Discussion and Analysis of Results of Operation and Financial Condition,” as well as the extracts of our 2019 Annual Financial Report and 2018 Annual Financial Report available on our U.S. Investor Website. Historical results are not necessarily indicative of future results.

Consolidated Statement of Comprehensive Income

	For the year ended December 31,				
	2019	2018	2017	2016 ⁽²⁾	2015 ⁽²⁾
	(US\$ millions)				
Gross written premium.....	13,442	13,657	13,328	14,395	15,092
Unearned premium movement.....	(185)	(56)	283	(119)	(170)
Gross earned premium revenue.....	13,257	13,601	13,611	14,276	14,922
Outward reinsurance premium.....	(1,825)	(1,562)	(2,475)	(2,653)	(3,319)
Deferred reinsurance premium movement ..	177	(399)	215	(557)	711
Outward reinsurance premium expense	(1,648)	(1,961)	(2,260)	(3,210)	(2,608)
Net earned premium	11,609	11,640	11,351	11,066	12,314
Gross claims expense	(9,676)	(8,931)	(10,951)	(9,042)	(8,712)
Reinsurance and other recoveries revenue ..	1,574	1,526	2,837	2,600	1,278
Net claims expense	(8,102)	(7,405)	(8,114)	(6,442)	(7,434)
Gross commission expense	(2,178)	(2,222)	(2,280)	(2,425)	(2,488)
Reinsurance commission revenue.....	359	265	342	391	374
Net commission	(1,819)	(1,957)	(1,938)	(2,034)	(2,114)
Underwriting and other expenses	(1,690)	(1,798)	(1,806)	(1,922)	(2,137)
Underwriting result⁽¹⁾.....	(2)	480	(507)	668	629
Investment and other income – policyholders’ funds.....	660	357	458	422	418
Investment expenses – policyholders’ funds	(11)	(11)	(11)	(15)	(16)
Insurance profit	647	826	(60)	1,075	1,031
Investment and other income – shareholders’ funds.....	393	207	318	348	273
Investment expenses – shareholders’ funds.....	(6)	(6)	(7)	(9)	(10)
Financing and other costs.....	(257)	(305)	(302)	(294)	(244)
Gains / (losses) on sale of entities and businesses.....	(8)	12	(1)	-	(2)
Unrealized profit / (losses) on assets held for sale.....	-	(25)	-	(3)	-
Share of net profit / (loss) of associates.....	(3)	(2)	(1)	-	-
Restructuring and related expenses.....	(43)	-	-	-	-
Amortization and impairment of intangibles	(51)	(80)	(740)	(45)	(95)
Profit / (loss) before income tax.....	672	627	(793)	1,072	953
Income tax (expense) / benefit.....	(104)	(72)	(423)	(228)	(260)
Profit / (loss) after income tax from continuing operations	568	555	(1,216)	n/a ⁽²⁾	n/a ⁽²⁾
Profit / (loss) after income tax from discontinued operations	(21)	(177)	(37)	n/a ⁽²⁾	n/a ⁽²⁾
Profit after income tax	547	378	(1,253)	844	693
Profit / (loss) after income tax attributable to ordinary equity holders of the company.....	550	390	(1,249)	844	687
Profit / (loss) attributable to non-controlling interests	(3)	(12)	(4)	-	6
Profit after income tax	547	378	(1,253)	844	693

	For the year ended December 31,				
	2019	2018	2017	2016 ⁽²⁾	2015 ⁽²⁾
	(US\$ millions)				
Other comprehensive income					
<i>Items that may be reclassified to profit or loss</i>					
Net movement in foreign currency translation reserve	28	275	(70)	(474)	74
Net movement in cash flow hedges	(7)	-	(1)	-	(1)
Income tax relating to these components of other comprehensive income	2	38	(20)	33	41
Associates' share of other comprehensive income	-	-	(1)	-	-
Other comprehensive income / (loss) from discontinued operations after income tax	10	147	(20)	n/a ⁽²⁾	n/a ⁽²⁾
<i>Items that will not be reclassified to profit or loss</i>					
Gains / (losses) on remeasurement of defined benefit superannuation plans	(9)	20	16	(48)	17
Gains / (losses) on revaluation of owner occupied property	-	-	-	(1)	1
Income tax (expense) credit relating to these components of other comprehensive income	2	(5)	(22)	10	(6)
Other comprehensive income / (loss) after income tax	26	475	(118)	(480)	126
Total comprehensive income / (loss) after income tax	573	853	(1,371)	364	819

Notes:

- (1) Our underwriting result is calculated as the sum of net earned premium, net claims expense, net commission and underwriting and other expenses.
- (2) In 2018, our operations in Latin America were classified as a discontinued operation, with relevant comparative information for 2017 being restated on a consistent basis in our 2018 Annual Financial Statements. Our 2019 Annual Financial Statements were also presented on a consistent basis. Our 2016 Annual Financial Statements and 2015 Annual Financial Statements did not reflect this and therefore the relevant information does not disaggregate between continuing and discontinued operations.

	For the year ended December 31,				
	2019	2018	2017	2016	2015
Other Data					
Claims ratio (%) ^{(1) (2)}	69.8	63.6	71.5	58.2	60.4
Commission ratio (%) ^{(1) (2)}	15.6	16.9	17.1	18.4	17.2
Expense ratio (%) ^{(1) (2)}	14.6	15.4	15.9	17.4	17.3
Combined operating ratio (%) ^{(1) (2)}	<u>100.0</u>	<u>95.9</u>	<u>104.5</u>	<u>94.0</u>	<u>94.9</u>
Dividends per share (Australian cents).....	52	50	26	54	50
Return on average shareholders' funds (%).	6.7	4.5	(13.0)	8.1	6.4
Basic earnings/(loss) per share (US cents) ..	41.8	29.0	(91.5)	61.6	50.3
Diluted earnings/(loss) per share (US cents)	41.5	28.6	(91.5)	60.8	49.8
Insurance profit margin (%) ^{(1) (2)}	5.6	7.1	(0.5)	9.7	8.4

Notes:

- (1) See "Appendix A: Glossary of Certain Insurance Terms" for a definition of our reported operating ratios.
- (2) In 2018, our operations in Latin America were classified as a discontinued operation, with relevant comparative information for 2017 being restated on a consistent basis in our 2018 Annual Financial Statements. Our 2019 Annual Financial Statements were also presented on a consistent basis. Our 2016 Annual Financial Statements and 2015 Annual Financial Statements did not reflect this and therefore the relevant information does not disaggregate between continuing and discontinued operations.

Consolidated Balance Sheet

	As of December 31,				
	2019	2018	2017	2016	2015
	(US\$ millions)				
Assets					
Cash and cash equivalents.....	547	863	572	847	662
Investments.....	23,790	21,989	25,554	24,374	26,032
Derivative financial instruments.....	195	176	223	151	33
Trade and other receivables.....	4,621	5,185	4,906	4,831	4,950
Current tax assets.....	36	75	22	51	46
Deferred insurance costs.....	1,907	1,662	2,257	1,965	2,538
Reinsurance and other recoveries on outstanding claims.....	5,104	5,551	6,311	4,540	3,204
Other assets.....	13	11	7	8	6
Assets held for sale.....	-	533	63	85	-
Defined benefit plan surpluses.....	45	36	33	27	44
Right-of-use lease assets.....	275	-	-	-	-
Property, plant and equipment.....	170	196	276	257	263
Deferred tax assets.....	479	442	514	778	767
Investment properties.....	37	35	15	14	14
Investment in associates.....	25	28	30	28	13
Intangible assets.....	2,791	2,800	3,079	3,627	3,604
Total assets	40,035	39,582	43,862	41,583	42,176
Liabilities					
Derivative financial instruments.....	202	208	144	147	35
Trade and other payables.....	1,675	1,327	2,327	2,139	2,101
Current tax liabilities.....	43	31	160	73	43
Liabilities held for sale.....	-	453	28	72	-
Unearned premium.....	6,460	6,212	6,887	6,763	7,006
Outstanding claims.....	19,915	19,579	21,579	18,321	18,583
Lease liabilities.....	299	-	-	-	-
Provisions.....	136	137	104	69	76
Defined benefit plan deficits.....	42	26	60	85	67
Deferred tax liabilities.....	15	21	56	106	176
Borrowings.....	3,095	3,188	3,616	3,474	3,529
Total liabilities	31,882	31,182	34,961	31,249	31,616
Net assets	8,153	8,400	8,901	10,334	10,560
Equity					
Share capital.....	7,594	7,830	8,931	8,350	8,440
Treasury shares held in trust.....	(1)	(7)	(50)	-	-
Reserves.....	(1,335)	(1,363)	(1,785)	(1,654)	(1,248)
Retained profits.....	1,895	1,921	1,763	3,588	3,313
Shareholders' funds.....	8,153	8,381	8,859	10,284	10,505
Non-controlling interests.....	-	19	42	50	55
Total equity	8,153	8,400	8,901	10,334	10,560

Consolidated Statement of Cash Flows

	For the year ended December 31,				
	2019	2018	2017	2016	2015
	(US\$ millions)				
Operating activities					
Premium received.....	13,705	14,302	14,565	14,939	15,144
Reinsurance and other recoveries received.....	2,373	1,589	1,516	1,556	1,563
Outward reinsurance premium paid.....	(1,815)	(2,564)	(2,575)	(2,786)	(2,664)
Claims paid.....	(8,899)	(9,874)	(9,114)	(9,018)	(9,410)
Acquisition and other underwriting costs paid.....	(3,729)	(3,961)	(4,190)	(3,987)	(4,384)
Interest received.....	473	492	487	450	483
Dividends received.....	127	219	91	65	99
Other operating payments.....	(154)	(201)	(226)	(184)	(253)
Interest paid.....	(250)	(240)	(290)	(273)	(247)
Income taxes paid.....	(52)	(205)	(92)	(203)	(347)
Net cash flows from operating activities.....	1,779	(443)	172	559	(16)
Investing activities					
Net (payments for purchase) proceeds on sale of growth assets	(127)	(658)	246	503	(597)
Net (payments for purchase) proceeds on sale of interest-bearing financial assets.....	(890)	2,192	198	35	534
Net payments for foreign exchange transactions.....	(64)	(46)	(3)	(101)	(58)
Payments for purchase of intangible assets.....	(84)	(70)	(87)	(216)	(78)
Proceeds on sale of property, plant and equipment	1	5	2	14	13
Payments for purchase of property, plant and equipment.....	(30)	(30)	(68)	(78)	(55)
(Payments on acquisition) proceeds from sale of non-controlling interests	(13)	-	-	16	-
Payments for purchase of investments in associates..	-	-	(2)	(16)	-
Proceeds on sale of investment property.....	-	-	-	1	1
Proceeds on disposal of entities (net of cash disposed).....	131	313	11	-	493
Net cash flows from investing activities.....	(1,076)	1,706	297	158	253
Financing activities					
Payments for shares bought back on-market and cancelled.....	(205)	(243)	(108)	-	-
Capital contribution from non-controlling interests...	-	-	-	-	2
Payment for purchase of treasury shares.....	(63)	(30)	(156)	(79)	(18)
Proceeds from settlement of staff share loans.....	1	1	1	1	4
Payments relating to principal element of lease liabilities.....	(59)	-	-	-	-
Proceeds from borrowings.....	-	3	1,002	38	640
Repayment of borrowings.....	(199)	(409)	(923)	(21)	(657)
Dividends paid.....	(459)	(237)	(537)	(494)	(359)
Net cash flows from financing activities.....	(984)	(915)	(721)	(555)	(388)
Net movement in cash and cash equivalents.....	(281)	348	(252)	162	(151)
Cash and cash equivalents at beginning of year	863	572	847	662	852
Effect of exchange rate changes.....	(37)	(35)	(20)	37	(39)
Net cash flows attributable to entities held for sale	2	(22)	(3)	(14)	-
Cash and cash equivalents at year end.....	547	863	572	847	662

Reconciliation of Non-GAAP Financial Measures

The table below presents our combined operating ratio as adjusted and excluding the effects of changes in risk-free rates used to discount net outstanding claims liabilities and other impacts, as specified:

For the year ended December 31, 2019					
	Non-GAAP	Risk-free rate changes	Ogden Rate changes		GAAP
Combined operating ratio				(%)	
Group.....	97.5	2.0	0.5		100.0
North America.....	106.5	1.9	n/a		108.4
International	95.4	2.5	1.5		99.4
Australia Pacific.....	90.0	1.6	n/a		91.6

For the year ended December 31, 2018					
	Non-GAAP	Risk-free rate changes	Outward reinsurance of our Hong Kong construction workers' compensation liabilities		GAAP
Combined operating ratio				(%)	
Group.....	95.7	(0.1)	0.3		95.9
North America.....	98.7	(0.9)	n/a		97.8
International	95.9	0.1	0.7		96.7
Australia Pacific.....	90.3	0.5	n/a		90.8

For the year ended December 31, 2017					
	Non-GAAP	Risk-free rate changes	Ogden Rate changes	Outward reinsurance of our U.S. commercial auto run-off liabilities	GAAP
Combined operating ratio				(%)	
Group.....	103.9	(0.6)	1.2	-	104.5
North America.....	112.2	(0.3)	n/a	0.9	112.8
International	100.8	(1.4)	3.6	n/a	103.0
Australia Pacific.....	90.5	-	n/a	n/a	90.5

For more information, please see “Financial Information Presentation—Non-GAAP Financial Measures.”

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION

You should read the following discussion of our financial condition and results of operations together with our financial statements and the notes to such financial statements, which have been posted to our U.S. Investor Website. The presentation in this section contains forward-looking statements that involve risks, uncertainties and assumptions. See "Special Note Regarding Forward-Looking Statements." Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including, but not limited to, those set forth under the caption "Risk Factors" and elsewhere in this Report.

Overview

As of January 1, 2019, our Asian operations were consolidated into our European operations to form a new International segment, and our operations in the Pacific were combined with our Australian & New Zealand operations to form the Australia Pacific segment. At the same time, the results of our captive reinsurer, Equator Re, were incorporated into the results of other segments. We believe that these changes should help drive efficiencies across our Group, with much of the administration of the former standalone Asia Pacific operations absorbed by the larger and better resourced International and Australia Pacific divisions.

Our operations are conducted through the following three segments:

- **North America** writes general insurance and reinsurance business in the United States, providing specialty, commercial, program, crop and assumed reinsurance products;
- **International** writes general insurance business, including commercial and specialty products and risk management solutions, principally in the United Kingdom, continental Europe, Canada and worldwide through Lloyd's (both general insurance and reinsurance) and worldwide reinsurance through offices in Belgium, Ireland and Bermuda; and provides personal and commercial insurance covers in Hong Kong, Singapore, Malaysia and Vietnam; and
- **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.

For purposes of our 2018 Annual Financial Report (including our 2018 Annual Financial Statements included therein), we reported our financial results for 2018 and 2017 based on the previous five operating segments. For purposes of this Report, comparatives for 2018 and 2017 have been restated based on our current three operating segments.

We have identified our operating segments herein and in our Annual Financial Reports based on the reports that are used by our management and our Board for measuring performance and determining the allocation of capital for the applicable financial year. Our operating segments have been identified and presented by management based on the way that our underwriting products and services are managed within the various markets in which we operate. The allocation of our risk margin to operating segments is performed at a Group level. The outstanding claims liability and therefore profit and loss by segment, which includes any variation in the risk margin, is presented in the manner in which QBE management has decided to allocate risk margin taking into consideration divisional risk appetites. See note 2.3.3 to our 2019 Annual Financial Statements for further information.

Market Conditions and Overview of Performance

The last several years through December 31, 2019 have proved challenging for insurers and reinsurers, with reduced investment yields and slow or limited economic growth in many of the countries in which we operate. We have seen central banks maintain interest rates at record lows, with the majority of global sovereign bonds having yields below 1% and a significant portion with negative yields. Prior to the emergence of COVID-19, generally low levels of unemployment and stronger pricing momentum across the insurance industry helped to partially offset pressures created by these themes. However, these themes have also been playing out against a backdrop of severe weather conditions and events, continually evolving capital and solvency requirements for insurers, varying levels of political and trade tension globally, technological innovation, and increasing responsiveness to environmental and social matters. More recently, as a result of COVID-19, the insurance industry has experienced strained balance sheets as asset shocks impact capital levels and investment portfolios remain subject to exceptionally high levels of volatility, with impacts on claims yet to fully manifest.

In response to such challenges, we have pursued a strategy of:

- (a) driving focused operational improvement, including through our ongoing efficiency initiatives and our strategic priorities (such as our Cell Review Program through which we review business cells to identify areas of improvement, drive accountability and enable timely responses to changes in the market, and Brilliant Basics, which seeks to ensure a consistent level of excellence across underwriting, pricing and claims management across all countries and portfolios and to drive improved accountability and financial discipline, as well as leverage best in class AI, data and digital capabilities to improve our underwriting capabilities and customer experience);
- (b) remediating, revising, de-risking and, in some cases, completely exiting underperforming businesses and portfolios (such as our exits from (i) Latin America, (ii) personal lines in North America and (iii) Hong Kong construction workers' compensation, along with the disposal of our insurance operations in Indonesia, the Philippines and Thailand), as well as restructuring our existing operations (such as combining our European and Asian operations into an International segment, and combining our operations in Australia, New Zealand and the Pacific into an Australia Pacific segment);
- (c) strengthening our culture and risk management capabilities, which are designed to enable us to be more resilient and better equipped to respond to a changing environment (as evidenced, for example, by the Climate Change Action Plan, which is focused on progressing our understanding of climate-related risks and opportunities and developing a strategic response to such, our development of new underwriting and claims standards as part of the Brilliant Basics initiative, and our implementation of compulsory risk training modules to promote risk awareness and understanding); and
- (d) implementing a comprehensive capital plan, responding to the uncertainties created by COVID-19. The plan is designed to allow us to withstand a range of severe economic and investment market downside scenarios and continue to grow organically as crises abates. See "Our Business—Recent Developments—Comprehensive Capital Plan" for more information.

See "—Factors and Trends Affecting our Results—Operational and Capital Improvements" for more information.

For the year ended December 31, 2019, our combined operating ratio increased to 100.0% from 95.9% in the year ended December 31, 2018, primarily due to weather-related claims in the North American crop business, the expected higher net cost of large individual risk and catastrophe claims following a restructuring of our external reinsurance program, a reduction in risk-free rates used to

discount outstanding claims and a change in the Ogden Rate, which became effective on August 5, 2019.

During 2019, the combined operating ratio of our North America segment deteriorated to 108.4% from 97.8% in 2018, primarily due to the weather-impacted crop result, adverse prior accident year claims development and a reduction in risk-free rates used to discount net outstanding claims. Our International segment combined operating ratio deteriorated to 99.4% in 2019 from 96.7% in 2018, primarily due to the one-off impact arising from the change of the Ogden Rate in the United Kingdom, a heightened level of large individual risk claims and a reduction in risk-free rates used to discount net outstanding claims. Our Australia Pacific segment combined operating ratio deteriorated to 91.6% in 2019 from 90.8% in 2018, primarily due to increased catastrophe costs, a reduced level of positive prior accident year claims development, normalization in LMI profitability and a reduction in risk-free rates used to discount net outstanding claims.

During 2018, our combined operating ratio decreased to 95.9% from 104.5% in the prior year. This improvement was primarily due to significantly reduced catastrophe activity, a strong improvement in the attritional claims ratio, the impact on 2017 of reinsuring our U.S. commercial auto run-off liabilities (which increased both reinsurance recoveries and reinsurance expense in 2017) and slightly increased positive prior accident year claims development. This was partly offset by an increase in risk-free rates during 2018 combined with the impact of a transaction to reinsure our Hong Kong construction workers' compensation liabilities.

During 2018, the combined operating ratio of our North America segment decreased to 97.8% from 112.8% in 2017, driven by an improved attritional claims ratio coupled with materially lower catastrophe incidence, the impact on 2017 of reinsuring our U.S. commercial auto run-off liabilities and an increase in risk-free rates during 2018. Our International segment combined operating ratio decreased to 96.7% in 2018 from 103.0% in 2017, mainly due to an improvement in the attritional claims ratio, which includes benefits from remediation activity in Asia, and the impact in 2017 of a change to the Ogden Rate effective March 20, 2017, partly offset by the impact of the aforementioned transaction to reinsure our Hong Kong construction workers' compensation liabilities in 2018. Our Australia Pacific segment combined operating ratio increased to 90.8% in 2018 from 90.5% in 2017, with a material improvement in the attritional claims ratio largely offset by a reduced level of positive prior accident year claims development and a slight increase in the expense ratio.

The following table shows our net profit / (loss) after tax, investment income (after fair value gains / losses, on a continuing operations basis) and combined operating ratio for the periods presented:

	For the year ended December 31,		
	2019	2018	2017
Profit / (loss) after tax attributable to ordinary equity holders of the company (US\$ millions).....	550	390	(1,249)
Investment income (after fair value gains / losses) (US\$ millions).....	1,036	547	758
Combined operating ratio (%)	100.0	95.9	104.5
Adjusted combined operating ratio (%) ⁽¹⁾	97.5	95.7	103.9

Notes:

- (1) Excludes the impact of changes in risk-free rates used to discount net outstanding claims.

Current accident year large individual risk and catastrophe claims, which are defined as those claims with a net cost of US\$2.5 million and above, were 11.9% of net earned premium in the year ended December 31, 2019, compared with 10.0% and 15.9% in the years ended December 31, 2018 and 2017, respectively. See “—Factors and Trends Affecting our Results—Severity and Frequency of Catastrophes” for additional information.

The gross yield on our investments and cash was 4.6% for the year ended December 31, 2019, 2.3% for the year ended December 31, 2018 and 3.2% for the year ended December 31, 2017.

For a discussion of our net investment income, see “—Factors and Trends Affecting our Results—Investment Income” below.

Factors and Trends Affecting our Results

The following section describes certain factors and trends that have had a significant impact on our financial condition and results of operations:

Severity and Frequency of Catastrophes

Our large individual risk and catastrophe claims ratio, defined as claims with a cost of US\$2.5 million and above divided by net earned premiums, was 11.9%, 10.0% and 15.9% in the years ended December 31, 2019, 2018 and 2017, respectively. Significant catastrophe events during these periods included the following:

- *2019:* Bushfires in Australia, storms and typhoon Hagibis in Japan.
- *2018:* Hurricanes Michael and Florence in North America, wildfires in California, typhoon Jebi in Japan and storms in Australia.
- *2017:* Hurricane Maria, Irma and Harvey in North and South America, wildfires in California, winter storm in North America, earthquake in Mexico and Cyclone Debbie in Australia.

We seek to limit the financial impact of catastrophes through disciplined underwriting policies, risk management practices and reinsurance arrangements. See “Our Board and Senior Management—Risk Management” and note 4 to our 2019 Annual Financial Statements. We manage our exposure to risk through the use of our captive reinsurer Equator Re and we rely on external reinsurers as described under “Our Business—Outward Reinsurance.”

Investment Income

As an insurer, we manage investments to satisfy potential claims by our policyholders as well as managing tangible capital resources of the Group. Our insurance profit or loss comprises our underwriting result and the investment return earned on policyholders’ funds that back our cash and investments. We also manage our investment portfolio in an effort to maximize shareholders’ funds for the long-term. The volatility of investment markets, however, gives rise to unrealized gains or losses on our investment portfolios. We mark our investments to market at each balance sheet date and the unrealized gain or loss is recognized in our consolidated income statements. The allocation of investment income (including unrealized gains or losses on our investments) between policyholders’ or shareholders’ funds is consistent with the allocation of our investments.

Factors that affect the performance of our investment portfolio include fluctuations in interest rates, fluctuations in exchange rates and other changes in investment markets, including volatility in fixed income and equity markets, that affect the market prices of investments and income from such investments. Recent periods have generally been characterized by low interest rates and volatile equity markets. See “Risk Factors—Our businesses, and, therefore, our results of operation, financial condition, profitability and liquidity may be adversely affected by disruption in the global financial markets and general economic conditions, including changes in interest rates.”

Our net investment income was US\$1,036 million, US\$547 million and US\$758 million for the years ended December 31, 2019, 2018 and 2017, respectively. Our higher net investment income in 2019 was impacted by:

- a lower interest rate environment driving fair value gains on our fixed income book as credit spreads steadily tightened and bond yields fell sharply, partly offset by the corresponding reduction in running yields; and
- strong performance in growth assets, also in response to falling risk-free rates and a benign economic environment which supported higher valuations.

Our lower net investment income in 2018 reflected the adverse impact on our fixed income assets from higher U.S. Treasury yields and wider global credit spreads which partly offset the underlying running yield generated by the portfolio, combined with more modest growth asset returns. Our investment income in 2017 experienced an investment return largely enhanced by a substantial tightening of credit spreads coupled with solid performance from our growth assets.

See “Our Business—Investment Strategy” for more information.

Movement in Claims Provisions

We are required by applicable insurance laws and regulations to establish provisions for payment of claims and claims expenses that arise from the policies we issue. The provision for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. The expected future payments include those in relation to (a) claims reported but not yet paid, (b) claims incurred but not reported (“**IBNR**”), (c) claims incurred but not enough reported (“**IBNER**”) and (d) estimated future claims handling costs. The expected future payments are discounted to present value using a risk-free rate. A risk margin is applied to the central estimate, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate. See “Our Business—Reserving” for more information.

Establishing provisions blends both analysis of emerging trends and expert actuarial judgement, and is subject to uncertainty relating to the underlying risks, both internal and external. Due to the level of uncertainty associated with insurance claims process and emergence, we cannot be certain as to the amounts that we will ultimately pay for claims that have occurred but which have not yet been settled. Actual claims outcomes may vary from the estimated amounts, particularly when those payments may not occur well into the future, which is the case for our longer-tailed classes of insurance business. Any movement in our claims provisions as a result of our evaluations is recognized in the income statement in net claims incurred. In addition, our underwriting result may be affected by movements in the risk-free rates used to discount our provisions, with lower risk-free rates reducing reported profit.

Net of reinsurance, favorable undiscounted prior accident year claims development for the financial years ended December 31, 2019, 2018 and 2017 was US\$40 million, US\$262 million and US\$257 million, respectively. Of these movements:

- The 2019 prior accident year release included an undiscounted US\$56 million adverse impact as a result of the Ogden Rate change in the United Kingdom. Excluding this, the prior accident year net release was an undiscounted US\$96 million from continuing operations comprised of favorable development in Australia Pacific and International, partly offset by adverse development in North America.
- The 2018 prior accident year release included a benefit of US\$149 million from the reinsurance of our Hong Kong construction workers’ compensation liabilities. Excluding the impact of this reinsurance, the 2018 positive prior accident year net release was an

undiscounted US\$113 million, which comprised positive development in North America, European and Australian & New Zealand operations, partly offset by adverse development in other jurisdictions.

After adjusting for other impacts on provisions relating to prior accident years, including changes in claims settlement costs and risk-free rates used to discount those provisions, the movement in the prior accident year net discounted central estimate resulted in a charge of US\$400 million in 2019, and credits of US\$80 million and US\$199 million in 2018 and 2017, respectively.

Impact of the Fluctuations of the US Dollar

We present our financial statements in US dollars because a significant portion of our underwriting activity is denominated in US dollars. As a result, our results are influenced by changes in foreign currency values. Specifically, a stronger US dollar against other major currencies will have a negative impact on our revenue and profit and conversely a weaker US dollar will increase our revenue and profit. For the year ended December 31, 2019, approximately 47% of our gross written premium was in US dollars, 27% was in Australian dollars and 10% was in Sterling.

We translate income and expense items of foreign operations that have a non-US dollar functional currency to US dollars for reporting purposes using the cumulative average rate of exchange for that period. On an average basis and compared with 2018, the Australian dollar, Euro and Sterling had depreciated by approximately 7%, 5% and 4%, respectively against the US dollar, adversely impacting 2019 gross written premium relative to 2018. Balance sheet items for our foreign operations that have a non-US dollar functional currency are translated at the period end rate of exchange. On this basis, as of December 31, 2019, the Australian dollar and the Euro had depreciated by around 0.4% and 2%, respectively against the US dollar while Sterling had appreciated by around 4% compared with closing rates as of December 31, 2018.

We have a policy of matching liabilities (including insurance liabilities) with assets (including investments) of the same currency, as much as is practicable, in order to minimize exposures to operational foreign currency risks. Where appropriate, we may also use forward foreign exchange contracts to protect residual currency positions. Operating divisions manage their operational foreign exchange exposures under the guidance of the Group treasury function. In addition, regulators around the world require us to maintain capital and assets in the currency of the liabilities and of the country being regulated. This means that a substantial proportion of our investments and cash must be maintained in many currencies. We are also exposed to currency risk through our significant investment in foreign operations as a result of the translation of the ultimate parent entity's net investment in foreign operations to its functional currency of Australian dollars, and the translation of all foreign operations to the presentation currency of US dollars.

We may use foreign currency borrowings to hedge currency translation risk in relation to our ultimate parent entity's net investment in foreign operations to its functional currency of Australian dollars. We do not ordinarily use derivatives to mitigate currency translation risk on translation to the ultimate parent's functional currency as currency translation gains and losses generally have no cash flow, currency translation gains and losses are accounted for in the foreign currency translation reserve and therefore do not impact profit or loss unless related to the disposal of an entity and management of translation risk needs to be balanced against the impact on capital requirements and liquidity risk. However, in periods of extraordinary volatility that are expected to persist for an extended period of time, we may elect to utilize derivatives to mitigate currency translation risk to preserve capital.

See note 4.4 of our 2019 Annual Financial Statements for additional information.

Operational and Capital Improvements

In 2012, against a backdrop of challenging market conditions, we began implementing an operational transformation program to achieve economies of scope and scale by, among other things, consolidating and extracting synergies from our numerous prior acquisitions and creating dedicated centers of excellence to improve underwriting and distribution by leveraging expertise across the Group and to enhance collaboration with our major trading partners. For instance, in an effort to centrally manage certain functions and processes that have in the past been replicated on a divisional basis across the Group, we created a Global Shared Services Center (“GSSC”) in the Philippines in 2013, which employed 2,546 people as of March 31, 2020. Our divisions have committed to continue to leverage the GSSC, including through further transitions of functions to the GSSC.

As part of this program, we have moved away from an opportunistic and acquisition-based growth model and instead sought to remediate underperforming businesses by remediating, revising, de-risking, and in some cases completely exiting, underperforming businesses and portfolios or restructuring our existing operations.

Certain notable disposals as part of QBE’s aim to simplify its operations during the past three years have included:

- All of our Latin American operations;
- Australian and New Zealand travel and wool and livestock-in-transit businesses;
- North American personal lines business; and
- Insurance operations in Thailand, Indonesia and the Philippines.

Only the Latin American disposals were considered to be discontinued operation in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Over the past three years, we also completed a series of capital initiatives aimed at improving our financial strength and flexibility. Such initiatives included the issuance in 2017 of US\$300 million of senior debt maturing in 2022 (which was fully repurchased over 2018 and 2019), US\$300 million of senior debt maturing in 2023 (of which US\$294 million was repurchased in 2018) and US\$400 million of Additional Tier 1 perpetual notes. At the beginning of 2017 we announced a three-year share buy-back, and we bought back and cancelled US\$205 million, US\$243 million and US\$108 million in shares during 2019, 2018 and 2017, respectively. See “—Liquidity and Capital Resources” below for more information.

For information on our current strategy related to further operational improvements, see “Our Business—Business Strategy.”

Risk-Free Rates

We use risk-free rates to discount our net outstanding claims liabilities and our underwriting result is affected by movements in the risk-free rates used, with lower risk-free rates reducing reported underwriting profit. Conversely, a reduction in risk-free rates generally increases the value of fixed income investments, increasing reported investment income. The net impact on our insurance profit depends on the extent to which the duration of our fixed income portfolio economically matches that of our net outstanding claims liabilities.

For instance, in 2019 the significant reduction in risk-free rates gave rise to a US\$231 million underwriting charge that increased the net claims ratio by 2.0% compared with a US\$13 million benefit in 2018 that reduced the net claims ratio by 0.1%. Given the longer weighted average term to

settlement of our Euro denominated net claims liabilities, the fall in Euro risk-free rates during 2019 contributed disproportionately to the overall impact of lower risk-free rates on the Group's underwriting result. The 2019 underwriting charge was more than offset by US\$265 million of mark-to-market gains on our fixed income portfolio.

Our currency weighted average risk-free rates used to discount net outstanding claims liabilities was 1.05%, 1.66% and 1.68% as of December 31, 2019, 2018 and 2017, respectively, with 2017 including operations in Latin America as they were not yet considered held for sale as of December 31, 2017.

Changes in Our Business Mix

We continue to review the businesses we underwrite and, in addition to remediating underperforming business lines, over the past three years, we successfully exited several countries and portfolios where we lacked scale or were not able to deliver an acceptable return to shareholders. This included the sale of our entire Latin American operations, as well as our insurance operations in Thailand, Indonesia and the Philippines. We also exited a number of portfolios including North American personal lines, Hong Kong construction workers' compensation and the Australian & New Zealand travel and wool and livestock in-transit insurance businesses. See "—Operational and Capital Improvements" above. These changes have impacted the overall mix of business, with, for instance, disposals of underperforming classes of business resulting in improved results.

Operating Ratios

The combined operating ratio and its components, namely the claims ratio, commission ratio and expense ratio, are the insurance industry standard for analyzing underwriting performance. Accordingly, the discussion of our underwriting results included below primarily focuses on the percentage movements of those ratios in addition to the movement in the actual monetary amounts of the components of those ratios.

Below is a table showing our gross written premium, gross earned premium, net earned premium and operating ratios for each of our divisions, before corporate adjustments and eliminations, and for the Group for the years ended December 31, 2019, 2018 and 2017, restated as appropriate to align with our divisional structure as of January 1, 2019.

	For the year ended December 31,		
	2019	2018	2017
Group			
Gross written premium (US\$ millions).....	13,442	13,657	13,328
Gross earned premium (US\$ millions)	13,257	13,601	13,611
Net earned premium (US\$ millions).....	11,609	11,640	11,351
Net claims ratio (%).....	69.8	63.6	71.5
Net commission ratio (%).....	15.6	16.9	17.1
Expense ratio (%).....	14.6	15.4	15.9
Combined operating ratio (%)	100.0	95.9	104.5
Adjusted combined operating ratio (%) ⁽¹⁾⁽²⁾⁽³⁾	97.5	95.7	103.9
North America			
Gross written premium (US\$ millions).....	4,637	4,711	4,556
Gross earned premium (US\$ millions)	4,646	4,612	4,622
Net earned premium (US\$ millions).....	3,942	3,796	3,411
Net claims ratio (%).....	80.4	67.8	78.3
Net commission ratio (%).....	15.2	15.6	18.2
Expense ratio (%).....	12.8	14.4	16.3
Combined operating ratio (%)	108.4	97.8	112.8
Adjusted combined operating ratio (%) ⁽¹⁾⁽²⁾	106.5	98.7	112.2

	For the year ended December 31,		
	2019	2018	2017
International			
Gross written premium (US\$ millions).....	4,924	4,876	4,671
Gross earned premium (US\$ millions)	4,739	4,889	4,658
Net earned premium (US\$ millions).....	4,089	4,034	3,966
Net claims ratio (%).....	67.0	61.2	68.0
Net commission ratio (%)	16.9	19.6	18.6
Expense ratio (%).....	15.5	15.9	16.4
Combined operating ratio (%)	99.4	96.7	103.0
Adjusted combined operating ratio (%) ⁽¹⁾⁽³⁾	95.4	95.9	100.8
Australia Pacific			
Gross written premium (US\$ millions).....	3,920	4,104	4,139
Gross earned premium (US\$ millions)	3,885	4,103	4,252
Net earned premium (US\$ millions).....	3,568	3,758	3,895
Net claims ratio (%).....	62.3	61.5	62.7
Net commission ratio (%)	14.8	14.9	14.1
Expense ratio (%).....	14.5	14.4	13.7
Combined operating ratio (%)	91.6	90.8	90.5
Adjusted combined operating ratio (%) ⁽¹⁾	90.0	90.3	90.5

Notes:

- (1) All years exclude impacts of changes in risk-free rates used to discount net outstanding claims.
- (2) 2017 excludes the impact of an outward reinsurance transaction to reinsure our U.S. commercial auto run-off liabilities.
- (3) 2019 and 2017 exclude impacts due to changes in the Ogden Rate. 2018 excludes the impact of an outward reinsurance transaction to reinsure our Hong Kong construction workers' compensation liabilities.

Critical Accounting Judgments and Estimates

We prepare our consolidated financial statements in accordance with AAS and IFRS, the application of which often requires management to make judgements and estimates that affect amounts reported in the consolidated profit and loss and balance sheet.

Management considers that certain accounting estimates and assumptions relating to outstanding claims provisions, risk margins, the adequacy of net premium liabilities, the recoverability of deferred tax assets and intangible assets are its critical accounting estimates. These critical accounting judgments and estimates are discussed in notes 1.2, 2.3, 2.5, 6.2 and 7.2 to our 2019 Annual Financial Statements.

Regulatory Changes

As a global insurance group, our regulatory environment is often highly dynamic with developments, impacts and timelines varying frequently as a result of both domestic and foreign regulatory developments. As described further under "Regulation," global regulatory requirements on our operations have increased significantly in recent years. We are experiencing and expect to continue to experience a number of changes in regulation both in due course and as a result of current circumstances, including COVID-19, in certain markets in which we do business, including in the Australian, United Kingdom, European and United States markets. As a result, our executive

management is required to spend significantly more time on compliance matters, which we expect will continue to be the case in the future.

Year Ended December 31, 2019 compared to Year Ended December 31, 2018

Gross Earned Premium

For 2019, our gross earned premium was US\$13,257 million, a 3% decrease over our total gross earned premium of US\$13,601 million for 2018. This decrease was primarily the result of disposals completed over the past two years including the Group's insurance operations in Indonesia, Thailand and the Philippines, the Australian travel and wool and livestock-in-transit businesses, and the North American personal lines business and Unigard Indemnity entity. The decrease is also impacted by foreign exchange rates and, on an average basis and compared with 2018, the Australian dollar, Euro and Sterling had depreciated by approximately 7%, 5% and 4%, respectively against the US dollar. The contribution of each of our divisions to gross earned premium before corporate adjustments and eliminations is described further below.

- *North America.* Gross earned premium for our North America segment was US\$4,646 million for 2019 compared to US\$4,612 million for 2018, a 1% increase. Adjusting for disposals, underlying growth reflected premium rate increases and strong growth in our crop line, partly offset by business intentionally lapsed, consistent with increased underwriting discipline. This increase also reflected premium growth in our "alternative markets" programs, particularly property and specialty, partly offset by premium contraction in affiliated due to the planned repositioning of our (non-builder) home insurance portfolio. Average premium rate increase across the segment was 5.8% during 2019, compared to 4.1% during 2018.
- *International.* Gross earned premium for our International segment was US\$4,739 million for 2019, compared to US\$4,889 million for 2018. The decrease of 3% is due mainly to the weaker Euro and Sterling against the US dollar, with the underlying impacts of remediation activity in Asia being more than offset by new business growth in our London market and European insurance businesses and increases in average renewal rates across the International segment. Average premium rate increase across the segment was 6.0% during 2019, compared to 4.1% during 2018.
- *Australia Pacific.* Gross earned premium for our Australia Pacific segment was US\$3,885 million for 2019 compared to US\$4,103 million for 2018, a decrease of 5%. This was mainly due to the weaker Australian dollar against the US dollar combined with the sale of the travel insurance and wool and livestock-in-transit businesses, a contraction in LMI premium due to the slowdown in home lending, normalization of market share in South Australian CTP following the opening of the scheme to competition from July 1, 2019 and regulatory reform for New South Wales CTP, the impacts of which were partly offset by renewal premium rate increases across most portfolios. Average premium rate increase across the segment (excluding premium rate changes relating to CTP) was 7.3% in 2019, compared to 7.1% in 2018.

Outward Reinsurance Premium Expense

Our outward reinsurance premium expense decreased to US\$1,648 million for 2019 from US\$1,961 million for 2018. As a percentage of gross earned premium, our outward reinsurance premium expense was 12.4% in 2019 compared to 14.4% in 2018. The decreased ratio mainly reflected an additional US\$190 million cost in the prior year of reinsuring our Hong Kong construction workers' compensation portfolio and current year savings following the restructuring of the Group's external reinsurance program.

Net Earned Premium

For 2019, our net earned premium was US\$11,609 million compared with US\$11,640 million for 2018. Excluding a US\$190 million cost in 2018 of a transaction to our reinsure Hong Kong construction workers' compensation liabilities, the 1.9% decrease in net earned premium is driven by the depreciation in the Australian dollar, Euro and Sterling against the US dollar combined with a contraction in our Australian lenders' mortgage insurance business, targeted portfolio repositioning, particularly in North America, and other disposals, the impacts of which were partially offset by renewal rate increases. Analyzed by segment, net earned premium for 2019 compared to 2018 was:

- *North America* – US\$3,942 million compared to US\$3,796 million (an increase of 3.8%);
- *International* – US\$4,089 million compared to US\$4,034 million (an increase of 1.4%);
- *Australia Pacific* – US\$3,568 million compared to US\$3,758 million (a decrease of 5.1%).

Underwriting Result

Our combined operating ratio increased to 100.0% for 2019 from 95.9% for 2018. This translates to an underwriting result of a US\$2 million loss for 2019 compared to an underwriting result of US\$480 million profit for 2018. The following section discusses the results of individual components of our combined operating ratio.

Claims Ratio

Our claims ratio increased to 69.8% for 2019 from 63.6% for 2018. Net claims expense increased to US\$8,102 million for 2019 compared to US\$7,405 million for 2018 (an increase of 9.4%), while net earned premium decreased to US\$11,609 million in 2019 compared to US\$11,640 million for 2018 (a decrease of 0.3%).

The growth in our net claims ratio in 2019 in part reflects a material reduction in risk-free rates used to discount net outstanding claims liabilities. Risk-free rate movements aside, a further improvement in the underlying attritional claims ratio was partly offset by reduced profitability in crop insurance and an increase in the net cost of large individual risk and catastrophe claims following the restructuring of the Group's reinsurance program coupled with a reduced level of positive prior accident year claims development.

Large individual risk and catastrophe claims were 11.9% of net earned premium in 2019 compared with 9.8% in 2018. The increase was broadly in line with expectations following changes to the Group's reinsurance covers, effective January 1, 2019. The net cost of catastrophe claims in 2019 decreased to US\$426 million or 3.7% of net earned premium compared with US\$523 million or 4.5% in 2018. This was below our annual allowance with adverse catastrophe experience in Australia Pacific offset by a relatively benign experience in International and, to a lesser degree, North America. The net cost of large individual risk claims in 2019 increased to US\$955 million or 8.2% of net earned premium from US\$640 million or 5.5% in 2018, reflecting a net cost above our annual allowance, which was largely driven by higher than expected activity in International.

Commission Ratio

Our net commissions expense decreased by 7.1% to US\$1,819 million for 2019 from US\$1,957 million for 2018. Our commission ratio decreased to 15.6% for 2019 from 16.9% for 2018, principally due to International's commission ratio falling significantly due to reduced reinsurance spend and actions to reduce commission costs in the London market and United Kingdom business units. North America and Australia Pacific also reported a modest improvement in their commission ratios, which also benefited from reduced reinsurance costs.

Expense Ratio

Underwriting and other expenses decreased by 6.0% to US\$1,690 million from US\$1,798 million. Our expense ratio decreased to 14.6% for 2019 from 15.4% for 2018, reflecting a material cost and operating leverage driven improvement in North America, in addition to a modest decrease in International partly offset by a modest increase in Australia Pacific.

Combined Operating Ratio by Division

North America. The combined operating ratio for our North America segment increased to 108.4% for 2019 from 97.8% in 2018.

The claims ratio increased to 80.4% for 2019 from 67.8% for 2018, due in part to a US\$73 million or 1.9% adverse impact from the decrease in risk-free rates used to discount net outstanding claims in 2019, compared with a US\$36 million or 0.9% benefit in 2018. The crop business was impacted by significant prevented planting claims due to unusually wet spring planting conditions coupled with frost and hail during the growing season, which depressed yields. As a result, our crop business reported a combined operating ratio of 107.5%, up significantly from 84.4% in 2018 and well above the 10 year average of around 90% for this business. Additionally, a heightened frequency of small weather events during the second half impacted the attritional claims ratio for several property portfolios, which was partly offset by relatively benign catastrophe activity.

The result also included US\$80 million of adverse prior accident year claims development compared with US\$57 million of positive development in 2018. Positive development in our crop (that was not matched by additional premium cessions under the MPCI arrangement), workers' compensation and accident and health lines was more than offset by adverse development in casualty lines, primarily in our corporate and assumed reinsurance businesses, as well as in our excess and surplus line. Many of these portfolios have been the subject of de-risking initiatives since 2017 (for example we exited mono-line commercial auto and repositioned financial lines), but much of the reserve strengthening related to underwriting years pre-dating those initiatives.

The commission ratio decreased to 15.2% for 2019 from 15.6% for 2018, driven by mix of business as we exited our retail personal lines and repositioned the corporate portfolio.

The expense ratio decreased to 12.8% in 2019 from 14.4% in 2018, reflecting the sale of the retail personal lines business, rigorous cost management and positive operating leverage driven by net earned premium growth (assisted by materially reduced crop MPCI cessions).

International. The combined operating ratio for our International segment increased to 99.4% for 2019 from 96.7% in 2018.

The claims ratio increased to 67.0% for 2019 from 61.2% for 2018, due in part to a US\$100 million or 2.5% adverse impact from the decrease in risk-free rates used to discount net outstanding claims, compared with only US\$4 million the prior year. Catastrophe activity also increased with typhoons Faxai and Hagibis in Japan and Hurricane Dorian in the United States. Additionally, 2019 included a 1.5% adverse impact on the claims ratio from the impact of the Ogden Rate decision, while 2018 included a 1.1% benefit from a transaction to reinsure our Hong Kong construction workers' compensation liabilities. Following the restructuring of the Group's reinsurance program, large individual risk claims increased to 14.6% of net earned premium from 9.3% in the prior year. Higher than expected large individual risk claim frequency remains an industry-wide issue and has contributed to accelerating premium rate increases. The result also included positive prior accident year claims development of US\$72 million. Excluding an US\$86 million benefit due to the impact of adjusting the periodic payment order rate that is offset by a reduced discount benefit (resulting in a nil profit impact), prior year development for 2019 was US\$14 million adverse, compared with US\$25 million in 2018.

The commission ratio decreased to 16.9% for 2019 from 19.6% for 2018 due to targeted commission ratio reduction actions in our London market and United Kingdom business units, an increase in commission income received during the year and changes in underlying business mix. Although Asia still attracts a high commission ratio due to the nature of its distribution channels, during the second half of 2019 we launched targeted initiatives to reduce commission costs, especially in Hong Kong. The 2018 commission ratio also included a 1.0% adverse impact from a transaction to reinsure our Hong Kong construction workers' compensation liabilities.

The expense ratio decreased to 15.5% in 2019 from 15.9% in 2018, mainly due to a 0.8% adverse impact on 2018 from a transaction to reinsure our Hong Kong construction workers' liabilities.

Australia Pacific. The combined operating ratio for our Australia Pacific segment increased to 91.6% for 2019 from 90.8% in 2018.

The claims ratio increased to 62.3% for 2019 from 61.5% for 2018. Improvements in attritional claims ratios were more than offset by other impacts including higher net cost of catastrophe and large claims. The net cost of catastrophes increased to US\$193 million or 5.4% of net earned premium compared with US\$106 million or 2.8% in the prior year, reflecting heightened catastrophe experience in Australia, particularly the Townsville floods and widespread bushfires. Additionally, despite a reduction in the incidence of large individual risk claims compared with 2018, the net cost of large individual risk claims in 2019 increased to US\$132 million or 3.7% of net earned premium from US\$118 million or 3.1% in 2018 due to revised reinsurance protections.

The commission ratio decreased to 14.8% for 2019 from 14.9% for 2018, which was largely attributable to increased profit commission income following changes to the reinsurance program protecting our LMI business.

The expense ratio increased to 14.5% in 2019 from 14.4% in 2018, due to a further reduction in fee income following the loss of the New South Wales builders' warranty contract coupled with ongoing investments as we respond to changes in the regulatory environment and the requirements of our customers. Reflecting the strong performance of our New South Wales CTP portfolio, reported expenses included a profit normalization charge (transitional excess profits and losses or TEPL), which adversely impacted the expense ratio.

Investments

Our investment portfolio (including cash) increased to US\$24,374 million as of December 31, 2019 from US\$22,887 million, partly reflecting an increase in reinsurance recovery collections pertaining to the group aggregate reinsurance that was in place during 2015 through 2019. Our gross investment income before foreign exchange gains and losses increased to US\$1,094 million for 2019 compared to US\$558 million for 2018, a 96.1% increase, principally as a result of:

- a lower interest rate environment driving fair value gains on our fixed income book as credit spreads steadily tightened and bond yields fell sharply, partly offset by the corresponding reduction in running yields; and
- strong performance in growth assets, also in response to falling risk-free rates and a benign economic environment which supported higher valuations.

The gross yield on our investments and cash was 4.6% for 2019 compared with 2.3% for 2018.

Net investment income, which is gross investment income net of investment expenses and other adjustments including foreign exchange gains and losses, increased to US\$1,036 million for 2019 from US\$547 million for 2018, an 89.4% increase which was driven by factors similar to those that drove our gross investment income results.

Investment Income on Policyholders' Funds and Insurance Profit

We earned US\$649 million and US\$346 million in net investment and other income on policyholders' funds for 2019 and 2018, respectively. This income, together with our underwriting result, produced an insurance profit of US\$647 million for 2019 compared to US\$826 million for 2018, a decrease of 21.7%.

Investment Income on Shareholders' Funds

Net investment and other income on shareholders' funds increased to US\$387 million for 2019 from US\$201 million for 2018.

Amortization and impairment of intangibles

Net amortization and impairment of intangibles decreased to US\$94 million for 2019 (which includes US\$43 million in underwriting expenses related to intangible assets supporting our underwriting activities) from US\$113 million (which includes US\$33 million in underwriting expenses) for 2018. The decrease was mainly due to US\$29 million of impairment of software assets in 2018 following review by management, US\$6 million of which was reversed in 2019.

Financing and other costs

Financing and other costs decreased to US\$257 million for 2019 from US\$305 million for 2018, partly due to a reduction in overall borrowings, and a reduction in other costs. 2018 included significant costs associated with foreign exchange contracts.

Gains/Losses on sale of entities

Losses on sale of entities was US\$8 million for 2019, as compared to a gain of US\$12 million for 2018.

Unrealized losses on assets held for sale

Unrealized losses on assets held for sale was nil for 2019, as compared to US\$25 million loss for 2018.

Restructuring and related expenses

Restructuring and related expenses increased to US\$43 million for 2019 from nil in 2018, primarily due to the operational efficiency program announced in December 2018. We also disposed of our retail personal lines business in North America and simplified divisional organizational structures, particularly in our Australia, New Zealand and Global Infrastructure Services business.

Profit Before Income Tax

As a result of the above, we had a profit before income tax from continuing operations of US\$672 million for 2019 compared to US\$627 million for 2018.

Income Tax

We had an income tax expense of US\$104 million for 2019 compared to US\$72 million for 2018. Income tax expense for 2019 was 15.5% of pre-tax profit, compared with 11.5% for 2018, with the rates in each year reflecting the mix of corporate tax rates in the jurisdictions in which QBE operates and the utilization of previously unrecognized tax losses in the United States.

Non-controlling Interests

A loss after income tax of US\$3 million was attributable to non-controlling interests for 2019, compared to US\$12 million for 2018.

Profit After Tax and Non-controlling Interests

As a result of the foregoing, our net profit after tax from continuing operations (including amounts attributable to non-controlling interests) increased to US\$568 million for 2019 from US\$555 million for 2018. Analyzed by division, for 2019 compared to 2018:

- *North America* had a net (loss) profit after tax and non-controlling interests of (US\$18 million) for 2019 compared to US\$167 million for 2018;
- *International* had a net profit after tax and non-controlling interests of US\$345 million for 2019 compared to US\$234 million for 2018;
- *Australia Pacific* had a net profit after tax and non-controlling interests of US\$366 million for 2019 compared to US\$396 million for 2018.

Year Ended December 31, 2018 compared to Year Ended December 31, 2017

Gross Earned Premium

For 2018, our total gross earned premium was US\$13,601 million, similar to US\$13,611 million for 2017. Other than foreign exchange impacts, premium rate driven growth in North America, Europe and Australia & New Zealand was largely offset by remediation activities in Asia and legislative changes in New South Wales regarding CTP that drove a significant premium rate reduction in that book.

The contribution of each of our divisions to gross earned premium before corporate adjustments and eliminations is described further below:

- *North America*. Gross earned premium for our North America segment was US\$4,612 million for 2018, similar to US\$4,622 million for 2017, which reflects growth in our accident and health, property and casualty and crop lines and an average premium rate increase across North America of 4.1% compared with only 0.7% in 2017, offset by the cancellation of two large programs in 2017.
- *International*. Gross earned premium for our International segment was US\$4,889 million for 2018 compared to US\$4,658 million for 2017, an increase of 5% which was bolstered by a stronger Sterling and Euro against the US dollar and also reflects the improved rating environment, with average premium rate increases of 4.1% during 2018 compared to a 0.2% decrease during 2017, and targeted growth in profitable portfolios such as Continental European insurance, life and accident reinsurance and the improved rating environment in several London market portfolios partially offset by remediation-led contraction in our Asian operations.
- *Australia Pacific*. Gross earned premium for our Australia Pacific segment was US\$4,103 million for 2018 compared to US\$4,252 million for 2017, a decrease of 4%, which included the impacts of New South Wales CTP scheme reform where a 20% premium rate reduction led to significantly lower premium income. Also contributing to the decrease was the non-renewal of two large travel insurance credit card portfolios and subdued LMI premium volume due to macro-prudential regulatory intervention, which resulted in reduced lending activity, and adverse foreign exchange rate movements, partially offset by an average

renewal premium rate increase of 7.1% during 2018 compared to 5.9% during 2017 (in each case excluding premium rate changes relating to CTP).

Outward Reinsurance Premium Expense

Our outward reinsurance premium expense decreased to US\$1,961 million for 2018 from US\$2,260 million for 2017. As a percentage of gross earned premium, our outward reinsurance premium expense was 14.4% in 2018 compared to 16.6% in 2017, primarily as a result of the 2017 ratio being impacted by the cost of reinsuring our U.S. commercial auto run-off liabilities (US\$415 million) while the 2018 result included the cost of reinsuring our Hong Kong construction workers' compensation portfolio (US\$190 million).

Net Earned Premium

For 2018, our net earned premium was US\$11,640 million compared to US\$11,351 million for 2017, which includes the cost in 2018 of a transaction to reinsure our Hong Kong construction workers' compensation liabilities (US\$190 million) and the cost in 2017 of reinsuring our U.S. commercial run-off liabilities (US\$415 million). Analyzed by segment, net earned premium for 2018 compared to 2017 was:

- *North America* – US\$3,796 million for 2018 compared to US\$3,411 million for 2017 (an increase of 11.3%);
- *International* – US\$4,034 million for 2018 compared to US\$3,966 million for 2017 (an increase of 1.7%);
- *Australia Pacific* – US\$3,758 million for 2018 compared to US\$3,895 million for 2017 (a decrease of 3.5%).

Underwriting Result

Our combined operating ratio decreased to 95.9% for 2018 from 104.5% for 2017. This translates to an underwriting gain of US\$480 million for 2018 compared to an underwriting loss of US\$507 million for 2017. The following section discusses the results of individual components of our combined operating ratio.

Claims Ratio

Our claims ratio decreased to 63.6% for 2018 from 71.5% for 2017. Net claims incurred decreased to US\$7,405 million for 2018 compared to US\$8,114 million for 2017 (a decline of 8.7%), while net earned premium grew by 2.5% to US\$11,640 million for 2018 compared to US\$11,351 million for 2017. The reduction in net claims incurred in 2018 reflects significantly reduced catastrophe incidence and a strong improvement in the attritional claims ratio. Large individual risk and catastrophe claims were 10.0% of net earned premium in 2018 compared with 15.9% in 2017. Although not as extreme as 2017, catastrophe incidence remained elevated and significantly above historical averages, particularly in North America.

Commission Ratio

Net commissions increased by 1.0% to US\$1,957 million for 2018 from US\$1,938 million for 2017. Our commission ratio decreased to 16.9% for 2018 from 17.1% for 2017, principally due to non-recurrence of commission adjustments in Europe, one-off spend relating to reinsurance in the prior year, and the impacts on net earned premium of the cost of reinsuring our U.S. commercial auto run-off liabilities (US\$415 million) in 2017 and the cost of reinsuring our Hong Kong construction workers' compensation portfolio (US\$190 million) in 2018.

Expense Ratio

Our expense ratio decreased to 15.4% for 2018 from 15.9% for 2017 primarily due to cost savings from efficiency initiatives achieved in all divisions and the impacts on net earned premium of the cost of reinsuring our U.S. commercial auto run-off liabilities (US\$415 million) in 2017 and the cost of reinsuring our Hong Kong construction workers' compensation portfolio (US\$190 million) in 2018. The impacts of these on our expense ratio were partly offset by the loss of managed fund fee income, costs associated with the implementation of QBE Europe SA / NV (a Belgian entity established to facilitate a seamless transition to the post Brexit environment for our customers) and the Brilliant Basics program as well as various other strategic initiatives across the Group.

Combined Operating Ratio by Division

North America. The combined operating ratio for our North America segment decreased to 97.8% for 2018 from 112.8% in 2017.

The claims ratio decreased to 67.8% for 2018 from 78.3% for 2017, benefiting from our focus on underwriting discipline from the Cell Review Program and on rolling out and embedding the Brilliant Basics program designed to provide a consistent level of excellence in pricing, risk selection and claims management. Excluding our crop line, the attritional claims ratio improved materially, driven mainly by underwriting and pricing initiatives in our corporate, affiliated, D&O and trade credit & surety portfolios. This improvement was despite an increased contribution from our specialty line which generally operates at a higher attritional claims ratio relative to the rest of the portfolio. The net cost of large individual risk and catastrophe claims also fell to US\$309 million in 2018 from US\$419 million in 2017 which, while still remaining average in 2018 due to Hurricanes Florence and Michael as well as the Californian wildfires, they were down from the extreme experience of 2017.

The commission ratio decreased to 15.6% for 2018 from 18.2% for 2017, mainly due to the impact on net earned premium of reinsuring our U.S. commercial auto run-off liabilities (US\$415 million) in 2017 combined with a shift in mix to business with lower commission rates, offset by the impact of the Arrowhead outsourcing arrangement, reduced exchange commissions associated with the change in reinsurance protection for our specialty line and the impact of increased crop cessions to the MPCI.

The expense ratio decreased to 14.4% in 2018 from 16.3% in 2017, mainly due to the impact on net earned premium of reinsuring our U.S. commercial auto run-off liabilities (US\$415 million) in 2017 combined with strict cost control and tighter discipline in the division's operating model.

International. The combined operating ratio for our International segment decreased to 96.7% for 2018 from 103.0% in 2017.

The claims ratio decreased to 61.2% for 2018 from 68.0% for 2017. Included in 2018 was a US\$190 million reinsurance cost and US\$166 million reinsurance recovery associated with a transaction to reinsure our Hong Kong construction workers' compensation liabilities, which benefited the 2018 net claims ratio by around 1.1%.

Included in 2017 net claims was a US\$139 million adverse impact due to the change in the Ogden Rate in the United Kingdom, which contributed around 3.6% to the claims ratio. Excluding these, the decrease in net claims ratio from 2017 to 2018 is around 2.1%, which reflected underlying improvement in attritional claims coupled with foreign exchange movements and the non-recurrence of 2017 reinsurance expense which suppressed net earned premium.

The commission ratio increased to 19.6% for 2018 from 18.6% for 2017. After excluding the 2018 impact on net earned premium of the aforementioned Hong Kong construction workers' compensation insurance transaction, the commission ratio remained stable at 18.6%.

The expense ratio decreased to 15.9% in 2018 from 16.4% in 2017. After excluding the 2018 impact on net earned premium of the aforementioned Hong Kong construction workers' compensation insurance transaction, the 2018 commission expense ratio was 15.1%, a decrease from 2017, principally as a result of continued strict cost control as well as operational efficiency and restructuring benefits coupled with the sale of the business in Thailand.

Australia Pacific. The combined operating ratio for our Australia Pacific segment increased to 90.8% for 2018 from 90.5% in 2017.

The claims ratio decreased to 61.5% for 2018 from 62.7% for 2017, mainly due to an improvement in the attritional claims ratio that more than offset the reduced level positive prior accident year claims development. Improvement was observed across most portfolios including significant reductions in commercial property, CTP and workers' compensation. Positive development was largely attributable to benign inflationary conditions and lower frequency experience relative to reserving assumptions for New South Wales CTP and other long-tail classes including Queensland CTP, workers' compensation and liability portfolios.

The commission ratio increased to 14.9% for 2018 from 14.1% for 2017.

The expense ratio increased to 14.4% in 2018 from 13.7% in 2017, principally as a result of a reduction in fee income associated with changes to the New South Wales Managed Fund contract and the loss of New South Wales builders' warranty contract effective May 2017 and February 2018, respectively.

Investments

Our investment portfolio (including cash) decreased to US\$22,887 million as of December 31, 2018 from US\$26,141 million as of December 31, 2017, primarily reflecting the impact of the stronger US dollar, settlement of the 2017 transaction to reinsure our U.S. commercial auto run-off liabilities, the transaction to reinsure our Hong Kong construction workers' compensation liabilities, debt and equity buybacks, and the transfer to held for sale or disposal of investments in Latin America and other jurisdictions in conjunction with disposal activity.

Our gross investment income before foreign exchange gains and losses decreased to US\$558 million for 2018 compared to US\$794 million for 2017, a 29.7% decrease. Growth asset returns were modest, delivering an aggregate return of 6.2% in 2018 compared with 13.3% in 2017, with continued strong returns from our unlisted property and infrastructure assets partly offsetting weaker equity market returns. Fixed income returns were adversely impacted by higher U.S. Treasury yields and wider global credit spreads, both of which generated mark-to-market capital losses and partly offset the underlying running yield generated by the portfolios. The gross yield on our investments and cash was 2.3% in 2018 compared with 3.2% in 2017.

Net investment income, which is gross investment income net of investment expenses and other adjustment including foreign exchange gains and losses decreased to US\$547 million for 2018 from US\$758 million for 2017, a 27.8% decrease which was driven by similar factors.

Investment Income on Policyholders' Funds and Insurance Profit

We earned US\$346 million and US\$447 million in net investment and other income on policyholders' funds for 2018 and 2017, respectively. This income, together with our underwriting result, produced an insurance profit of US\$826 million for 2018 compared to an insurance loss of US\$60 million for 2017.

Investment Income on Shareholders' Funds

Net investment and other income on shareholders' funds decreased to US\$201 million for 2018 from US\$311 million for 2017.

Amortization and impairment of intangibles

Amortization and impairment of intangibles decreased to US\$113 million for 2018 (which includes US\$33 million in underwriting expenses related to intangible assets supporting our underwriting activities) from US\$769 million for 2017 (which includes US\$29 million in underwriting expenses). The decrease was mainly due to a one-off US\$700 million North American goodwill impairment charge in 2017.

Financing and other costs

Financing and other costs remained relatively stable at US\$305 million for 2018 from US\$302 million for 2017.

Gains/Losses on sale of entities

Gains on sale of entities was US\$12 million for 2018 from a loss of US\$1 million for 2017.

Unrealized losses on assets held for sale

Unrealized losses on assets held for sale was US\$25 million for 2018 from nil for 2017.

Restructuring and related expenses

We did not incur material restructuring expenses in 2018 or 2017.

Profit Before Income Tax

As a result of the above, we had a profit (loss) before income tax from continuing operations of US\$627 million for 2018 compared to (US\$793 million) for 2017.

Income Tax

We had an income tax expense of US\$72 million for 2018 compared to US\$423 million for 2017. Income tax expense for 2018 was 11.5% of pre-tax profit, compared with 53.3% of pre-tax loss for 2017. Income tax expense for 2017 was materially impacted by a US\$230 million non-cash write-down of deferred tax assets due to a reduction in the U.S. corporate tax rate to 21% from 35% as well as significant catastrophe claims in North America where substantial deferred tax assets precluded the recognition of further tax losses on the balance sheet.

Non-controlling Interests

A loss after income tax of US\$12 million was attributable to non-controlling interests for 2018, compared to US\$4 million for 2017.

Profit After Tax and Non-controlling Interests

As a result of the foregoing, our net profit(loss) after tax from continuing operations (including amounts attributable to non-controlling interests) was US\$555 million for 2018 from US\$(1,216 million) for 2017. Analyzed by division, for 2018 compared to 2017:

- *North America* had a net profit(loss) after tax and non-controlling interests of US\$167 million for 2018 compared to (US\$293 million) for 2017;
- *International* had a net profit after tax and non-controlling interests of US\$234 million for 2018 compared to US\$49 million for 2017;
- *Australia Pacific* had a net profit after tax and non-controlling interests of US\$396 million for 2018 compared to US\$452 million for 2017.

Liquidity and Capital Resources

Liquidity

Liquidity is a company's ability to generate sufficient cash flows to meet the short and long-term cash requirements of its business operations.

We conduct insurance operations through subsidiaries that generate liquidity from premiums that are generally received months or even years before claims are paid under the policies purchased by such premiums. Our subsidiaries then maintain a minimum defined percentage of liabilities in liquid assets. Of these liquid assets, a high percentage is in fixed income investment grade securities.

At the holding company level, our ability to pay dividends to shareholders and to satisfy our debt obligations relies on the availability of liquid assets, which is dependent in large part on the dividend paying ability of our subsidiaries. Such subsidiaries are subject to laws and regulations in the jurisdictions in which they operate that may restrict that amount of dividends they may pay.

As an additional source of liquidity, as of the date of this Report, we have a US\$600 million three-year committed revolving credit facility, which is undrawn and matures on April 17, 2023.

The declaration and payment of dividends is at the discretion of our Board and depends upon many factors, including our operating results, financial condition, capital requirements and any regulatory approvals.

After satisfying our cash requirements, we have used excess cash flows to pay dividends to shareholders, while maintaining capital for future investment and growth of the business. Our current dividend policy sets the full year dividend payout ratio at around 65% of adjusted net cash profit. For the year ended December 31, 2019 our interim and full year dividend was A\$681 million (in the aggregate) and was in line with our policy payout ratio. We completed the final dividend payment of 2019 on April 9, 2020, after due consideration of APRA's guidelines, released on April 7, 2020, regarding the payment of dividends by financial institutions in the currently volatile COVID-19 economic environment.

Cash Flows

The following table summarizes our net cash flows from operating activities, investing activities and financing activities for the years ended December 31, 2019, 2018 and 2017.

(US\$ in millions)	For the year ended December 31,		
	2019	2018	2017
Operating activities	1,779	(443)	172
Investing activities	(1,076)	1,706	297
Financing activities	(984)	(915)	(721)

Cash inflows from operating activities for the year ended December 31, 2019 were US\$1,779 million compared to a cash outflow of US\$443 million for the year ended December 31, 2018. The reduction

in premium received was broadly consistent with the reduction in gross written premium and partly driven by disposal activity across the Group, the impacts of which were more than offset by receipt of significant reinsurance recoveries relating to catastrophe claims in previous years, a decrease in reinsurance premium paid due to our new reinsurance structure, combined with the impact on 2018 of the transaction to reinsure our Hong Kong construction workers' compensation liabilities and a decrease in claims paid which reflects the higher amounts paid in prior period for 2017 natural catastrophe claims (including claims relating to hurricanes Harvey, Irma and Maria).

Cash outflows from operating activities for the year ended December 31, 2018 were US\$443 million compared to cash inflows of US\$172 million for the year ended December 31, 2017, primarily related to an increase in claims paid due to the settling of 2017 natural catastrophes and an increase in income taxes paid following 2017 taxable profits in the mix of jurisdictions in which we operate.

Cash outflows from investing activities for the year ended December 31, 2019 were US\$1,076 million compared to a cash inflow of US\$1,706 million for the year ended December 31, 2018, mainly due to net amounts paid in 2019 for the acquisition of growth and interest bearing financial assets of US\$1,017 million compared with net proceeds on disposal of growth and interest-bearing financial assets of US\$1,534 million in 2018, as a significant component of cash received from other sources including cash inflows from operating activities (as described above) and US\$131 million of net proceeds from disposal activity across the Group was invested in the Group's investment portfolio, consistent with growth in our investment balance over 2019.

Cash inflows from investing activities for the year ended December 31, 2018 were US\$1,706 million compared to cash inflows of US\$297 million for the year ended December 31, 2017, reflecting cash needs in 2018 to settle claims payments on 2017 natural catastrophes as described above and costs of repurchasing debt, offset by net proceeds from disposal activity in Latin America and Asia.

Cash outflows from financing activities for the year ended December 31, 2019 were US\$984 million compared to US\$915 million for the year ended December 31, 2018. The increase primarily reflected US\$459 million of dividends paid during 2019, an increase from US\$237 million in 2018, and the inclusion of payments relating to principal elements of lease liabilities following adoption of AASB 16 as of January 1, 2019. These impacts were partly offset by reduced cash outflows from debt repurchase activity, being US\$195 million during 2019 compared to US\$409 million in 2018.

Cash outflows from financing activities for the year ended December 31, 2018 were US\$915 million compared to US\$721 million for the year ended December 31, 2017, primarily due to US\$409 million cost of repurchasing debt and an additional US\$135 million of shares repurchased in 2018, partly offset by a US\$300 million decrease in dividends paid as compared to 2017. In 2017, the cost of repurchasing debt of US\$923 million was largely neutralized by proceeds from issuing:

- US\$300 million of senior debt maturing in October 2022, of which US\$105 million was repurchased in 2018 and the remaining amount repurchased in 2019.
- US\$300 million of senior debt maturing in May 2023, of which US\$294 million was repurchased in 2018, leaving US\$6 million outstanding at December 31, 2018 and 2019; and
- US\$400 million of Additional Tier 1 perpetual notes.

We believe that our cash flows from operations will be sufficient to meet our estimated cash requirements for at least the next twelve months.

Capital Resources

Capital resources provide protection for policyholders, furnish financial strength to support the business of underwriting insurance risks and facilitate continued business growth. As of

December 31, 2019 we had consolidated shareholders' funds of US\$8,153 million, a 2.7% decrease over our shareholders' funds as of December 31, 2018 of US\$8,381 million.

We regularly monitor our capital resources and our capacity to manage our level of dividend reinvestment, together with current levels of capital, expected future profits and the structure of our debt securities. In the event we need additional capital, we may take a variety of actions which could include the issuance of additional debt and/or equity securities. We believe that, subject to market conditions, our strong financial position provides us with the flexibility and capacity to obtain funds externally through debt or equity financings on both a short-term and long-term basis.

For more information on our capital structure and management, see notes 4.1 and 5 to our 2019 Annual Financial Statements.

Our current policy sets the dividend payout ratio at around 65% of full year adjusted net cash profit. Given that goodwill and intangibles are excluded from our capital base for regulatory and ratings agency purposes, the Board regards cash profit to be a more relevant measure of profitability for the purposes of determining our dividend. Our interim and final dividend payout was A\$681 million (in the aggregate), or 65% of adjusted cash profit, for the year ended December 31, 2019.

Borrowings

We may use borrowings to support capital requirements, fund acquisitions and support our growth.

As of December 31, 2019, we had outstanding:

- US\$6 million of 3.0% senior notes due May 2023;
- A\$200 million of subordinated debt securities due 2040, with a floating rate per annum of 4.0% above the 90-day average mid-rate bank bill swap rate;
- US\$167 million of subordinated debt securities due May 2041 with a fixed interest rate of 7.25% per annum until May 24, 2021, at which point the rate will reset to a 10-year mid-market swap rate plus a spread of 4.05%. The rate will reset again on the same basis on May 24, 2031;
- £24 million of subordinated debt securities due May 2041 with a fixed interest rate of 7.5% per annum until May 24, 2021, at which point the rate will reset to a 10-year mid-market swap rate plus a spread of 4.0%. The rate will reset again on the same basis on May 24, 2031;
- £327 million of subordinated debt securities due May 2042 with a fixed interest rate of 6.115% per annum until May 24, 2022, at which point the rate will reset to a rate calculated by reference to the then five year mid-market swap rate plus a margin of 5.0%. The rate will reset again on the same basis in 2027, 2032 and 2037;
- US\$400 million of subordinated debt securities due November 2043 with a fixed interest rate of 7.5% per annum until November 24, 2023, at which time the rate will reset to a 10-year US dollar swap rate plus a margin of 6.03%. The rate will reset again on the same basis in November 2033;
- US\$700 million of subordinated debt securities due December 2044 with a fixed interest rate of 6.75% per annum until December 2, 2024, at which time the rate will reset to a 10-year mid-market swap rate plus a margin of 4.3%. The rate will reset again on the same basis in December 2034;

- US\$300 million of subordinated debt securities due November 2045 with a fixed interest rate of 6.1% per annum until November 12, 2025, at which time the rate will reset to a 10-year mid-market swap rate plus a margin of 3.993%. The rate will reset again on the same basis in 2035;
- US\$524 million of subordinated debt securities due June 2046 with a fixed interest rate of 5.875% per annum until June 17, 2026, at which point the rate will reset to a 10-year mid-market swap rate plus a spread of 4.395%. The rate will reset again on the same basis in 2036; and
- US\$400 million of Additional Tier 1 Capital (as defined by APRA) in the form of perpetual capital notes with a fixed interest rate of 5.25% per annum. The rate will reset on May 16, 2025 and on every fifth anniversary thereafter by reference to a reset rate to be determined at that time plus a margin of 3.047%. These have no fixed redemption date and interest payments in respect of such securities are discretionary and non-cumulative.

Our ratio of borrowings to shareholders' funds was 38.0%, 38.0% and 40.8% as of December 31, 2019, 2018 and 2017, respectively. Our average annualized cash cost of borrowings was 6.3%, 6.4% and 5.9% as of December 31, 2019, 2018 and 2017, respectively.

For additional information about our borrowings as of December 31, 2019, see note 5.1 to our 2019 Annual Financial Statements.

Contractual Obligations and Other Commitments

The following table summarizes our contractual obligations and other commercial commitments categorized, as appropriate, by maturity or expiration date as of December 31, 2019.

	Amount of commitment expiration per period from December 31, 2019					Total
	Less than 1 year	1-3 years	3-5 years	After 5 years	No fixed date	
	(US\$ millions)					
Contractual Obligations						
Long-term indebtedness (borrowings)	-	-	6	2,696	400	3,102
Contractual undiscounted interest payments	194	337	262	70	-	863
Lease liabilities	60	102	57	80	-	299
Other Commercial Commitments						
Letters of credit and similar instruments issued in support of our participation in Lloyd's	-	600	1,248	-	-	1,848
Letters of credit issued in support of insurance provisions	28	2,213	250	-	-	2,491
Total Contractual Obligations and Commitments	282	3,252	1,823	2,846	400	8,603

For the maturity profile of our net discounted central estimate as of December 31, 2019 (which reflects our expectation of the periods over which our net central estimate will be settled), please see note 2.3.6 to our 2019 Annual Financial Statements. For additional maturity profile information relating to our financial liabilities, see note 4.5 to our 2019 Annual Financial Statements.

Off-Balance Sheet Arrangements

We have contingent liabilities and enter into various credit commitments in the ordinary course of our business. See notes 8.2 and 8.8.2 to our 2019 Annual Financial Statements for information on these contingent liabilities and credit commitments as of December 31, 2019.

Quantitative and Qualitative Disclosures about Market Risk

Our operating activities expose us to financial risks such as market risk, liquidity risk and operational risk. Our risk management framework recognizes the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. The key objective of our asset and liability management strategy is to ensure sufficient liquidity is maintained at all times to meet our obligations, including settlement of insurance liabilities and, within these parameters, to optimize investment returns for policyholders and shareholders.

See notes 4.4, 4.5 and 4.6 to our 2019 Annual Financial Statements for a description of these risks as applicable to us as of December 31, 2019.

See notes 3.2.3 and 5.6 to our 2019 Annual Financial Statements for a discussion of our derivative financial instruments as of December 31, 2019.

Insurance Solvency

We are subject to a number of different regulations that require, among other things, capital to be held to support our business activities. Insurance solvency, represented by the ratio of net tangible assets to net earned premium, is an important indicator in assessing the ability of general insurers to pay their existing liabilities. See “Regulation.” We continue to maintain insurance solvency margins in excess of the statutory minimum insurance solvency margins where we operate; however, while mindful of various solvency indicators, this ratio is not a key target capital ratio for QBE.

The table below details our insurance solvency ratio, calculated as the ratio of net tangible assets (calculated as net assets less intangible assets) to net earned premium for the periods presented.

	Year ended December 31,		
	2019	2018	2017
Insurance solvency ratio.....	46.2%	48.1%	51.3%

The solvency ratio for 2019 decreased to 46.2% from 48.1% in 2018, primarily due to a US\$238 million decrease in net tangible assets to US\$5,362 million in 2019 from US\$5,600 million in 2018, partially offset by a US\$31 million decrease in net earned premium to US\$11,609 million in 2019 from US\$11,640 million in 2018. The 2018 solvency ratio decreased to 48.1% in 2018 from 51.3% in 2017, reflecting a US\$222 million decrease in net tangible assets to US\$5,600 million in 2018 from US\$5,822 million in 2017 and a US\$289 million increase in net earned premium to US\$11,640 million from US\$11,351 million in 2017.

Capital Adequacy

Since January 1, 2013, all APRA authorized insurers and insurance groups have been subject to revised regulatory capital adequacy requirements. These requirements establish a risk-based approach for measuring the capital adequacy of a regulated institution. The required level of capital for regulatory purposes is referred to as the Prudential Capital Requirement (“PCR”). A regulated institution must ensure that it has a capital base, at all times, in excess of its PCR.

The PCR for a regulated institution equals (a) a prescribed capital amount (“PCA”) determined either by (i) applying the ‘Standard Method’ as prescribed or (ii) using an internal model developed by the regulated institution to reflect the circumstances of its business (i.e., the Internal Model-based Method) or (iii) using a combination of the methods specified in (i) or (ii) above *plus* (b) any supervisory adjustment determined by APRA (a regulated entity may not disclose details of any supervisory adjustment). See “Regulation” for more information.

The standard method of determining the PCA, as used by us, is to calculate the sum of:

- (1) an insurance risk charge, which relates to the risk that the value of net insurance liabilities determined in accordance with APRA's Prudential Standards is insufficient to cover associated net claim payments and associated claim expenses as they fall due;
- (2) an insurance concentration risk charge, which represents the net financial impact on the regulated institution from either a single large event, or a series of smaller events, within a one year period;
- (3) an asset risk charge, which relates to the risk of adverse movements in the value of a regulated institution's on-balance sheet and off-balance sheet exposures;
- (4) an asset concentration risk charge, which relates to the risk resulting from investment concentrations in individual assets or large exposures to individual counterparties or groups of related counterparties; and
- (5) an operational risk charge, which relates to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events;

less

- (6) aggregation benefit determined in accordance with APRA prudential standards, which makes an explicit allowance for diversification between asset risk and the sum of insurance risk and insurance concentration risk in the calculation of the PCA.

As of December 31, 2019, our PCA multiple was 1.71x, down from 1.78x as of December 31, 2018, reflecting the following:

- shares bought back and dividends paid during the year (which together exceeded net cash profit);
- a higher asset risk charge due to a material increase in investment funds and a decision to extend asset duration and modestly increase credit risk;
- a higher insurance risk charge due to an increase in outstanding claims liability;

partly offset by

- a reduction in insurance concentration risk charge as a result of changes to the Group's reinsurance protection, effective 1 January 2020.

The following table shows our regulatory capital as of December 31, 2019, 2018 and 2017:

	As of December 31,		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Regulatory Capital			
PCA (US\$ millions).....	4,966 ⁽³⁾	4,931	5,488
Regulatory capital base ⁽¹⁾ (US\$ millions).....	8,502	8,762	8,974
PCA Multiple⁽²⁾	1.71x	1.78x	1.64x

Notes:

- (1) Regulatory capital base is the sum of Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital, each as defined by APRA and calculated in accordance with APRA prudential

standards, plus the aggregate amount of any regulatory adjustments applied in each component in its respective calculation.

- (2) PCA multiple is the regulatory capital base divided by the PCA. Our internal PCA target range is 1.6x to 1.8x.
- (3) Amended from indicative disclosures in the 2019 Annual Financial Report to reflect final information submitted to APRA

Our Business

Overview

QBE is a major international insurance and reinsurance company, with operations in key insurance markets. QBE's ordinary shares are listed on the ASX and its headquarters are in Sydney, Australia. As of December 31, 2019, QBE employed more than 11,700 people in 28 countries.

The following table sets forth information about our gross written premium, gross earned premium, net earned premium and general insurance and inward reinsurance premiums for the periods indicated.

	For the year ended December 31,		
	2019	2018	2017
Gross written premium (US\$ millions).....	13,442	13,657	13,328
Gross earned premium (US\$ millions)	13,257	13,601	13,611
Net earned premium (US\$ millions).....	11,609	11,640	11,351
Direct and facultative as a percentage of gross earned premium (%).....	92	92	92
Inward reinsurance as a percentage of gross earned premium (%).....	8	8	8

As of December 31, 2019, our shareholders' funds totaled US\$8,153 million and our assets totaled US\$40,035 million.

Operating Divisions

As of January 1, 2019, our Asian operations were consolidated into our European operations to form a new International segment, and our operations in the Pacific were combined with our Australian & New Zealand operations to form the Australia Pacific segment. At the same time, the results of our captive reinsurer, Equator Re, were incorporated into the results of other segments. We believe that these changes should help drive efficiencies across our Group, with much of the administration of the former standalone Asia Pacific operations absorbed by the larger and better resourced International and Australia Pacific divisions.

Our operations are conducted through the following three segments:

- **North America** writes general insurance and reinsurance business in the United States, providing specialty, commercial, program, crop and assumed reinsurance products;
- **International** writes general insurance business, including commercial and specialty products and risk management solutions, principally in the United Kingdom, continental Europe, Canada and worldwide through Lloyd's (both general insurance and reinsurance) and worldwide reinsurance through offices in Belgium, Ireland and Bermuda; and provides personal and commercial insurance covers in Hong Kong, Singapore, Malaysia and Vietnam; and
- **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.

For purposes of our 2018 Annual Financial Report (including our 2018 Annual Financial Statements contained therein), we reported our financial results for 2018 and 2017 based on the previous five operating segments. For purposes of this Report, comparatives for 2018 and 2017 have been restated based on our current three operating segments.

Recent Developments

COVID-19

Beginning in late February 2020, the global pandemic associated with the novel coronavirus COVID-19 and related economic conditions began to impact the Group's results of operations, predominantly through dislocation of financial markets and effects on our investment portfolio. In light of COVID-19, on March 30, 2020, we withdrew our disclosed combined operating ratio and net investment return targets for the year ending December 31, 2020. During the first quarter of 2020, as a result of the ongoing COVID-19 situation, we experienced a negative return on investments of about 2%, or approximately US\$500 million (including a risk-free rate benefit on investment assets of approximately US\$330 million), due to extreme volatility across all asset classes, including a material increase in global fixed income credit spreads and significant declines in equity markets. We have taken decisive action to curtail further impacts through de-risking initiatives, including exiting all listed equity exposures and high yield and emerging markets debt exposures. Information for the fiscal period since January 1, 2020 has not been audited or reviewed by PwC Australia, our independent auditors. For more information, see "Financial Information Presentation—Historical Financial Information—Information for Periods or Dates after December 31, 2019."

During the period from January 1, 2020 to April 27, 2020, we have reduced our trade credit buyer limits by approximately 25% and reduced our exposure to high-risk sectors, including airlines and travel, leisure and hospitality, retail and consumer and automotive sectors. We believe our trade credit portfolio (which in 2019 accounted for US\$195 million of our gross written premium) is well diversified across regions and credit quality.

In relation to LMI, we retain what we believe is strong lending quality and equity buffers, including an average loan-to-value ratio across our portfolio of approximately 51%, with the average loan-to-value ratio for LMI policies written during 2019 being approximately 89%, both as of December 31, 2019.

More broadly across our insurance portfolio, we note that our business interruption policies normally require a physical damage trigger and/or specifically exclude pandemics, that we have only modest exposure to landlord (rental default) insurance, that our Australian & New Zealand travel insurance business was sold in 2019 leaving only a *de minimis* level of travel insurance exposure across the rest of the world, and that we do not write material event cancellation and contingency business.

Comprehensive Capital Plan

In 2020, we initiated a comprehensive capital plan to bolster our Group's capital, reduce gearing ratios and improve earning resilience. We have completed several initiatives under this plan, including de-risking our investment portfolio by exiting all listed equities and emerging market and high yield debt investments, securing additional reinsurance protection for North American crop and catastrophe risks and completing an institutional placement of approximately US\$750 million of newly issued ordinary shares. We also announced a share purchase plan intended to raise up to US\$75 million and plan to issue Additional Tier 1 capital instruments.

Board changes

On February 13, 2020 we announced the appointment of Mr. Mike Wilkins as chairman of the board, effective March 31, 2020. Mr. Wilkins replaced Mr. Marty Becker as chairman, as Mr. Becker did not stand for re-election and retired from the board on April 30, 2020.

See "Our Board and Senior Management—Board of Directors" for additional information.

Leadership changes

On April 7, 2020 we announced the appointment of Mr. Jason Harris as chief executive officer for our International segment. Mr. Harris will commence his role in the fourth quarter of 2020 and succeed Mr. Richard Pryce upon his retirement at the end of 2020. Mr. Harris previously held the position of chief executive, global property and casualty at AXA XL, where he was responsible for financial lines, construction, engineering, ART and risk engineering. Prior to that, he was the chief executive international property and casualty at XL in the United Kingdom, with responsibility for its property & liability business outside of North America. Before then, he worked at AIG/Chartis Insurance in several senior roles, including executive director, commercial lines.

Dividend

On April 9, 2020, after due consideration of APRA's guidelines, released on April 7, 2020, regarding the payment of dividends by financial institutions in the currently volatile COVID-19 economic environment, we paid the previously-announced dividend of A\$0.27 per ordinary share to QBE shareholders of record on March 6, 2020.

Business Strategy

2019

Our purpose is to give people the confidence to achieve their ambition. Our strategy is to build on our position as one of a limited number of commercial and specialty property and casualty insurers operating on a global basis with a business that is stable, predictable and profitable. This strategy combines a high quality claims proposition with our ability to support clients in their risk management needs, as well as underwriting and risk assessment. In line with this, our strategic performance objectives and outcomes for 2019 were as follows:

Deliver the 2019 plan

Strategy. Continue to drive a rigorous performance management focus through the Cell Review Program and deliver our target combined operating ratio for 2019, while reducing operational costs over a three-year period.

2019 Outcomes. We believe the fundamentals of our business remained strong, as evidenced by our results in Australia Pacific and International in 2019. Despite challenging weather conditions which affected our North American crop business, the underlying performance in North America improved and performance management rigor translated into gross written premium growth, continued improvement in the attritional claims ratio and the achievement of our cost reduction targets for 2019.

Brilliant Basics

Strategy. Drive the next phase of the Brilliant Basics agenda, including by upgrading our capabilities in the core areas of underwriting, pricing and claims; and enhancing our underwriting governance and pricing capability through the Group chief underwriting office, which we established in January 2019.

2019 Outcomes. We believe Brilliant Basics continues to grow in its sophistication and maturity. We have made meaningful investments to add talent to our underwriting, pricing and claims teams. In 2019, we further strengthened our underwriting governance, embedded global pricing standards, including a standard definition for rate adequacy across the Group, and made significant improvements to our claims handling processes, which together resulted in the development of our new Group underwriting and claims standards.

Future focus

Strategy. Build a successful QBE for the future and a strong platform for sustainable and targeted growth. Leverage our data and analytics capabilities, technology roadmap and insurtech partnerships. Continue our focus on reducing complexity, increasing automation and simplifying processes.

2019 Outcomes. We have further progressed our work to modernize our technology systems and infrastructure and increase the stability and security of our technology environment, including by establishing a Global Cyber Security Operations Centre. We also adopted a new global operating model to set strategic direction and common goals for security with our people, partners and regulators, and delivered on a range of initiatives such as uplifting cyber threat detection and response, identity and access management and data loss prevention, and we successfully rolled out network solutions across our technology infrastructure and laid foundations that support QBE's journey to the cloud.

We believe we continued to leverage our existing partnerships while targeting new partnerships and investments that accelerate our capabilities. For example, during 2019 we also expanded our partnership with CLARA Analytics by means of an investment through QBE Ventures (our corporate venture fund focused on forming commercial relationships with digital innovation and AI startups), making it our sixth investment through QBE Ventures. CLARA Analytics aims to improve claims outcomes in commercial insurance with easy-to-use artificial intelligence-based and machine learning products. We have used CLARA Analytics' artificial intelligence-based and machine learning products in Australia since 2018, but in 2019 we extended the use of North America.

Operating sustainably

Strategy. Continue our focus on sustainability and making positive contributions where we operate by working with our customers, partners and communities to address key economic social and environmental issues.

2019 Outcomes. During 2019, we published an energy policy applicable Group-wide, which provides shareholders, customers and the wider community with a clear explanation of the Group's approach to investing in and underwriting energy projects, and which focuses on support for our customers in the transition to a low carbon economy consistent with the objectives of the Paris Agreement.

We launched our first global disaster relief and climate resilience partnerships and further reduced our environmental footprint, including by committing to using 100% renewable electricity across our operations by 2025, and announced our ambition to grow Premiums4Good, which allows our customers to ask us to invest up to 25% of their insurance premium in socially responsible investments.

Talent and culture

Strategy. Bring to life the seven behavioral elements of our "QBE DNA" (that we are customer centered, diverse, technical experts, fast-paced, courageous, accountable and a team), which is essential to our ability to deliver for our people, customers, communities and our shareholders. Reward and celebrate our people and create an environment that supports diversity, inclusiveness and flexibility.

2019 Outcomes. We believe we made good progress on improving our business culture through embedding the "QBE DNA" and achieved a 4% increase in employee engagement in our 2019 employee survey. We continued to make progress on our efforts to improve the diversity of our workforce, increasing the percentage of women in senior management to 34% (up 2% from 2018). We have modernized our policies on ways of working including by launching our "Share the Care"

program in Australia and New Zealand, which allows men and women equal opportunity to access parenting leave.

Customer focus

Strategy. Bring our new customer commitment program to life, delivering a consistent level of outstanding service to our customers and partners. Through technical expertise and know-how, we intend to provide solutions for our customers' current and emerging needs.

2019 Outcomes. Our team focused on building their sector knowledge and industry expertise to better enable us to anticipate our customers' current and emerging needs. We believe the rollout of our global customer commitment program and digital solutions enables us to achieve better customer outcomes and improved claims experiences, with these metrics now integrated into our cell review conversations, reflecting the importance of customer outcomes in our overall performance assessment.

Managing risk

Strategy. Build a stronger and more resilient QBE by continuing to invest in managing our risks in an increasingly dynamic environment.

2019 Outcomes. During 2019, we believe we made significant investments to further strengthen risk management. We have placed a heavy focus on conduct, risk management and governance. Through multiple risk initiatives we believe we have also meaningfully reinforced our risk appetite and policies.

2020

For 2020, we have developed an updated set of priorities intended to concentrate our efforts on our key differentiators, helping us build a reputation for value, service, claims payment and performance:

Performance

Continue to execute our review of business cells to identify areas of improvement and enable the Group to respond to market changes, and better position us to deliver our target combined operating ratio. Deliver against key sustainability and climate commitments. Turn our focus to organic growth opportunities.

Brilliant Basics +

Execute the next phase of Brilliant Basics with a sharper focus on delivering for our customers, by leveraging best in class AI, data, and digital capabilities to embed everyday brilliance in underwriting and pricing and in particular, throughout our customer claims experience.

Talent & culture

Enrich our talent and leadership by building on our "QBE DNA" to empower our people to thrive, now and in the future. Continue to enhance our performance management system, ME@QBE, to provide our employees with a simpler and more modern approach to performance management, supporting our people and leaders in managing career and talent development.

Innovation & technology

Enhance our digital and data capability, update our IT platforms and accelerate the transition to the cloud. Through innovative partnerships with insurtech companies and QBE Ventures (our corporate venture fund focused on forming commercial relationships with digital innovation and AI startups),

cultivate skills and capabilities for the future and create an environment that nurtures innovation and continuous improvement.

Customer focus

Expand the breadth and depth of our customer focus by embedding our “Customer@QBE” framework, leveraging customer research to build deeper industry expertise and customer insights. Implement digital technologies intended to create seamless end-to-end experiences for our customers.

Underwriting Strategy

Our underwriting approach is to diversify and limit the type of insurance risks accepted and reduce the variability of the expected outcome by, among other things:

- delegating underwriting authorities to underwriters based on a detailed retrospective and prospective analysis of each class of business (with such authorities reflecting the level of risk that we are prepared to take with respect to each permitted insurance class and the experience of the underwriter);
- pricing risk using in-house pricing models relevant to specific portfolios and the markets in which we operate;
- maintaining pricing and claims analysis for each portfolio;
- maintaining a knowledge of current developments in our respective markets and classes of business;
- maintaining a business portfolio that is diversified across countries and classes of business;
- undertaking quarterly actuarial valuations of insurance liabilities; and
- reinsuring a portion of risks underwritten to limit our exposure to an individual catastrophe or an accumulation of claims.

For additional information, see “—Underwriting” below.

Investment Strategy

The Investment Committee reviews our investment strategy at each quarterly committee meeting and also monitors the level of our cash.

The following table sets forth the percentage of our investments represented by cash (net of overdrafts), short-term deposits, fixed interest and other interest-bearing securities, equities and investment properties as of the dates indicated.

	As of December 31,					
	2019		2018		2017	
	US\$	%	US\$	%	US\$	%
	(US\$ in millions, except percentages)					
Cash and cash equivalents	547	2.2	863	3.8	572	2.2
Short-term money	1,066	4.4	1,283	5.6	3,462	13.2
Government bonds	5,813	23.8	4,975	21.7	5,576	21.3
Corporate bonds	13,268	54.4	12,144	53.1	13,243	50.7
Infrastructure debt.....	386	1.6	495	2.2	562	2.1
Unit trusts.....	-	-	-	-	29	0.1
Developed market equity ⁽¹⁾	281	1.2	565	2.5	520	2.0
Emerging market equity.....	108	0.4	289	1.3	110	0.4
Emerging market debt.....	554	2.3	234	1.0	-	-
High yield debt.....	401	1.6	81	0.4	-	-
Unlisted property trusts.....	716	2.9	913	4.0	1,082	4.1
Infrastructure assets	903	3.7	851	3.7	894	3.4
Private equity	203	0.8	159	0.7	76	0.3
Alternatives	91	0.4	-	-	-	-
Investment properties.....	37	0.2	35	0.2	15	0.1
Total investments and cash	24,374	100	22,887	100	26,141	100

Notes:

- (1) In 2019, strategic equities and other equities were disclosed in aggregate as developed market equities, with comparative information relating to 2018 restated on a consistent basis. For the purpose of this Report, 2017 information in the table above has also been restated on a consistent basis.

Our investment philosophy is to strike an appropriate balance between the return objectives of the organization and our appetite for risk, earnings volatility and capital consumption while managing climate-related and other non-traditional financial risks. We reduce the risk to shareholders by principally investing in fixed interest securities and having only a modest exposure to equity investments and other growth/risk assets, such as infrastructure. We follow this approach because of the risk we believe we have already assumed in our insurance underwriting business. Asset and liability matching is examined at both Group and divisional levels on a quarterly basis. Consideration is given at the divisional level to underlying business lines. Investments are matched with the currency of the underlying liabilities, with mismatches between liability duration and asset duration discussed on a regular basis at divisional and Investment Committee meetings. As of March 31, 2020, and adjusting for actions taken during the first week of April 2020, our fixed-income asset duration is approximately 2.3 years and economically matched to claims duration, approximately 85% of our investment portfolio in fixed-income investments is rated A- or better, our BBB investments have an average maturity of 3.2 years, and none of our credit exposure is trading distressed.

In recent years, we have maintained a small exposure to equity investments intended to achieve yields above those on fixed interest securities. Our direct exposure to developed market, emerging market and private equities was 2.4% of total investments and cash as of December 31, 2019, 4.4% at December 31, 2018 and 2.7% at December 31, 2017. As of March 31, 2020, 82% of our portfolio was in investment grade fixed-income investments, 6% in high yield and emerging market debt and 12% in growth assets; as a result of actions taken during the first week of April 2020 to exit all listed equity and high yield and emerging market debt, 92% of our portfolio was in investment grade fixed-income investments and 8% in growth assets.

Our investment portfolio (including cash) increased by 6.5% to US\$24,374 million as of December 31, 2019 from US\$22,887 million as of December 31, 2018, partly reflecting an increase in reinsurance recovery collections pertaining to the Group's aggregate reinsurance that was in place from 2015 through 2019. Our investment portfolio (including cash) decreased by 12.4% to US\$22,887 million as of December 31, 2018 from US\$26,141 million as of December 31, 2017, the decrease driven by the combined impact of exchange rate movements, the cost of the 2017 loss portfolio transfer of North American commercial auto run-off liabilities (which settled in 2018), the 2018 outward reinsurance of our Hong Kong construction workers' compensation portfolio, debt and equity buybacks, and the disposal of operations in Latin America.

As of December 31, 2019, 2018 and 2017, our cash and fixed interest securities had an average modified duration of 2.6 years, 2.1 years and 1.6 years, respectively.

For the years ended December 31, 2019, 2018 and 2017, our net investment income was US\$1,036 million, US\$547 million and US\$758 million, respectively.

For additional information, see “—Investments” below.

Our History

Our founding company, The North Queensland Insurance Company Limited, was established in Queensland, Australia in 1886. By 1890, we had established over 36 agencies throughout the Asia Pacific region and Europe providing general insurance services.

In 1973, we merged with Bankers and Traders Insurance Company Limited and Equitable Life and General Insurance Company Limited, were renamed QBE Insurance Group Limited on October 3, 1973 (ABN 28 008 484 014) and were listed on the ASX. We have since grown into an international general insurance and reinsurance Group operating around the world. We are domiciled in Australia. Our principal executive office and registered office is located at Level 27, 8 Chifley Square, Sydney New South Wales 2000, Australia. Our telephone number is +61-2-9375-4444. For a list of our controlled entities, see note 7.3 to our 2019 Annual Financial Statements.

In 1986, we entered the inward reinsurance market with the acquisition of an Australian reinsurer, Sydney Reinsurance Company Limited (formerly Storebrand International Reinsurance), and expanded our inward reinsurance business in 1988 through the purchase of two European reinsurance companies.

Between 1992 and 2012, we experienced significant growth, largely through acquisitions. However, against a backdrop of challenging market conditions, during the three years ended December 31, 2019, we have pursued a strategy to remediate underperforming businesses by (a) revising, and in some cases (such as Latin America) completely exiting, underwriting businesses and portfolios, (b) restructuring management (such as in our North America segment) and (c) focusing on operational improvement, including through the establishment and use of centers of excellence around the world. During this time, we have also focused on consolidating, and extracting synergies from, our numerous existing businesses and prior acquisitions. See “Management's Discussion and Analysis of Results of Operation and Financial Condition—Factors and Trends Affecting our Results—Operational and Capital Improvements” for more information.

Certain notable acquisitions and disposals since 2015 are referenced in the table below:

Year	Acquisitions and Disposals
2019	<ul style="list-style-type: none"> • Disposal of remaining Latin American operations in Colombia and Puerto Rico • Disposal of insurance operations in Indonesia and the Philippines • Disposal of Australian travel business • Disposal of Australian wool and livestock-in-transit businesses • Disposal of Unigard Indemnity entity in the United States • Disposal of remaining North American personal lines business • Disposal of Hong Kong construction workers' compensation insurance portfolio (following 100% reinsurance in 2018)
2018	<ul style="list-style-type: none"> • Disposal of Latin American operations in Argentina, Brazil, Ecuador and Mexico • Disposal of QBE Insurance (Thailand) Public Company Limited • Disposal of North American personal lines independent agent business
2017	<ul style="list-style-type: none"> • Disposal of Blue Ridge Indemnity Company in the United States • Disposal of QBE Chile Seguros Generales • Disposal of the Australian life insurance business • Disposal of Southern Guaranty Insurance Company in the United States
2016	<ul style="list-style-type: none"> • No notable acquisitions or disposals
2015	<ul style="list-style-type: none"> • Disposal of our Mortgage & Lender Services (M&LS) business in North America⁽¹⁾ • Disposal of our Argentine workers' compensation business (QBE Argentina Aseguradora de Riesgos del Trabajo SA) • Disposal of Australian agency businesses⁽²⁾ • Disposal of U.S. agency businesses⁽³⁾

Notes:

- (1) Including Mortgage and Auto Solutions Inc, Newport Management Corporation, QBE Financial Institution Risk Services Inc, QBE FIRST Insurance Agency Inc and Seattle Specialty Insurance Services Inc.

- (2) Including CHU Underwriting Agencies Pty Ltd, Corporate Underwriting Agencies Pty Limited, Underwriting Agencies of Australia Pty Ltd and Underwriting Agencies of New Zealand Limited.
- (3) Including Community Association Underwriters of America Inc, Deep South Surplus Inc, DSCM Inc, QBE of California Insurance Services Inc, QBE US Agencies Inc and SIU LLC).

Operational Summary

For a discussion of our key ratios by division, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition.”

Description of Products and Services

Our portfolio of insurance and reinsurance business is geographically diversified. Our insurance products are classified as either short-tail or long-tail, principally based upon the average amount of time that elapses between when we receive premiums and when we pay claims. The average amount of time that elapses between the time premiums are received and claims are paid for our short-tail lines is generally one year or less and for our long-tail lines is generally more than one year. Our principal short-tail lines of business include commercial and domestic property, such as motor vehicle, physical damage and crop insurance. Our principal long-tail lines of business include liability (casualty), CTP insurance, professional indemnity, workers’ compensation and marine, energy and aviation.

The following table shows a breakdown of our gross earned premium generated by short-tail and long-tail lines and the weighted average term to settlement of our outstanding claims, in each case, as of the dates indicated:

	As of December 31,		
	2019	2018	2017
Gross earned premium generated by:			
Short-tail lines (%)	65.1	64.9	65.4
Long-tail lines (%).....	34.9	35.1	34.6
Weighted average term to settlement of outstanding claims (years)	3.6	3.3	3.1

We primarily distribute our products through a relatively diverse network of third party-owned insurance agents and brokers.

We maintain comprehensive statistics by product for every country in which we operate. We use these statistics to monitor trends, to correct unprofitable portfolios and to identify businesses that are growing in profitability.

Our major products and services are described below:

Property. Property insurance refers to the underwriting of a broad range of risks including policies for fire, industrial special risks and consequential loss, as well as schemes tailored for specific classes of cover for both personal and property damage. QBE Group focuses on providing specialized insurance coverage and offers cover for catastrophe, property facultative, direct and excess of loss risks.

Private Motor and Commercial Motor. Private motor insurance includes the provision of comprehensive insurance for damage to or loss and theft of a vehicle, as well as third party property damage. Commercial motor insurance refers to the underwriting of risks for business vehicles and

fleets. Private motor policies are generic, unlike commercial motor coverage, where policies are often tailored to a customer's specific needs. QBE Group both insures and reinsures motor vehicle risks.

Compulsory Third Party. CTP covers insureds in Australia against liability to third parties injured in motor vehicle accidents and is the means by which those third parties are compensated for their injuries in Australia. The insurance is compulsory for all motor vehicles in Australia. Claims are governed by legislation and disputes can be resolved by the courts. In New South Wales, Queensland, the Australian Capital Territory and, since July 1, 2016, South Australia, CTP is underwritten by private insurers. In other states and the Northern Territory, CTP is underwritten by the respective state and territory governments.

Liability (Casualty). Liability insurance is purchased to insure against claims made by third parties who are injured or who suffer property damage arising out of the insured's activities or statutory obligations. It includes professional indemnity (see below), medical malpractice and general, public and product liability. We believe that QBE Group's liability insurance and reinsurance portfolio is diversified, both in terms of business risk and geographic location.

Marine. Marine insurance covers a broad range of risks including marine hull (insurance which covers loss or damage to a marine vessel) and marine cargo (insurance that covers the loss of or damage to goods being transported).

Energy. In the energy sector, QBE Group provides for physical loss or damage and business interruption coverage on risks such as offshore oil and gas platforms, onshore oil wells and segments of the petrochemical industry.

Aviation. Aviation insurance covers both aviation hull and aviation liability, including passengers.

Accident and Health. Accident and health insurance covers insureds for expenses incurred in association with medical costs, including hospital stays and fixed lump sums such as in accidental death or loss of limbs. QBE Group both insures and reinsures accident and health risks.

Professional Indemnity. Professional indemnity insurance is purchased by professional advisers such as engineers, architects and lawyers and by company directors and officers to insure against damages arising from actions for the provision of negligent advice or services. QBE Group provides this cover primarily on a general insurance basis.

Lenders' Mortgage. Lenders' mortgage insurance protects banks and other lenders against non-payment or default on residential property loans.

Workers' Compensation. Workers' compensation insurance is provided for work-related injuries. The provision of workers' compensation insurance is typically a statutory class of business, as it is required by local or state government legislation. Legislation also typically requires employers to either self-insure with adequate reinsurance or to obtain appropriate workers' compensation insurance with an approved insurer. The level of insurance required is mainly determined by reference to the number of workers employed and the nature of work performed. It includes employers' liability (see below).

Employers' Liability. QBE Group provides general insurance cover for employers' liability in the United Kingdom and Ireland through its European operations and in several countries in the Asia Pacific region, including Hong Kong. This is similar to workers' compensation insurance as described above.

Financial and Credit. Financial and credit insurance includes products such as residual value bonds or other credit enhancement tools.

Catastrophe. Catastrophe insurance is purchased to insure against catastrophes such as natural disasters. Typically, a form of excess of loss reinsurance is offered, subject to specified limits, to indemnify the reinsured for the amount of loss resulting from a catastrophic event or series of events in excess of a specified amount.

Householders'. Householders' insurance refers to the underwriting of home, contents, personal effects and personal liability risks. QBE Group both insures and reinsures householders' risks.

Commercial Packages. Commercial package insurance is a flexible package of insurance options designed to provide cost-effective protection for QBE Group's customers in retail, commercial and industrial businesses.

Multi-Peril Crop Insurance. Multi-peril crop insurance provides protection against weather-related and other unavoidable causes of crop loss.

Our Divisions

North America

Our North America division is a specialist insurance and reinsurance franchise focused on four key segments:

- **Alternative Markets**, which comprises property and casualty products that are distributed through independent and captive agents throughout the United States, managing general agents, as well as produced through national and multi-national distributions channels. Product lines include commercial and personal products spanning auto, general liability, property, flood and workers' compensation.
- **Specialty & Commercial**, which include accident and health, cyber liability, aviation, inland marine, management liability & professional lines, surety, transactional liability and trade credit insurance.
- **Crop insurance**, which provides MPCCI through independent agencies in the United States; and
- **Reinsurance**, which works primarily with brokers through our global QBE Re operation and supports predominantly small to medium insurers with limited exposure to major catastrophes or nationwide clients.

Numerous initiatives are underway to improve the North America segment, including:

- improving operational efficiency, including by investing in technology and other solutions-enabling business processes and leveraging our GSSC in the Philippines and our other global capabilities and;
- improving our analytical capabilities across customer analysis, underwriting and claims predictive analysis to drive improved decision making at both the transaction and portfolio level;
- improving pricing and risk selection through a targeted geographical and industry focus, including remediating or shedding underperforming risks; and
- continuing to develop a performance-driven and results-focused culture, including developing greater in-house technical expertise.

For a summary of certain financial information and key ratios for our North America segment for the years ended December 31, 2019, 2018 and 2017, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition.”

Products

The table below indicates the contribution of each class of business to gross written premium for our North America segment for the periods indicated.

	Year ended December 31,					
	2019		2018⁽¹⁾		2017⁽¹⁾	
	US\$	%	US\$	%	US\$	%
Business class	(in millions except percentages)					
Agriculture	1,603	34.6	1,544	32.8	1,473	32.4
Commercial and Domestic						
Property	1,157	25.0	1,260	26.7	1,278	28.1
Accident and Health.....	433	9.3	375	8.0	273	6.0
Professional Indemnity	425	9.2	358	7.6	378	8.3
Public/product liability.....	348	7.5	359	7.6	325	7.2
Workers’ compensation	330	7.1	395	8.4	401	8.8
Motor and motor casualty	178	3.8	289	6.1	296	6.5
Marine, energy and aviation	105	2.3	80	1.7	65	1.4
Financial and credit.....	58	1.2	53	1.1	51	1.1
Total.....	4,637	100.0	4,713	100.0	4,540	100.0

Notes:

(1) Excludes any share of Equator Re, the Group’s captive reinsurer.

Competition

Our main competitors across our standard and specialty lines include Zurich, W.R. Berkley, Travelers, CNA and The Hartford, whereas key competitors for our crop business are Rain and Hail Insurance Service Inc and Rural Community Insurance Services. Competition is strong across all product lines, reflecting an abundance of capacity; and combined with weather-related losses which have continued to impact results over the last several years, industry profitability remains challenged. In more recent years, some market conditions have improved with premium rate acceleration in response to industry-wide claims loss trends; however, a heightened focus remains on cost reduction and the provision of superior service across multiple customer segments.

See “Risk Factors—We operate in a highly competitive industry.”

Distribution

We market our insurance products in our North America segment predominantly through third party-owned agents and, to a lesser extent, brokers. We receive business from a number of brokers and do not rely on any one broker for a significant portion of our business.

International

Our International division is a diverse business encompassing large and specialty capability (predominantly in London), mid-market and small and medium-sized enterprises (predominantly in the United Kingdom, Europe and Asia) and multi-line global reinsurance via QBE Re. We also

established QBE Europe SA / NV during 2018 to facilitate a seamless transition to the post Brexit environment for our customers.

Our teams utilize deep underwriting expertise to provide a wide range of commercial and specialty products and risk management solutions across the globe through a comprehensive distribution network, with offices in the United Kingdom, Australia, Canada, Dubai, the United States, and several countries across Europe and Asia. Our International division head office is in London, with the division run from three centers: London for the United Kingdom, Brussels for the European businesses, and Singapore for the Asian businesses.

After a prolonged period of soft trading conditions where capital was readily available and competition was more intense, trading conditions generally improved during 2019, with momentum increasing during the second half of 2019. Additionally, as adverse industry-wide current and prior accident year claims trends have driven a change in appetite and the withdrawal of capacity amongst many of our competitors, both in London and elsewhere in the region, several competitors including some global carriers are continuing to de-risk their portfolios and exiting smaller and/or less profitable lines. During 2019 we achieved an average renewal rate increase of 6.3% in European operations and 3.5% in Asia compared with an increase of 4.4% and 0.7%, respectively, in 2018.

For a summary of certain financial information and key ratios for our International operations for the years ended December 31, 2019, 2018 and 2017, see “Management’s Discussion and Analysis of Results of Operation and Financial Condition.”

Products

The table below indicates the contribution of each class of business to gross written premium for our International operations for the periods indicated:

Business class	Year ended December 31,					
	2019		2018⁽¹⁾		2017⁽¹⁾	
	US\$	%	US\$	%	US\$	%
	(in millions except percentages)					
Commercial and Domestic Property.....	1,318	26.8	1,253	26.1	1,240	27.2
Public/product liability.....	923	18.7	841	17.5	776	17.0
Marine, energy and aviation	721	14.6	675	14.1	639	14.0
Motor and motor casualty ⁽²⁾	701	14.2	694	14.4	621	13.6
Professional Indemnity	606	12.3	594	12.4	567	12.4
Workers’ compensation	270	5.5	287	6.0	302	6.6
Accident and health.....	183	3.7	221	4.6	185	4.1
Financial and credit.....	125	2.5	119	2.5	103	2.3
Other ⁽³⁾	77	1.7	118	2.5	131	2.9
Agriculture	-	-	1	0.0	-	-
Total.....	4,924	100	4,803	100	4,564	100

Notes:

- (1) Excludes any share of Equator Re, the Group’s captive reinsurer.
- (2) Motor and motor casualty includes domestic and commercial motor, motor casualty and extended warranty.
- (3) Other includes travel and other miscellaneous classes of insurance.

Competition

There is significant competition in all classes of business transacted from a number of different markets worldwide. Depending on the class of business concerned, competition comes from the European market, the London market, other Lloyd's syndicates and major international insurers and reinsurers. The European, London and Asian markets in which we compete are extremely diverse with a large number of niche and major players, including AIG, Allianz, Aviva, AXA and Zurich that have significant shares in most territories. In the Lloyd's market, our main competitors include Chubb, Beazley, AXA XL and Hiscox. Competition also comes from regional and domestic insurers operating in the countries in which we and our customers do business. We believe we are able to compete successfully by employing specialist underwriters and by developing and maintaining close, long-term relationships with our brokers and clients through high quality service and an ability to deliver innovative solutions tailored to our clients' needs.

See "Risk Factors—We operate in a highly competitive industry."

London versus United Kingdom Insurance Markets

We write business in both the United Kingdom insurance market and in what is known as the London market. The London market is the largest international underwriting market for international insurance and reinsurance business. The London market is distinctly different from the United Kingdom general insurance market. Differences between the two markets include:

- the London market writes a broad range of coverages internationally, whereas the United Kingdom general insurance market only writes cover for United Kingdom risks;
- the London market underwrites a broad mix of both direct and reinsurance business, whereas the United Kingdom general insurance market does not underwrite a significant amount of reinsurance business;
- there are specialty markets within the London market, such as the large marine, aviation and satellite markets, which do not exist in the United Kingdom general insurance market; and
- there is a subscription market in the London market where risk is shared among various insurers and reinsurers, a feature not common in the United Kingdom general insurance market.

General Insurance

We write the following general insurance product lines: non-marine liability (principally product, employers', public and directors' and officers' liability and professional indemnity); non-marine short-tail (principally commercial property, energy, motor, pecuniary loss and credit and political risks); and marine, aviation and transport (including hull, cargo, marine, liability, war, aviation and specie).

Inward Reinsurance

Launched in 2012, QBE Re is our global reinsurance franchise and has combined our Lloyd's, European company and U.S. underwriting capability into a single underwriting and management team led in Europe.

Within Europe, our QBE Re franchise encompasses reinsurance business for:

- our Lloyd's syndicate, which underwrites excess of loss reinsurance;

- our European business, which underwrites reinsurance risks in continental Europe and worldwide and also manages run-off portfolios;
- our London market business, which underwrites reinsurance globally and is focused on specialty lines of business such as property, marine and aviation and energy coverage. We distribute products in the London market through brokers; and
- our Bermuda branch that underwrites principally excess of loss reinsurance.

Our underwriting teams focus on building long-term relationships with brokers and clients. We receive business from a large number of brokers and do not rely on any one broker for a significant portion of our business.

The reinsurance industry is highly competitive. We compete worldwide with major reinsurers, as well as reinsurance departments of numerous multi-line insurance organizations. We believe we compete effectively because of our strong capital position, the quality of service provided to customers and our customized approach to risk selection.

Lloyd's syndicates

The Lloyd's market comprises a large number of syndicates which underwrite insurance risks both globally and in London. The structure of the Lloyd's market has changed considerably since 1993. Before 1993, all capital was subscribed by individual members of Lloyd's, with unlimited personal liability. Today, the majority of capital is provided by corporates on a limited liability basis. The Lloyd's market constitutes approximately half of the London market.

In 2000, we acquired Limit plc, which operates in the Lloyd's insurance market and is now branded as QBE Underwriting Limited. We currently manage two Lloyd's syndicates and are one of the top managers and providers of capacity at Lloyd's with approximately a 5% share of the total market capacity for the 2020 underwriting year. We provide 100% of capacity to syndicate 2999 and 70% of capacity for syndicate 386.

Set out below is the total capacity for each of our Lloyd's syndicates for the 2019 and 2018 underwriting years and our percentage share for the 2019 underwriting year:

Syndicate Number	Types of business includes	Stamp Capacity		QBE share
		2019	2018	2019
		(in £ millions)		%
2999	Reinsurance, marine and energy, liability, specie, war and political risks, property, casualty, professional and financial lines, cyber, motor and aviation	1,100	1,100	100
386	Non-marine liability, writing Employer's Liability Professional Indemnity Public and Product Liability in the United Kingdom and internationally	317	317	70
Total		1,417	1,417	

To support funds at Lloyd's pursuant to Lloyd's collateral requirements, as of December 31, 2019 we had deposited bank letters of credit and similar forms of support for US\$1,848 million (2018: US\$2,054 million), along with cash and investments of US\$30 million (2018: US\$96 million). See notes 5.2 and 8.2 to our 2019 Annual Financial Statements.

Australia Pacific

Our Australia Pacific division provides general insurance throughout Australia, New Zealand and the Pacific region, providing all major lines of insurance cover for personal and commercial risks. The core business segments are as follows:

- **Commercial lines** including commercial motor, farm, aviation, liability, professional liability, construction and engineering, marine, workers' compensation, accident & health and property;
- **Personal lines** including CTP, private motor, and home; and
- **Credit lines** including LMI, credit and surety.

The strategy of our Australian & New Zealand general insurance operations is to ensure optimum retention of quality customers, maintain profitability of existing and new business, eliminate consistently unprofitable lines of business and distribution channels, extend distribution and service of insurance products and reduce costs. In 2019, to simplify our operations and build a more streamlined, agile and customer-oriented business, the Pacific operations were merged into Australia and New Zealand operations to become Australia Pacific. In the same year, we disposed of our travel and wool and livestock-in-transit insurance businesses as part of the portfolio rationalization and simplification of QBE.

For a summary of certain financial information and key ratios for our Australia Pacific segment for the years ended December 31, 2019, 2018 and 2017, see "Management's Discussion and Analysis of Results of Operation and Financial Condition."

Products

Our Australia Pacific division underwrites a broad mix of personal, commercial and corporate insurance business. The table below indicates the contribution of each class of business to gross written premium for Australia Pacific for the periods indicated.

Business class	Year ended December 31,					
	2019		2018 ⁽¹⁾		2017 ⁽¹⁾	
	US\$	%	US\$	%	US\$	%
	(in millions except percentages)					
Commercial and domestic property.....	1,443	36.8	1,430	34.5	1,407	33.8
Motor and motor casualty	1,072	27.3	1,176	28.4	1,178	28.3
Public/product liability	332	8.5	364	8.8	348	8.4
Financial and credit	254	6.5	294	7.1	342	8.2
Workers' compensation	244	6.3	250	6.0	255	6.1
Agriculture	240	6.1	242	5.8	224	5.4
Marine, energy and aviation	122	3.1	133	3.2	124	3.0
Professional indemnity	113	2.9	112	2.7	104	2.5
Accident and health	100	2.5	139	3.4	176	4.2
Total.....	3,920	100	4,140	100	4,158	100

Notes:

- (1) Excludes any share of Equator Re, the Group's captive reinsurer.

Competition

Our main competitors include Suncorp Group Limited, Allianz and Insurance Australia Group (formerly NRMA) (“IAG”). The insurance market is highly competitive in Australia with a significant number of companies with market shares of between 5% to 10%, as well as smaller companies with market shares just below 5%. The general insurance market has many niche participants and there is a large number of general insurers for a relatively small market. In the New Zealand market, our main competitors are Suncorp Group Limited and IAG.

Distribution

The majority of our business in Australia, New Zealand and the Pacific is written through third party-owned brokers and agents. The remainder of our products are written directly.

The third party-owned agents we use typically also sell the insurance products of our competitors. While these third party-owned agents receive a commission on any business we accept, we are generally not committed to accept any business from any particular agent. Certain third party-owned brokers and agents with limited authority write certain policies on our behalf, but only up to a specified amount of cover and within prescribed parameters. Additional distribution channels include banks and other financial institutions. More recently, there has been an increase in the commoditization of selected product lines of general insurance products, consolidation of distribution channels and the establishment of new lines of underwriting.

Investments

We manage our worldwide investments centrally, with the Group Investment team operating out of two locations, Sydney Australia and New York, USA. We are required to observe the prudential and insurance solvency requirements of the various countries in which we operate with respect to the amount and nature of the investment assets held relative to our liabilities. See “Management’s Discussion and Analysis of Results of Operation and Financial Condition—Insurance Solvency” and “Management’s Discussion and Analysis of Results of Operation and Financial Condition—Capital Adequacy.” We hold investment assets to provide a return on shareholders’ funds and to provide funds for the claims that arise in relation to the policies we underwrite.

We seek to maintain a conservative investment portfolio. Our general policy on investments is to reduce the risk to shareholders by investing in fixed interest securities and having a modest exposure to equity investments and other strategic assets, such as infrastructure. This is because of the risk we have already assumed in our insurance business. We continue to maintain a policy of matching liabilities with assets of the same currency, as much as is practicable, in order to minimize exposures to operational foreign currency risks. In addition, regulators around the world require us to maintain capital and assets in the currency of the liabilities and of the country being regulated. This means that a substantial proportion of our investments and cash must be maintained in many currencies. Our investments are currently designated as fair value through profit or loss on initial recognition. They are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date. We monitor fair value daily.

Our policy is to manage cash, fixed interest, equity and other holdings within constraints approved by the Investment Committee. Our asset allocation policy is set by our Investment Committee which formulates asset allocation ranges with consideration given to applicable insurance solvency standards, sets investment guidelines on currency and property dealings and reviews the performance of internal and external fund managers against approved benchmarks. This asset allocation is usually reviewed by our Investment Committee at each meeting, and our investments are generally managed in-house by our investment division. We continue to seek low-risk strategies that will enhance returns in the ongoing low interest rate environment while, at the same time, reducing overall portfolio volatility.

See “—Investment Strategy” above for a summary of our investments and cash by class for the years ended December 31, 2019, 2018 and 2017.

We have a Group-wide investment credit risk policy in place to mitigate our exposure to credit risk on our investment portfolio. Compliance with the policy is monitored and exposures and breaches are reported to our Group Investment Committee. Net exposure limits are set for each counterparty or group of counterparties in relation to investments, cash deposits and forward foreign exchange exposures. Our policy also sets out minimum credit ratings for investments that may be held.

The table below provides information regarding our aggregate credit risk exposure as of December 31, 2019, in respect of our cash, interest-bearing investments and derivative financial assets. The analysis classifies the assets according to S&P counterparty credit ratings. Rated assets falling outside the range of AAA to BBB are classified as speculative grade.

	Credit Rating ⁽¹⁾						Total
	AAA	AA	A	BBB	Speculative Grade	Not Rated	
(in US\$ millions)							
As of December 31, 2019							
Cash and cash equivalents.....	-	125	218	157	1	46	547
Interest bearing investments.....	2,726	7,933	6,925	2,897	12	40	20,533
Derivative financial instruments	-	93	65	36	-	1	195
Total.....	2,726	8,151	7,208	3,090	13	87	21,275

Notes:

- (1) A credit rating of any entity or any security is not a recommendation to buy, sell or hold securities in so far as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for a given period or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances warrant. We are under no obligation to update information regarding such ratings should they change over time. Distributions of credit ratings are restricted as described under “Introduction—References to Credit Ratings.”

Our investments expose us to several risks, including interest rate risk. Interest rates currently remain at low levels, particularly in the United States, the United Kingdom and Australia where we have a large percentage of our investments. See note 4.4 to our 2019 Annual Financial Statements for a more detailed discussion of the interest rate risk.

Underwriting

Our underwriting and pricing methodology incorporates underwriting, claims, expenses, actuarial analysis and product development disciplines for our various classes of business. This approach utilizes proprietary data gathered and analyzed by us over many years and is designed to maintain high quality underwriting and pricing discipline. This information provides specialized knowledge about industry segments and catastrophe management and helps analyze and manage risk based on account characteristics and pricing parameters.

Comprehensive underwriting statistics are maintained by product for every country in which we operate. We believe this better enables us to monitor trends and take action at an earlier stage to correct unprofitable portfolios and focus on growing profitable business. Our actuaries assist underwriters with analysis of trends and pricing. We also have external actuarial reviews of claims

provisions performed by independent actuaries for most portfolios. We use sophisticated techniques to assess underwriting risks and monitor accumulations of risk and our pricing includes allowances for large risk and catastrophe claims.

Claims Administration

We strive to pay valid claims as quickly as possible and seek to achieve an optimum level of claims handling cost while, at the same time, maintaining a high level of customer service. Our divisional claims teams structure is driven by the composition of the portfolio of our local businesses. We seek to implement appropriate feedback about our claims practices in an effort to improve our service and claims and expense objectives. It is our goal to adhere to all regulations and monitor claims performance against policies and procedures, the adequacy of case reserves, claims and expense controls and productivity and service standards. We believe that this structure permits us to achieve economies of scale while, at the same time, maintaining flexibility to quickly respond to the needs of our customers, underwriters, agents and brokers.

Outward Reinsurance

We reinsure a portion of the risks we underwrite in order to control our exposure to losses, stabilize earnings and protect capital resources. We cede to reinsurers a portion of these risks and pay premiums based upon the risk and exposure of the policies subject to such reinsurance. These programs protect us against claims severity and frequency and play an important role in managing our combined operating ratio.

Our outward reinsurance premium expense for the years ended December 31, 2019, 2018 and 2017 was US\$1,648 million, US\$1,961 million and US\$2,260 million respectively.

Our reinsurance expense ratio (outward reinsurance premium expense divided by gross earned premium revenue) for 2019 decreased to 12.4% of gross earned premium from 14.4% in 2018, with the decrease including the effects of restructuring our reinsurance program in 2019 coupled with the impact on 2018 of a US\$190 million cost of reinsuring our Hong Kong construction workers' compensation liabilities.

Our reinsurance expense ratio for 2018 decreased to 14.4% of gross earned premium from 16.6% in 2017, with the decrease reflecting the impact on 2017 of a US\$415 million cost of reinsuring our U.S. commercial auto run-off liabilities which is partially offset by the aforementioned 2018 reinsurance of Hong Kong construction workers' compensation liabilities.

Reinsurance purchased by QBE exposes the Group to credit risk. Although the reinsurer is liable to us to the extent of the reinsurance ceded, we remain primarily liable as the direct insurer on all risks reinsured. Reinsurance recoverables of US\$5,872 million, US\$6,859 million and US\$6,877 million as of December 31, 2019, 2018 and 2017, respectively, were reported after allowance for uncollectible amounts. We monitor the financial condition of reinsurers on an ongoing basis and review our reinsurance arrangements periodically. Reinsurers are selected based on their financial condition, business practices and the price of their product offerings. From time to time, we also hold collateral, including escrow funds and letters of credit, under certain reinsurance agreements. Substantially all our reinsurance recoveries on paid and outstanding claims (98.6% as of December 31, 2019, on an undiscounted basis) are due from counterparties which are rated "A" or better by S&P. See note 4.3 to our 2019 Annual Financial Statements for further information on our reinsurance counterparty risk.

We use a variety of reinsurance agreements to control our exposure to large individual risk and catastrophe claims, including the following:

- ***facultative reinsurance***, in which reinsurance is provided for all or a portion of the insurance provided by a single policy and each policy reinsured is separately negotiated;

- *treaty reinsurance*, in which reinsurance is provided for a specific type or category of risks;
- *catastrophe reinsurance*, in which we are indemnified for an amount of loss in excess of a specified retention with respect to claims resulting from a catastrophic event; and
- *quota share reinsurance*, in which we cede an agreed upon percentage of the risks we insure, which fall within the classes subject to the quota share contract.

In addition to the external reinsurance arrangements, since January 1, 2002 our wholly owned Equator Re operation has provided both excess of loss and proportional reinsurance policies for our operating subsidiaries globally. The policies cover all lines of business of our insurance subsidiaries. The reinsurance premiums are paid to and held by Equator Re to pay the claims of our insurance subsidiaries under their individual reinsurance agreements with Equator Re.

Many of our major reinsurance contracts are purchased on a Group basis, incorporating both Australian and international exposures, to enable us to benefit from premium savings reflecting the significantly diversified nature of the Group by class of business and territory. We have established our net retention levels in the context of our capital base and the efficiency of available reinsurance. Our external reinsurances are well spread across international reinsurers, mainly European and American reinsurers rated A or better by S&P.

We maintain a comprehensive Group worldwide reinsurance program for large individual risk and catastrophe claims that covers all classes of business with the exception of some inwards reinsurance, crop insurance, business written in our Lloyd's sub-syndicate 1036 (for direct marine and energy), QBE Lenders' Mortgage Insurance and QBE Financial Partner Services (lender-placed insurance) (prior to the sale of that business). The excluded portfolios are themselves protected by class specific reinsurance arrangements.

Aside from specialty treaties protecting our inwards reinsurance, marine and energy business underwritten through Syndicate 1036 at Lloyd's and crop portfolios, the core elements of the Group's catastrophe and per risk covers were placed on a rolling two-year basis from January 1, 2019, whereby only 50% is due for renewal each year. Our worldwide programs have predominantly been placed with National Indemnity Company, Munich Re and Swiss Re although other reinsurers remain key partners in 2020 and our reinsurer panel is expected to remain very stable year on year.

As of January 1, 2020, our key worldwide reinsurance programs for the Group comprise:

- A core "Cat XL" program, which provides a stretch of cover in one layer, up to US\$2.1 billion worldwide cover, with a US\$400 million retention and one pre-paid reinstatement, for all perils.
 - The layer provides US\$2.1 billion of worldwide all perils (including terrorism) cover up to the full limit.
 - There is one pre-paid reinstatement of this cover (an additional US\$2.1 billion in the instance of a second event).
 - All reinsurers' participation is on a two-year rolling basis, where 50% of their line comes up for renewal each year.
- A "Cat Top or Drop" program, which provides US\$300 million of worldwide catastrophe coverage and can operate in three ways, as follows:
 - *Top*: US\$300 million in excess of US\$2.5 billion at the top of the Cat XL program for peak perils.

- *Drop (second event)*: US\$300 million in excess of US\$100 million once the US\$300 million annual aggregate deductible has been eroded for all perils.
- *Drop (non-peak)*: US\$300 million in excess of US\$100 million straight in for non-peak perils (“peak peril” include earthquakes or hurricanes in the United States, earthquakes or cyclones in Australia and earthquakes in New Zealand; all other perils and territories are defined as “non-peak perils”). This section includes an annual aggregate deductible of US\$25 million in respect of hail events, bushfires and floods in Australia and wildfires in the United States.
- The US\$300 million limit can be recovered fully from one section or partially from all three.
- A “Cat Top, Wrap or Aggregate” (TWA) program, which provides US\$500 million of worldwide coverage and can also operate in three ways, as follows:
 - *Top*: US\$500 million in excess of US\$2.8 billion (or US\$2.5 billion) at the top of the Cat XL program.
 - *Wrap*: US\$500 million limit in excess of US\$400 million for QBE Re and Syndicate 1036 (their retained loss plus the share of their programs covered by Equator Re).
 - *Aggregate*: US\$500 million in the aggregate in excess of US\$545 million for 2020 with a US\$5 million deductible per occurrence.
 - The US\$500 million limit can be recovered fully from one section or partially from all three.
- A “Risk XL” program, which provides US\$250 million of cover for risk losses in excess of US\$50 million retention:
 - Coverage for cyber-related losses of US\$100 million in the aggregate (from US\$50 million in 2019) attaching lower down at US\$50 million (from US\$100 million in 2019), with no per risk limitation (from US\$5 million per risk limitation in 2019).
 - Clash coverage of US\$100 million in excess of US\$50 million per occurrence coverage for 2020. There is a US\$100 million in-all recovery limit across the cyber and clash sections.
 - There is also a sub-layer of US\$25 million in excess of US\$25 million, with US\$75 million aggregate deductible.

The following table sets forth our net results of external reinsurance ceded for the periods indicated.

	Year ended December 31,		
	2019	2018	2017
	(US\$ in millions)		
Outward reinsurance premium expense	(1,648)	(1,961)	(2,260)
Reinsurance commission revenue	359	265	342
Reinsurance and other recoveries revenue	1,574	1,526	2,837
Net revenue from (expense relating to)			
reinsurance	285	(170)	919

Reserving

Our net outstanding claims provision comprises:

- the gross central estimate, which is the provision for expected future claims payments for claims incurred up to the balance date

less

- reinsurance and other recoveries

less

- an amount to reflect the discount to present value using appropriate risk-free rates of return

plus

- a risk margin, which is added to reflect the inherent uncertainty in the net discounted central estimate.

We are required by applicable insurance laws and regulations to establish provisions for payment of claims and claims expenses that arise from the policies we issue. Our provisions for expected future claims payments includes: (a) claims reported but not yet paid, (b) IBNR claims, (c) IBNER claims and (d) estimated future claims handling costs.

Provisions are established to recognize the estimated costs necessary to bring all pending reported claims, IBNR and IBNER claims to final settlement. Establishing provisions blends both analysis of emerging trends and expert actuarial judgement, and is subject to uncertainty relating to the underlying risks, both internal and external. Due to the level of uncertainty associated with insurance claims process and emergence we cannot be certain as to the amounts that we will ultimately pay for claims that have occurred but which have not yet been settled. Actual claims outcomes may vary from the estimated amounts, particularly when those payments may not occur well into the future, which is the case for our longer-tailed classes of insurance business. Claim settlements to be made in the future may be impacted by changes in estimates of the insured loss, changes in our claims handling procedures, changing rates of inflation and other economic conditions, changing legislative, judicial and social environments, and changes in estimates of reinsurance and other recoveries.

The gross and net discounted central estimate is determined by the Group chief actuary, supported by a team of actuaries in each of our businesses. The valuation process is performed at least half-yearly and includes extensive consultation with claims and underwriting staff as well as senior management. The central estimate of outstanding claims is subject to a comprehensive independent review at least annually.

IBNR and IBNER provisions are established to recognize the estimated cost of losses that have occurred of which we have not yet been notified and those that have been notified but where the cost of claims is subject to further development. We must rely upon our historical information to estimate the IBNR and IBNER liability. The methods used to calculate IBNR and IBNER provisions are based upon historical reporting patterns. Adjustments are made to these initial projections in light of changes in exposure, trends in underlying data and the strength of previously established IBNR and IBNER provisions.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, for which more information about the claims is generally available. This is particularly the case with respect to long-tail claims in which significant periods of time, ranging up to several years or more, may elapse between the occurrence of

an insured loss, the reporting of the claim to us and the settlement of our liability for that claim. 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.

The recoverability of amounts due from reinsurers is assessed at each balance date to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty credit risk and the contractual terms of the reinsurance contract. Total provisions are then discounted to the net present value as required under Australian Accounting Standard AASB 1023. Risk margins are added to the central estimate to reflect the inherent uncertainty in the central estimate. Close to 100% of our outstanding claims were reviewed by external independent actuaries for the year ended December 31, 2019.

Net of reinsurance, favorable undiscounted prior accident year claims development for the financial years ended December 31, 2019, 2018 and 2017 was US\$40 million, US\$262 million and US\$257 million, respectively. Of these movements:

- The 2019 prior accident year release included an undiscounted US\$56 million adverse impact as a result of the Ogden Rate change in the United Kingdom. Excluding this, the prior accident year net release was an undiscounted US\$96 million from continuing operations comprised favorable development in Australia Pacific and International, partly offset by adverse development in North America.
- The 2018 prior accident year release included a benefit of US\$149 million from the reinsurance of our Hong Kong construction workers' compensation liabilities. Excluding the impact of this reinsurance, the 2018 positive prior accident year net release was an undiscounted US\$113 million, which comprised positive development in North America, European and Australian & New Zealand operations, partly offset by adverse development in other jurisdictions.

Our adopted probability of adequacy of 90.0% as of December 31, 2019 is in excess of the prudential standards issued by APRA. The prudential standards require that, for our Australian licensed insurers, outstanding claims must be set at a level that provides a probability of at least 75% that the provision for outstanding claims will be adequate to settle claims as they become payable in the future. See "Regulation—Australian Insurance Regulation."

The following table is a summary of our outstanding claims provisions on an undiscounted and discounted basis and split between the current and non-current outstanding claims provisions (before and after reinsurance recoveries) as of the end of the periods noted below:

	Year ended December 31,		
	2019	2018	2017⁽⁴⁾
	(US\$ in millions)		
Gross discounted central estimate.....	18,779	18,421	20,340
Risk margin ⁽¹⁾	1,136	1,158	1,239
Gross outstanding claims provision.....	<u>19,915</u>	<u>19,579</u>	<u>21,579</u>
Reinsurance and other recoveries on outstanding claims.....	<u>(5,104)</u>	<u>(5,551)</u>	<u>(6,311)</u>
Net outstanding claims provisions.....	<u>14,811</u>	<u>14,028</u>	<u>15,268</u>
Analyzed as follows:			
Net undiscounted central estimate.....	13,860	13,373	14,586
Discount to present value.....	(554)	(853)	(929)
Claims settlement costs.....	369	350	372
Net discounted central estimate.....	<u>13,675</u>	<u>12,870</u>	<u>14,029</u>
North America.....	3,129	2,796	1,872

	Year ended December 31,		
	2019	2018	2017⁽⁴⁾
	(US\$ in millions)		
International	7,342	7,010	5,540
Australia Pacific	3,204	3,064	3,032
Asia Pacific	n/a	n/a	307
Latin America	n/a	n/a	494
Equator Re	n/a	n/a	2,784
Net discounted central estimate ⁽²⁾	13,675	12,870	14,029
Risk margin ⁽¹⁾	1,136	1,158	1,239
Net outstanding claims provision.....	<u>14,811</u>	<u>14,028</u>	<u>15,268</u>
Gross undiscounted central estimate.....	<u>19,202</u>	<u>19,304</u>	<u>21,278</u>
Claims settlement costs.....	<u>369</u>	<u>350</u>	<u>372</u>
	19,571	19,654	21,650
Discount to present value	(792)	(1,233)	(1,310)
Gross discounted central estimate.....	<u>18,779</u>	<u>18,421</u>	<u>20,340</u>
Payable within 12 months	6,609	6,606	8,284
Payable in greater than 12 months	12,170	11,815	12,056
Gross discounted central estimate.....	<u>18,779</u>	<u>18,421</u>	<u>20,340</u>
Undiscounted reinsurance and other recoveries on outstanding claims ⁽³⁾	5,342	5,931	6,692
Discount to present value.....	<u>(238)</u>	<u>(380)</u>	<u>(381)</u>
Reinsurance and other recoveries on outstanding claims	<u>5,104</u>	<u>5,551</u>	<u>6,311</u>
Receivable within 12 months.....	1,902	2,153	2,851
Receivable in greater than 12 months	<u>3,202</u>	<u>3,398</u>	<u>3,460</u>
Reinsurance and other recoveries on outstanding claims	<u>5,104</u>	<u>5,551</u>	<u>6,311</u>

Notes:

- (1) See note 2.3.3 to our 2019 Annual Financial Statements for a discussion of the process used to determine risk margins.
- (2) Net discounted central estimate is an estimate of the level of claims provision that is intended to contain no intentional under or over estimation. See notes 2.3.1 and 2.3.2 to our 2019 Annual Financial Statements for a discussion of the process used to determine net discounted central estimate.
- (3) Reinsurance and other recoveries on outstanding claims is shown net of a provision for impairment of US\$23 million (December 31, 2019), US\$25 million (December 31, 2018) and US\$37 million (December 31, 2017).
- (4) 2017 net discount central estimate by division based on the previous division structure, whereby:
 - a. the disclosure for International excludes operations in Asia and any share of the Group's captive reinsurer, Equator Re.
 - b. the disclosure for Australia Pacific excludes operations in the Pacific and any share of Equator Re.
 - c. the disclosure for North America excludes any share of Equator Re.
 - d. Latin America was not yet classified as held for sale.

See note 2.3 to our 2019 Annual Financial Statements and 2018 Annual Financial Statements for a reconciliation of movement in our discounted outstanding claims provision. The discount rates we apply depend upon the currency in which the outstanding claims obligations will be settled. As a result, the range of rates can vary significantly. See note 2.3.4 to our 2019 Annual Financial Statements for the details of our discount rates.

The following table provides the estimated weighted average term to settlement for our outstanding claims as of the dates indicated:

	As of December 31,		
	2019	2018	2017⁽¹⁾
	(Years)		
North America	3.4	3.4	3.3
International	4.4	4.0	3.6
Australia Pacific	2.3	2.2	2.2
Group	3.6	3.3	3.1

Notes:

- (1) 2017 weighted average term to settlement based on the previous divisional structure, whereby:
- a. the disclosure for International excludes operations in Asia and any share of the Group's captive reinsurer, Equator Re.
 - b. the disclosure for Australia Pacific excludes operations in the Pacific and any share of Equator Re.
 - c. the disclosure for North America excludes any share of Equator Re.

The weighted average terms to settlement for operations in Asia Pacific and Equator Re for 2017 were 1.3 years and 3.3 years, respectively.

The following table summarizes net claims incurred, split between direct insurance and inward reinsurance business:

	Year ended December 31,		
	2019	2018	2017⁽¹⁾
	(US\$ in millions)		
Gross claims and related expenses			
Direct and facultative.....	8,881	8,197	9,962
Inward reinsurance.....	795	734	989
Total.....	<u>9,676</u>	<u>8,931</u>	<u>10,951</u>
Reinsurance and other recoveries revenue			
Direct	1,517	1,372	2,552
Inward reinsurance.....	57	154	285
Total.....	<u>1,574</u>	<u>1,526</u>	<u>2,837</u>
Net claims incurred	<u><u>8,102</u></u>	<u><u>7,405</u></u>	<u><u>8,114</u></u>

Notes:

- (1) Includes operations in Latin America, which were classified as discontinued in 2018 and 2019.

The following tables further analyze the current and prior accident year movement in the net discounted central estimate for 2019, 2018 and 2017, separately identifying the gross and reinsurance components:

	Year ended December 31, 2019			Year ended December 31, 2018			Year ended December 31, 2017 ⁽¹⁾		
	Current year	Prior years	Total	Current year	Prior years	Total	Current year	Prior years	Total
	(in US\$ millions)								
Gross central estimate development									
Undiscounted	8,878	377	9,255	9,148	(146)	9,002	10,689	437	11,126
Discount	(180)	624	444	(319)	236	(83)	(373)	123	(250)
	<u>8,698</u>	<u>1,001</u>	<u>9,699</u>	<u>8,829</u>	<u>90</u>	<u>8,919</u>	<u>10,316</u>	<u>560</u>	<u>10,876</u>
Reinsurance and other recoveries									
Undiscounted	1,010	429	1,439	1,439	109	1,548	2,177	680	2,857
Discount	(37)	172	135	(83)	61	(22)	(99)	79	(20)
	<u>973</u>	<u>601</u>	<u>1,574</u>	<u>1,356</u>	<u>170</u>	<u>1,526</u>	<u>2,078</u>	<u>759</u>	<u>2,837</u>
Net discounted central estimate development	<u>7,725</u>	<u>400</u>	<u>8,125</u>	<u>7,473</u>	<u>(80)</u>	<u>7,393</u>	<u>8,238</u>	<u>(199)</u>	<u>8,039</u>

Notes:

(1) Includes operations in Latin America, which were classified as discontinued in 2018 and 2019.

Current year claims relate to risks attaching in the current accident year. 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. Claims incurred for prior years include releases of risk margins consistent with the reduction in claims provisions associated with those years. Conversely, risk margins are taken up for claims incurred in the current year.

See note 2.4.1 of our 2019, 2018 and 2017 Annual Financial Statements for a reconciliation of the net central estimate incurred claims to our claims development table.

The following table summarizes the net undiscounted central estimate claims development, with additional detail for the ten most recent accident years:

	As of December 31, ⁽³⁾											
	2009 & Prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	(in US\$ millions)											
Net ultimate claims payments												
Original estimate of net ultimate claims payments	6,513	8,529	7,532	7,119	6,948	6,225	6,607	7,902	7,090	7,487		
One year later	6,566	8,737	7,587	7,037	6,953	6,243	6,385	7,640	7,255			
Two years later	6,600	8,767	7,483	6,987	6,811	6,022	6,427	7,597				
Three years later	6,599	8,613	7,479	6,967	6,719	5,909	6,438					
Four years later	6,593	8,602	7,472	6,885	6,782	5,821						
Five years later	6,596	8,551	7,426	6,989	6,783							
Six years later	6,514	8,524	7,449	6,952								
Seven years later	6,453	8,558	7,414									
Eight years later	6,484	8,527										
Nine years later	6,456											

	As of December 31, ⁽³⁾											
	2009 & Prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	(in US\$ millions)											
Current estimate of net ultimate claims payments		6,456	8,527	7,414	6,952	6,783	5,821	6,438	7,597	7,255	7,487	70,730
Cumulative net payments to date		(6,057)	(8,350)	(7,347)	(6,451)	(6,666)	(5,075)	(5,326)	(5,789)	(4,493)	(2,442)	(57,996)
Net undiscounted central estimate at fixed rate of exchange.....	755	399	177	67	501	117	746	1,112	1,808	2,762	5,045	13,489
Foreign exchange impact												348
Provision for impairment												23
Net undiscounted central estimate as of December 31, 2019												13,860
Discount to present value												(554)
Claims settlement cost												369
Risk Margin.....												1,136
Net outstanding claims liability at December 31, 2019 ⁽²⁾												14,811

Notes:

- (1) The information in the table above has been adjusted as necessary from that reported in prior years to account for acquisitions and disposals of insurance portfolios to provide our applicable positions as of December 31, 2019.
- (2) For the maturity profile of our net discounted central estimate as of December 31, 2019 (which reflects our expectation of the periods over which our net central estimate will be settled), please see note 2.3.6 to our 2019 Annual Financial Statements.
- (3) 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.

We write business in currencies other than the US dollar. The translation of outstanding claims 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, claims liabilities have been translated to the functional currencies of our controlled entities at constant rates of exchange in order to prepare the claims development table. All estimates of net central estimate claims cost and cumulative claims payments for the 10 most recent accident years reported in functional currencies other than US dollars have been translated to US dollars using the 2019 cumulative average rate of exchange.

The following table shows the reconciliation of the movement in the outstanding claims provision for the years indicated:

(in US\$ millions)	2019			2018			2017		
	Outstanding Claims	Reinsurance	Net	Outstanding Claims	Reinsurance	Net	Outstanding Claims	Reinsurance	Net
As of January 1	19,579	(5,551)	14,028	21,579	(6,311)	15,268	18,321	(4,540)	13,781
Net claims expense in current accident year	8,698	(973)	7,725	8,829	(1,356)	7,473	10,316	(2,078)	8,238
Movement in prior accident year	1,001	(601)	400	90	(170)	(80)	560	(759)	(199)
Movement in risk margins	(23)	-	(23)	12	-	12	75	-	75
Incurred claims recognized in profit or loss from continuing operations	9,676	(1,574)	8,102	8,931	(1,526)	7,405	10,951	(2,837)	8,114
Incurred claims recognized in profit/loss from discontinued operations ⁽¹⁾	-	-	-	64	(5)	59	467	(44)	423
Transfers to liabilities for sale/disposals	-	-	-	(465)	96	(369)	(17)	-	(17)
Claims payments	(9,290)	1,824	(7,466)	(9,397)	2,077	(7,320)	(9,166)	1,260	(7,906)
Foreign exchange	(50)	197	147	(1,133)	118	(1,015)	1,023	(150)	873
As of December 31	19,915	(5,104)	14,811	19,579	(5,551)	14,028	21,579	(6,311)	15,268

Notes:

(1) 2018 reflects the movement from the beginning of the period to the dates that the related balances were transferred to liabilities held for sale. 2017 reflects the movement for the full year.

See note 2.4 to our 2019 Annual Financial Statements for more information regarding our claims development.

Ratings

Ratings organizations assess the credit rating of a company's debt and, if an insurer, its financial strength and ability to pay claims. By influencing a company's ability to raise capital and the cost of that capital, these ratings may impact the financial performance of a company. We believe that our ratings are important factors in marketing our products.

Insurance companies are rated by rating agencies to provide both industry participants and insurance consumers with meaningful information on specific insurance companies. Higher insurer financial strength ratings generally indicate financial stability and a strong ability to pay claims. These ratings are based upon factors relevant to policyholders and are not directed toward the protection of investors. Such ratings are neither a rating of securities nor a recommendation to buy, hold or sell any security and may be revised, suspended or withdrawn at any time. Ratings focus primarily on the following factors: capital resources; financial strength; demonstrated management expertise in the insurance business; credit analysis; systems development; market position and growth opportunities; marketing and sales conduct practices; investment operations; minimum policyholders' surplus requirements; and capital sufficiency to meet projected growth, as well as access to such traditional capital as may be necessary to continue to meet standards for capital adequacy. Our ratings are continually monitored and are subject to change. Any investor for whom these ratings may be important as of any date subsequent to the date of this Report should obtain those ratings from the relevant ratings organizations and not rely on the ratings set out herein. See "Risk Factors—A downgrade in our financial strength ratings may increase policy cancellations and non-renewals, adversely affect relationships with distributors and negatively impact new business. A downgrade in our debt ratings may increase our borrowing costs and impact our ability to access capital markets" for risks in connection with ratings.

Our ratings are customarily reviewed on an annual basis and following significant corporate events (including, but not limited to, material acquisitions and disposals).

Rating Categories

S&P

S&P's rating definitions are as follows:

<u>Secure</u>		<u>Vulnerable</u>	
AAA	Extremely strong	B	Weak
AA	Very strong	CCC	Very weak
A	Strong	CC	Extremely weak
BBB	Good	R	Regulatory supervision
BB	Marginal	NR	Not rated

Note: Plus (+) or minus (-) signs following ratings from "AA" to "CCC" show relative standing within the major rating categories.

A.M. Best

A.M. Best's rating definitions are as follows for Insurer Financial Strength ratings:

<u>Secure</u>		<u>Vulnerable</u>	
A+	Superior	B	Fair
A	Excellent	C+	Marginal
B+	Good	C	Weak
		D	Poor

A.M. Best's rating definitions are as follows for issuer credit ratings:

<u>Secure</u>		<u>Vulnerable</u>	
aaa	Exceptional	bb	Fair
aa	Superior	b	Marginal
a	Excellent	ccc	Weak
bbb	Good	cc	Very Weak
		c	Poor

Fitch

Fitch's rating definitions are as follows:

<u>Secure</u>		<u>Vulnerable</u>	
AAA	Exceptionally strong	BB	Moderately weak
AA	Very strong	B	Weak
A	Strong	CCC	Very weak
BBB	Good	CC	Ceased or interrupted payments probable
		C	Ceased or interrupted payments imminent

Note: Plus (+) or minus (-) signs following ratings from "AA" to "CCC" show relative standing within the major rating categories.

Moody's

Moody's rating definitions are as follows:

<u>Secure</u>		<u>Vulnerable</u>	
Aaa	Exceptional	Ba	Questionable
Aa	Excellent	B	Poor
A	Good	Caa	Very Poor
Baa	Adequate	Ca	Extremely Poor
		C	Lowest

Note: Numeric modifiers are used to refer to the ranking within the Group Supervision one being the highest and three being the lowest. However, the financial strength of companies within a generic rating symbol (Aa, for example) is broadly the same.

QBE Ratings

Our ratings as of December 31, 2019 are as follows:

	<u>S&P</u>	<u>A.M. Best</u>	<u>Fitch</u>	<u>Moody's</u>
Insurer Financial Strength/Claims-paying Ability Ratings⁽¹⁾				
QBE General Insurance (Hong Kong) Limited	A			
QBE Hongkong & Shanghai Insurance Limited.....	A		A+	
QBE Insurance (Australia) Limited	A+			A1
QBE Insurance (Australia) Limited (NZ branch)	A+			A1
QBE Europe NV/SA	A+	A	A+	
QBE Insurance (International) Pty Limited	A+			
QBE Insurance (Singapore) Pte. Limited	A			
QBE Lenders' Mortgage Insurance Limited.....	A		A+	
QBE Mortgage Insurance (Asia) Limited	A			
QBE UK Limited	A+	A	A+	A1
QBE Specialty Insurance Company.....	A+	A		
General Casualty Company of Wisconsin	A+	A		
General Casualty Insurance Company	A+	A		
Hoosier Insurance Company	A+	A		
NAU Country Insurance Company	A+	A		
National Farmers Union Property and Casualty Company	A+	A		
North Pointe Insurance Company	A+	A		
Praetorian Insurance Company	A+	A		
QBE Insurance Corporation.....	A+	A	A+	
QBE Reinsurance Corporation.....	A+	A	A+	
Regent Insurance Company	A+	A		
Southern Fire & Casualty Company	A+	A		
Southern Pilot Insurance Company.....	A+	A		
Stonington Insurance Company	A+	A		
Unigard Insurance Company	A+	A		
Equator Reinsurance Limited.....	A+		A+	A1
QBE Blue Ocean Re Limited	A+		A+	

Notes:

(1) These ratings reflect an insurer's financial strength and ability to meet its insurance obligations.

Issuer Credit Rating⁽¹⁾	S&P	A.M. Best	Fitch	Moody's
QBE Insurance Group Limited	A-	bbb+	A-	A3
QBE European Operations plc.....	A-			
QBE General Insurance (Hong Kong) Limited	A			
QBE Hongkong & Shanghai Insurance Limited.....	A			
QBE Insurance (Australia) Limited.....	A+			A1
QBE Insurance (Australia) Limited (NZ branch)	A+			A1
QBE Europe NV/SA	A+	a+	A+	
QBE Insurance (International) Pty Limited	A+			
QBE Insurance (Singapore) Pte. Limited	A			
QBE Insurance Corporation.....	A+	a+	A+	
QBE Lenders' Mortgage Insurance Limited.....	A		A+	
QBE Mortgage Insurance (Asia) Limited.....	A			
QBE Reinsurance Corporation.....	A+	a+	A+	
QBE Specialty Insurance Company.....	A+	a+		
QBE UK Ltd	A+	a+	A+	A1
General Casualty Company of Wisconsin		a+		
General Casualty Insurance Company		a+		
Hoosier Insurance Company		a+		
NAU Country Insurance	A+	a+		
National Farmers Union Property and Casualty Company	A+	a+		
North Pointe Insurance Company	A+	a+		
Praetorian Insurance Company	A+	a+		
Regent Insurance Company		a+		
Southern Fire & Casualty Company		a+		
Southern Pilot Insurance Company.....		a+		
Stonington Insurance Company	A+	a+		
Unigard Insurance Company		a+		
Equator Reinsurance Limited.....	A+		A+	A1
QBE Blue Ocean Re Limited	A+		A+	

Notes:

(1) These ratings reflect an issuer/entity's ability to meet its ongoing senior financial obligations.

Employees

As of March 31, 2020, we had 11,435 full-time equivalent employees (excluding contractors), broken down as follows:

	Number
North America	2,198
International	2,631
Australia Pacific.....	2,884
Head office.....	1,176
Global Shared Service Center.....	2,546
Total	11,435

Legal Proceedings

In the ordinary course of business, we are involved in lawsuits and arbitration proceedings as a liability insurer defending third-party claims brought against insureds or an insurer defending

coverage claims brought against it. From time to time we are also joined as one of the numerous defendants in actions brought against the insurance industry or sections of the insurance industry.

See “Risk Factors—Significant legal proceedings, litigation and regulatory actions may adversely affect our business, financial condition and results of operations.”

REGULATION

Australian Insurance Regulation

The Insurance Act and Prudential Standards

The Insurance Act 1973 (Cth) (“**Australian Insurance Act**”) provides a regime for the prudential supervision of private sector general insurance companies carrying on business in Australia. The Australian Insurance Act seeks to ensure the financial soundness of companies carrying on general insurance business in Australia.

The Australian Insurance Act provides that a company must not carry on general insurance business in Australia unless it is authorized to do so. Our wholly owned subsidiaries, QBE Insurance (Australia) Limited, QBE Insurance (International) Pty Limited and QBE Lenders’ Mortgage Insurance Limited, are authorized insurers under section 12 of the Australian Insurance Act and are all ‘Level 1’ general insurers for the purposes of the prudential standards described below. QBE Insurance Group Limited is an authorized non-operating holding company (“**NOHC**”) under section 18 of the Australian Insurance Act and heads up QBE’s ‘Level 2’ general insurance group. A Level 2 general insurance group is a consolidated group of general insurance subsidiaries and other controlled entities which are related to the group’s general insurance business (such as insurance intermediaries and service companies).

APRA is responsible, among other matters, for the prudential supervision of general insurance companies and NOHCs. ASIC is responsible for the regulation of market integrity, disclosure and other consumer protection issues in relation to general insurance products and insurance agents and brokers.

Prudential Standards

Pursuant to section 32 of the Australian Insurance Act, APRA may determine prudential standards that must be complied with by general insurers, NOHCs and their subsidiaries. The prudential standards may be expressed to apply to all such entities, a class of such entities or a particular entity, and APRA may also vary standards in particular cases. APRA has determined Prudential Standards and Guidance Notes applicable to general insurers and NOHCs authorized under the Australian Insurance Act (and their subsidiaries). Applicable Prudential Standards are those that apply to general insurers and general insurance groups (GPS) and those that apply to prudentially regulated entities more generally (CPS). Prudential Standards for Australian general insurers regulated by APRA require a comprehensive, risk-based approach to the calculation of the capital requirements for licensed insurers. Where any requirement in any Prudential Standard applies to a Level 2 insurance group, the requirements are imposed on the parent entity of the group.

APRA has issued Prudential Standards and some related prudential practice guides for general insurers and Level 2 insurance groups, including in relation to:

- capital adequacy, including the measurement of capital, asset risk charge, insurance risk charge, insurance concentration risk charge, asset concentration risk charge and operational risk charge;
- assets in Australia;
- liability valuation;
- financial statements;

- risk management, including credit risk, aggregate risk exposures, intra-group transactions and exposures, non-centrally cleared derivatives, custody arrangements, pandemic planning, information security, data risk, insurance risk and balance sheet and market risk;
- business continuity management;
- reinsurance management;
- outsourcing;
- audit, actuarial and related matters;
- governance;
- remuneration; and
- fitness and propriety of personnel.

The prudential requirements for each of these areas are explained below.

We report on a group consolidated basis semi-annually and annually in accordance with the Level 2 Insurance Group Reporting Standards issued under the Financial Sector (Collection of Data) Act 2001 (Cth). We have made a number of assumptions in applying the risk-based capital prudential standards for Australian licensed insurers to the Group. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Adequacy” for details on the calculation of our Group capital adequacy multiple.

Some of the most important requirements of the prudential regime for general insurers and Level 2 insurance groups are described below.

Under Prudential Standard GPS 110 Capital Adequacy the following requirements for general insurers and Level 2 insurance groups are specified:

- insurers/Level 2 insurance groups must have in place an Internal Capital Adequacy Assessment Process (“ICAAP”) which must be approved by the board. The ICAAP must meet the requirements of GPS 110 and must include a summary statement. Each year the insurer/group must provide a report on the implementation of its ICAAP to APRA;
- the required level of capital to be held for regulatory purposes is referred to as the Prudential Capital Requirement (“PCR”). The PCR is intended to take account of the full range of risks to which the insurer or group is exposed and is equal to the prescribed capital amount plus any supervisory adjustment determined by APRA under GPS 110;
- in determining its prescribed capital amount the insurer/group may choose to apply the “Standard Method” set out in GPS 110, or, conditional on APRA’s approval, it may use an internal capital adequacy model developed by the insurer/group to reflect the circumstances of its business (the “**Internal Model Based Method**”). Currently, neither QBE nor any of its authorized insurers adopts the Internal Model Based Method;
- regardless of the method used to calculate the prescribed capital amount, this amount is determined having regard to a range of risk factors that may threaten the ability of the insurer/group to meet policyholder obligations;

- under the Standard Method, these risks include asset risk, insurance risk, insurance concentration risk, asset concentration risk and operational risk. Insurers/groups using the Standard Method must determine their asset risk charge having regard to Prudential Standard GPS 114 Capital Adequacy: Asset Risk Charge, their insurance risk charge having regard to Prudential Standard GPS 115 Capital Adequacy: Insurance Risk Charge, their insurance concentration risk charge having regard to Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge, their asset concentration risk charge having regard to Prudential Standard GPS 117 Capital Adequacy: Asset Concentration Risk Charge and their operational risk charge having regard to Prudential Standard GPS 118 Capital Adequacy: Operational Risk Charge;
- APRA has the power to determine a supervisory adjustment to be included in an insurer/group's PCR where it is of the view that there are prudential reasons for doing so (the amount of any such adjustment may not be disclosed by the insurer/group);
- where a general insurer/group uses the Internal Model Based Method, they will be expected to include at least the risks described above but also other relevant risk factors within its method of calculation, along with model governance requirements, as set out in Prudential Standard GPS 113 Capital Adequacy: Internal Model-Based Method. The general insurer/group will also be expected to prove to APRA that its economic capital model plays an integral role in its management and decision making processes and the use of its economic capital model is embedded in its operations;
- the criteria for Tier 1 and Tier 2 capital are set out in Prudential Standard GPS 112 Capital Adequacy: Measurement of Capital. Insurers/groups must ensure that at all times they have a capital base that exceeds their PCR, with Tier 1 Capital representing at least 80% of the prescribed capital amount (including Common Equity Tier 1 Capital which must represent at least 60% of the prescribed capital amount). In addition, they may include an amount of Tier 2 capital as part of their required capital holdings. Tier 1 capital comprises the highest-quality components of capital that fully satisfy the essential characteristics of providing a permanent and unrestricted commitment of funds; are freely available to absorb losses; and do not impose any unavoidable servicing charge against earnings, and ranks behind the claims of policyholders and creditors in the event of winding up. Tier 2 capital includes other components of capital which, to varying degrees, fall short of the quality of Tier 1 capital but, nevertheless, contribute to the overall strength of an insurer as a going concern;
- insurers/groups must disclose, at least annually, details of their eligible Tier 1 capital and Tier 2 capital (including any regulatory adjustments applied in the calculation of those amounts) the total capital base, the prescribed capital amount and the capital adequacy multiple of the insurer/group; and
- APRA's prior written approval must be obtained for any reduction in the capital base of the insurer/ group.

Attachment A to Prudential Standard GPS 116 Capital Adequacy Insurance Concentration Risk Charge sets out specific rules for lenders' mortgage insurers (such as QBE Lenders' Mortgage Insurance Limited) in relation to the calculation of their mortgage insurance concentration risk charge to reflect their specialist nature. The rules reflect that, while these insurers may not be exposed to the possibility of large losses due to natural perils such as those faced by other general insurers, they may be exposed to large losses resulting from severe economic or property downturns. APRA has determined that a three-year economic or property downturn model is appropriate for determining the 'Probable Maximum Loss' ("PML") of a lenders' mortgage insurer. The calculation of the PML is affected by factors such as whether or not the lenders' mortgage insurance policies cover standard or

non-standard loans. Broadly speaking this relates to whether the insurer or lender has formally verified the borrower's income and employment and the borrower has passed applicable credit checks and income requirements.

Section 28 of the Australian Insurance Act requires Australian general insurers and authorized foreign insurers to maintain assets in Australia (excluding goodwill and assets excluded by the Prudential Standards) of a value that equals or exceeds their total amount of liabilities in Australia (other than pre-authorization liabilities). Prudential Standard GPS 120 Assets in Australia provides guidance on what are not considered to be "assets in Australia" for the purposes of section 28 of the Australian Insurance Act.

Prudential Standards GPS 310 Audit and Related Matters and CPS 320 Actuarial and Related Matters sets out the roles and responsibilities of auditors and actuaries and the obligations of general insurers and Level 2 insurance groups to make arrangements to enable their auditor and actuary to fulfil their responsibilities.

The key requirements of GPS 310 are as follows:

- an insurer/group must make arrangements to enable its appointed auditor and group auditor to undertake their roles and responsibilities such as ensuring they have access to all relevant data, information, reports and staff (including access to the insurer's board and board committees). The insurer/group must also make arrangements to ensure that its appointed auditor is fully informed of material prudential requirements applicable to the insurer/group;
- the appointed auditor's primary roles are to provide an independent and objective view on the truth and fairness of the insurer's financial statements and an assessment of the insurer's systems, procedures and controls used to address compliance with prudential requirements and for the purposes of producing reliable financial information;
- the appointed auditor must audit the yearly statutory accounts and review other aspects of an insurer's operations (such as systems to address compliance with prudential requirements) on an annual basis. The appointed auditor is also required to prepare a certificate and report on these matters for the board of the insurer;
- the parent entity of a Level 2 insurance group must appoint a group auditor to conduct a limited assurance review (addressing the matters set out in Attachment C to GPS 310) and undertake other reviews and provide other reports to APRA on request;
- an insurer/group is required to submit to APRA all certificates and reports required to be prepared by its appointed and group auditor; and
- the insurer/group must submit a financial information declaration to APRA annually in the prescribed form.

From July 1, 2019, Prudential Standard GPS 320 (which applied to all general insurers and Level 2 insurance groups) was replaced by Prudential Standard CPS 320 Actuarial and Related Matters. CPS 320 is a cross-industry standard that aims to harmonize previous prudential standards relating to the role of the appointed actuary across the general, life and private health insurer sectors. The key requirements of CPS 320 include the following:

- an insurer/group must appoint an actuary and group actuary and ensure that they are fully informed of material prudential requirements applicable to the insurer/group, provide them with information that they reasonably believe to be necessary to fulfil their role and functions, and provide them with any information that APRA has given to the insurer that may assist the actuary to fulfil its role and functions;

- an insurer must have a board-approved framework for the provision of actuarial advice that enables the appointed actuary to perform the functions of the role (which includes, broadly, a materiality policy, an identification of the areas where advice of the appointed actuary is needed, a specification as to by whom actuarial advice must be considered and the circumstances in which it must be considered by the board, the insurer's approach to managing potential conflicts of interest or duty in the role of the appointed actuary);
- the appointed actuary must provide advice to the insurer on the valuation of the insurance liabilities, the insurer's financial condition and matters specified under the insurer's actuarial advice framework, consistent with the insurer's materiality policy. The reports prepared by the appointed actuary are the financial condition report and actuarial valuation report; and
- an insurer/group is required to submit to APRA a copy of the actuarial valuation report.

Prudential Standard CPS 220 Risk Management aims to ensure that an insurer and Level 2 insurance group has systems for identifying, measuring, assessing, evaluation, monitoring, reporting and controlling or mitigating risks that may affect its ability, or the ability of the group it heads, to meet its obligations to policyholders. Under Prudential Standard CPS 220, a general insurer and Level 2 insurance group must:

- have systems for identifying, measuring, evaluating, monitoring, reporting and controlling or mitigating risks that affect its ability to meet its obligations to policyholders. These systems for managing risk together with structures, processes, policies and roles supporting these systems comprise a general insurer/group's risk management framework. A general insurer/group must, as part of its risk management framework, have a risk appetite statement that addresses its material risks, a documented risk management strategy and a three-year business plan all approved by the Board as well as risk management policies and procedures supporting clearly defined roles and responsibilities for risk management;
- ensure compliance with, and effectiveness of, the risk management framework is subject to annual review by internal and/or external audit and ensure the appropriateness, effectiveness and adequacy of its risk management framework are subject to a comprehensive review by operationally independent, appropriately trained and competent persons every three years;
- submit its risk appetite statement, risk management strategy and business plan to APRA on adoption and when any material changes are made;
- have a designated risk management function and chief risk officer ("CRO"). The CRO must be involved in, and have the authority to provide effective challenge to, activities and decisions that may materially affect the insurer/group's risk profile;
- submit a risk management declaration to APRA on an annual basis in the prescribed form; and
- report to APRA any significant breach of, or material deviation from the risk management framework or that the risk management framework did not adequately address a material risk.

Prudential Standard CPS 510 Governance sets out minimum foundations for good governance of general insurers, NOHCs and groups by imposing certain governance requirements to ensure that general insurers and NOHCs are managed in a sound and prudent manner by a competent board of directors capable of making reasonable and impartial business judgments in the best interests of the general insurer and the group and with due consideration of the impact of those decisions on policyholders. The key requirements of the Prudential Standard include:

- specific requirements with respect to board size and composition;
- the chairperson of the board must be an independent director;
- a board must have a policy on board renewal and procedures for assessing board performance;
- a board remuneration committee must be established and the insurer/group must have a remuneration policy that aligns remuneration and risk management;
- a board audit committee and a board risk committee must be established; and
- certain requirements dealing with independence requirements for auditors which are substantially consistent with the present regime under the Corporations Act.

The requirement to maintain a documented remuneration policy includes that the policy must outline the remuneration objectives and the structure of such arrangements, including, but not limited to, the performance-based components of remuneration. The performance-based components of remuneration must be designed to align remuneration with prudent risk-taking, and to encourage behavior that supports the long-term financial soundness and risk management framework of the general insurer/group. The remuneration policy must also meet the other requirements of Prudential Standard CPS 510, including setting out who is covered by the policy and ensuring that the Remuneration Policy does not compromise the independence of the applicable individuals in performing their roles. In addition, the remuneration policy must prohibit such individuals from hedging their economic exposures of any applicable equity or equity-linked deferred remuneration before the equity-linked remuneration is vested and able to be sold for cash.

The board remuneration committee must be comprised of a majority of independent directors and all members of the board remuneration committee must be non-executive directors of the general insurer/NOHC. The board remuneration committee is required to conduct regular reviews of the remuneration policy and make recommendations to the board of the general insurer/NOHC on the remuneration policy's effectiveness and compliance with the requirements of Prudential Standard CPS 510, and recommendations on the remuneration of applicable individuals and categories of persons.

On January 22, 2020, the Australian government released a Proposals Paper on extending the Banking Executive Accountability Regime (“**BEAR**”) to all APRA-regulated entities and to make ASIC a joint administrator of the regime.

Like the BEAR, the proposed Financial Accountability Regime (“**FAR**”) aims to establish clear standards of conduct by imposing a strengthened accountability framework for directors and the most senior executives of APRA-regulated financial institutions. Entities subject to FAR would be subject to standards imposing obligations including, broadly, in relation to accountability, key personnel, accountability mapping statement, notifications/reporting and deferred remuneration. The FAR would also require such entities to clarify responsibilities attaching to particular officers and positions. As a result, individuals will be held to account for failure to perform their obligations under the FAR. The FAR is currently the subject of a consultation process, but the Australian government has not yet determined a final implementation timeframe for the FAR.

Prudential Standard CPS 520 Fit and Proper sets out minimum requirements for general insurers and NOHCs in determining the fitness and propriety of individuals to hold positions of responsibility in the general insurer/ NOHC. Those individuals will generally include directors, senior managers (being persons in positions of influence and responsibility), the appointed auditor and appointed actuary of the general insurer, other auditors who prepare certain prescribed reports in respect of a

NOHC and any other person who performs activities for a subsidiary of the insurer or NOHC where those activities may materially affect the whole, or a substantial part of, the business of the insurer or the NOHC or their financial standing. The key requirements of this Prudential Standard are that:

- a general insurer/NOHC must have and implement a documented fit and proper policy that meets the requirements of Prudential Standard CPS 520;
- a general insurer/NOHC must ensure that the fitness and propriety of a responsible person must generally be assessed prior to initial appointment and then reassessed annually;
- a general insurer/NOHC is required to take all prudent steps to ensure that a person is not appointed to, or does not continue to hold, a responsible person position for which they are not fit and proper;
- a general insurer/NOHC must ensure that additional requirements must be met for certain auditors and actuaries; and
- a general insurer/NOHC must ensure that information is provided to APRA regarding responsible persons and the general insurer/NOHC's assessment of their fitness and propriety if requested in relation to the assessment and propriety of responsible persons.

Since July 1, 2017, CPS 520 has applied to Level 2 groups on the basis that the requirements must be applied appropriately throughout the group.

Prudential Standard GPS 230 Reinsurance Management aims to ensure that a general insurer/Level 2 insurance group has in place as part of its overall risk management framework, a specific reinsurance management framework to manage the risks arising from its reinsurance arrangements. The key requirements of this Prudential Standard are as follows:

- the insurer/group must develop, implement and maintain a reinsurance management framework to manage the selection, implementation, monitoring, review, control and documentation of reinsurance arrangements, including a documented reinsurance management strategy and sound reinsurance management policies and procedures and clearly defined managerial responsibilities and controls. The reinsurance management strategy must be approved by the board and submitted to APRA on adoption and when any material changes are made;
- in the case of a Level 2 insurance group, the reinsurance management strategy must cover the group's international business;
- there must be a clear link between an insurer/group's risk management strategy and reinsurance management strategy and the reinsurance management strategy must be subject to an annual review;
- an insurer/group must not intentionally deviate in a material way from its reinsurance management strategy except where approved by the board and notified to APRA;
- an insurer/group must inform APRA immediately if there is a likelihood of a problem arising with its reinsurance arrangements that is likely to materially detract from its current or future capacity to meet its obligations and discuss with APRA its plans to redress this situation;

- an insurer/group must submit a reinsurance arrangements statement to APRA at least annually which details its reinsurance arrangements and provides substantiation of the implementation of the reinsurance management strategy;
- an insurer must also make an annual reinsurance declaration to APRA. The reinsurance declaration is a declaration that the insurer has placed its reinsurance arrangements and that those arrangements are legally binding. APRA has set a six-month and two-month rule which requires that, within a two-month period, the insurer's reinsurance arrangements have reached a particular stage of implementation and, after six months, the insurer has in place slips pertaining to the reinsurance arrangements that have been signed and stamped by all participating reinsurers and contains slip wording with no outstanding terms or conditions to be agreed, or the insurer has in its possession a full treaty contract wording that has been signed and stamped by all contracting parties. These requirements do not apply to the international business of the Level 2 insurance group and the requirement to make a reinsurance declaration does not apply to Level 2 insurance groups; and
- an insurer must also submit to APRA details of all proposed limited risk transfer arrangements for approval prior to entering into such arrangements. While a Level 2 insurance group does not need APRA's approval in respect of any limited risk transfer arrangement entered into by a non-insurance entity in the group, it must provide APRA with details of the effect of any such arrangements.

Prudential Standard CPS 231 Outsourcing is designed to ensure that all outsourcing arrangements by a general insurer or Level 2 insurance group involving material business activities are subject to appropriate due diligence, approval and ongoing monitoring. The key requirements of this Prudential Standard include that a general insurer/group must:

- maintain a policy relating to outsourcing of material business activities which is approved by the board;
- have sufficient monitoring processes in place to manage the outsourcing of material business activities;
- for all outsourcing of material business activities with third parties, have a legally binding agreement in place unless otherwise agreed by APRA;
- consult with APRA prior to entering into agreements to outsource material business activities to service providers who conduct their activities outside Australia; and
- notify APRA after entering into agreements to outsource material business activities.

Prudential Standard CPS 232 Business Continuity Management aims to ensure that a general insurer and Level 2 insurance group implement a whole-of-business approach to business continuity management appropriate to the nature and scale of its operations. The key requirements of this Prudential Standard are:

- the board of the insurer/group must consider business continuity risks and controls as part of its risk management strategy and when completing the board declaration provided to APRA on an annual basis;
- an insurer/group must, as part of the business continuity management have a Business Continuity Management Policy approved by the Board;

- an insurer/group must undertake a business impact analysis to identify all critical business functions, resources and infrastructure which, if disrupted, would have a material impact (this includes consideration of plausible disruption scenarios, impact on policyholders and other financial, legal, regulatory or reputational impacts of a disruption to critical business operations);
- an insurer/group must have in place appropriate recovery objectives and strategies to ensure that all necessary resources are readily available to withstand the impact of disruption;
- an insurer/group must develop, implement and maintain a business continuity plan that documents procedures and information which enable the insurer/group to respond to disruptions and recover critical business functions. The business continuity plan is to be reviewed and tested at least annually by responsible senior management and reviewed periodically by an insurer/group's internal audit function or an external expert; and
- an insurer/group is required to notify APRA as soon as possible and not later than 24 hours after experiencing a major disruption that has the potential to have a material impact on its risk profile, or affect its financial soundness.

APRA has also issued Prudential Practice Guides for some of the Prudential Standards to assist insurers in complying with the requirements outlined in the Prudential Standards and more generally to outline prudent practices in relation to the elements of an insurer's business. In particular, APRA has issued a Prudential Practice Guide in relation to risk management and a guide to pandemic planning which aims to assist general insurers in considering and prudentially managing the risk posed by a potential influenza pandemic and to assist a general insurer in complying with the Prudential Standard CPS 232 Business Continuity Management. APRA has also issued an information paper (September 2018) on outsourcing involving shared computing services (including cloud) in response to growing usage of cloud computing services by APRA-regulated entities, an increasing appetite for higher inherent risk activities, as well as areas of weakness identified as part of supervisory activities. The information paper outlines areas for consideration by insurers/groups when utilizing shared computing services and encourages notification and consultation with APRA when the use of these services involves heightened inherent risks.

Similarly, APRA has issued a Prudential Practice Guide for custody arrangements which is designed to provide general insurers with prudential guidance on how to manage external custody arrangements and the risks associated with those arrangements.

The Australian Insurance Act also provides that no part of the insurance business of a general insurer may be transferred to another general insurer or amalgamated with the business of another general insurer except under a scheme approved by the federal court of Australia (the "**Federal Court**"). Prudential Standard GPS 410 Transfer and Amalgamation of Insurance Business for General Insurers sets out specific requirements in relation to documentation, notification, APRA approval, public inspection and an application to the Court.

Changes to Prudential Standards

Following a consultation period that commenced in 2010, APRA released in August 2014 its planned framework for the prudential supervision of conglomerate ('to Level 3') groups to protect individual entities from contagion risks associated with conglomerate group membership. APRA released a planned framework for supervising conglomerates on November 29, 2017. As discussed above, requirements for the non-capital components came into effect on July 1, 2017. The capital components of the Level 3 framework are yet to be implemented, and APRA has deferred their implementation until certain domestic and international policy initiatives are further progressed.

QBE is not considered a Level 3 conglomerate group, and continues to be a Level 2 group.

Of the non-capital components of the framework, the application of Prudential Standard CPS 220 Risk Management, Prudential Standard CPS 231 Outsourcing, Prudential Standard CPS 232 Business Continuity Management, Prudential Standard CPS 510 Governance, and Prudential Standard CPS 520 Fit and Proper to Level 2 and Level 3 groups applies to QBE as explained above.

Monitoring and investigations

General insurers, NOHCs and their subsidiaries are subject to continuous monitoring by APRA in relation to prudential matters. APRA may conduct an investigation of a general insurer or NOHC under Part V of the Australian Insurance Act where:

- it appears to APRA that the insurer or NOHC is, or is likely to become, unable to meet its liabilities, or has contravened or failed to comply with a provision of the Australian Insurance Act or the Financial Sector (Collection of Data) Act 2001 (Cth) or a condition or direction applicable to it under those acts;
- it appears to APRA that there is, or may be, a risk to the security of an insurer's or NOHC's assets;
- it appears to APRA that there is, or may be, a sudden deterioration in the insurer's or NOHC's financial condition; or
- it appears to APRA that information in its possession calls for the investigation of the whole or any part of the business of a general insurer or NOHC,

and the general insurer/NOHC fails, within the period stated in a notice served by APRA, to show cause to APRA's satisfaction why an investigation should not be made; and APRA is satisfied that it is in the public interest that an investigation should be made.

APRA also has powers to conduct investigations into the affairs of a subsidiary of a general insurer or NOHC where it appears to APRA that the subsidiary has contravened or failed to comply with a provision of the Australian Insurance Act or the Financial Sector (Collection of Data) Act 2001 (Cth) or a condition or direction applicable to it under those acts.

Neither QBE nor any of its authorized insurers or subsidiaries is currently subject to an investigation by APRA.

Statutory management, judicial management and other crisis management powers

APRA may take control of the general insurer's business (including certain subsidiaries) in certain circumstances as an Insurance Act statutory manager, or by appointing an administrator to act as Insurance Act statutory manager. These circumstances include, but are not limited to, circumstances where, broadly:

- a statutory manager has been appointed to a related body corporate of the general insurer;
- there is or is likely to be a rapid deterioration of the general insurer's financial position and failure to respond quickly to the deterioration would be likely to prejudice the interests of policyholders of the insurer;
- it is likely that the general insurer will be unable to carry on insurance business in Australia consistently with the stability of the financial system in Australia; and

- an external administrator has been appointed to a holding company of the general insurer and the appointment poses a significant threat to the operation or soundness of the general insurer, the interests of policyholders of the general insurer or the stability of the financial system in Australia.

Following the amendments to the Australian Insurance Act made in March 2018 by the Financial Sector Legislation Amendment (Crisis Resolution Powers and Other Measures) Act 2018 (Cth) (“**Crisis Management Act**”), APRA may also take control of the business of an authorized NOHC of a general insurer (such as QBE) or a subsidiary of a general insurer or authorized NOHC of a general insurer in certain circumstances where APRA has taken (or intends to take) control of the business of the general insurer. These circumstances include, but are not limited to, where, broadly:

- APRA considers that the authorized NOHC (or subsidiary) provides services that are, or conducts business that is, essential to the capacity of the relevant general insurer to maintain its operations;
- APRA considers that it is necessary to take control of the authorized NOHC (or subsidiary) in order to facilitate the resolution of any of the general insurer, an authorized NOHC of the general insurer, a relevant group of bodies corporate to which the general insurer is a member (or a particular member or particular members of such a group); and
- there is an external administrator of the authorized NOHC (or subsidiary) or APRA considers that in the absence of external support the authorized NOHC (or subsidiary) may become unable to meet its obligations or suspend payment.

The Crisis Management Act enhanced APRA’s powers to facilitate the orderly resolution of the entities it regulates (and their subsidiaries) in times of distress. In addition to the Insurance Act statutory management powers, additional powers given to APRA under the Crisis Management Act, include greater oversight, management and directions powers in relation to the Group entities which are not currently regulated by APRA, and changes which are designed to give statutory recognition to the conversion or write-off of regulatory capital instruments. The Crisis Management Act further provides APRA with powers to set requirements on resolution planning and ensure banks and insurers are better prepared for a crisis and an expanded set of crisis resolution powers, which allow it to act decisively to facilitate the orderly resolution of a distressed bank or insurer.

The Australian Insurance Act also provides the ability for APRA to apply to the Federal Court in certain circumstances to have a judicial manager appointed to a general insurer where it is considered to be in the best interests of its policyholders. A judicial manager has the power to recapitalize the general insurer and in certain circumstances APRA can require a compulsory transfer of aspects of a general insurer’s business to another entity that is not a general insurer. APRA also has powers to require the assistance of, or provision of information by, general insurers where such assistance or information can assist APRA in the administration of a Financial Claims Scheme (referred to below).

See “—The Transfer and Restructure Act” below for a description of other powers of APRA to order the compulsory transfer of the business of, and shares in, a general insurer and certain related bodies corporate.

In addition, the fact that an Insurance Act statutory manager has been appointed to a general insurer, an authorized NOHC or a subsidiary of a general insurer or an authorized NOHC or that judicial management has commenced in respect of a general insurer does not allow a contract, or a party to the contract (other than the relevant general insurer, authorized NOHC or subsidiary (as applicable)) to deny any obligations under the contract, accelerate any debt under the contract, close out any transaction relating to the contract or enforce any security under the contract.

The Australian Insurance Act also contains various provisions placing certain moratoria on parties seeking to take action (including an enforcement process regarding property) against the relevant general insurer, authorized NOHC or subsidiary (as applicable) if an Insurance Act statutory manager has been appointed or judicial management has commenced, as well as other moratoria relating to the conduct of suppliers of essential services to, or disposals of property owned by, such a general insurer, authorized NOHC or subsidiary.

Secrecy obligations

Under the Australian Insurance Act and the Australian Prudential Regulation Authority Act 1998 (Cth), QBE, entities in its Group, their respective officers, employees, contractors, other persons who through their employment have acquired relevant information and APRA may be subject to secrecy obligations regarding information about action taken by APRA (including an exercise of powers under the Australian Insurance Act) which may prevent them from disclosing that information.

Directions powers of APRA

Under the Australian Insurance Act, APRA has the power, in certain circumstances, to give a direction to a general insurer, an authorized NOHC or a subsidiary of a general insurer or an authorized NOHC. The kinds of directions that a general insurer, authorized NOHC or one of their subsidiaries may be given include, broadly, among others, a direction:

- to increase capital;
- to comply with relevant laws and prudential standards, conditions or directions;
- to order an audit of the affairs of such general insurer, authorized NOHC or subsidiary;
- to remove a director or senior manager from office or from the management or conduct of business of such general insurer, authorized NOHC or subsidiary;
- to appoint a person or persons as a director or senior manager;
- to remove any auditor of such general insurer, authorized NOHC or subsidiary and appoint another auditor;
- not to give financial accommodation to any person;
- not to renew any policy;
- not to borrow any amount;
- not to accept any payment on account of share capital, except in certain circumstances;
- not to repay any amount paid on shares;
- not to pay a dividend on any shares;
- not to pay or transfer any amount to any person, or create an obligation to do so;
- not to undertake any financial obligation on behalf of any other person;

- to provide, or further provide in its accounts, a specified amount or an amount determined in a specified way in respect of its liabilities or the value of a specified asset of such general insurer, authorized NOHC or subsidiary;
- to order an actuarial investigation of the affairs of such general insurer, authorized NOHC or subsidiary;
- to terminate the appointment of the actuary appointed by such general insurer, authorized NOHC or subsidiary and to appoint another actuary;
- not to issue any policy, undertake any liability under any contract of insurance or collect any premium;
- not to discharge any policy or other liability;
- to make changes to such general insurer's, authorized NOHC's or subsidiary's systems, business practices or operations;
- to reconstruct, amalgamate or otherwise alter all or part of the business, structure or organization of such general insurer, authorized NOHC or subsidiary or the group constituted by such general insurer, authorized NOHC or subsidiary;
- to do, or to refrain from doing, anything else in relation to the affairs of such general insurer, authorized NOHC or subsidiary.

Such a general insurer, authorized NOHC or subsidiary has the power under the Australian Insurance Act to comply with such a direction despite anything in its constitution or any contract or arrange to which it is a party. In addition, the giving of a direction by APRA does not allow a contract or a party to a contract (other than such general insurer, authorized NOHC or subsidiary) to deny obligations under the contract, accelerate any debt under the contract, close out any transaction relating to the contract or enforce any security under the contract.

Winding-up or failure of general insurer

Section 116 of the Australian Insurance Act provides, among other things, that, in the winding up of the general insurer, the general insurer's assets inside Australia must not be applied in the discharge of its liabilities other than its liabilities in Australia, until all Australian liabilities have been discharged.

The Australian Insurance Act includes a Financial Claims Scheme, which provides certain eligible retail policyholders of certain protected general insurance contracts with access to compensation for claims in the event of the failure of a general insurer. The intention of such a facility is to protect retail policyholders from the adverse consequences of a general insurer failing and to ensure that claims are paid in a timely manner. The Financial Claims Scheme can only come into effect if it is activated by the Australian government when an insurer fails and once activated is administered by APRA. The Scheme will initially be funded by appropriations from the Australian government; however, APRA will seek to recover the cost of the Scheme by proving as a creditor in the liquidation of the failed insurer. If APRA is unable to recover all of those costs from the failed insurer, the Financial Claims Schemes (General Insurers) Levy Act 2008 enables the Australian government to impose a levy on general insurers up to a maximum of 5% of gross premium received.

State and Territory Legislation

Both CTP and workers' compensation insurance are subject to State or Territory legislation, with local regulators different to APRA.

The Transfer and Restructure Act

Part 4 of the Financial Sector (Transfer and Restructure) Act 1999 (Cth) (the “**Transfer and Restructure Act**”) authorizes APRA to order the compulsory transfer of business of a general insurer or a body corporate related to a general insurer (which could include a NOHC of a general insurer) to another entity, including to an entity not controlled by the insurer or related body in particular circumstances. This could include a compulsory transfer of business of QBE, or the business or shares in one of its subsidiaries which conduct substantially all of the insurance and other business of the group.

Broadly, APRA may make a determination to transfer the business of a general insurer (i) where the general insurer has contravened the Insurance Act, any regulations or other instruments made under that act or conditions imposed under that act; (ii) where APRA has chosen to investigate the insurer; (iii) where a judicial manager recommends the transfer; or (iv) if there is an Insurance Act statutory manager in control of the insurer, and in each case where APRA considers the transfer appropriate having considered the interests of the policy owners of the transferring and transferee entity. In addition, APRA may make a determination that there is to be a transfer of shares in a general insurer on the same grounds.

APRA may also make a determination that there is to be a compulsory transfer of business from certain bodies corporate that are related to a general insurer (such a body corporate, a “**transferee**”), which may include, for example, a NOHC of a general insurer. APRA may only make such determination in respect of a transferee if, APRA is making, or has made within a reasonable period, a determination to compulsorily transfer the business of, or shares in, the general insurer to which the transferee is related (whether or not the transfer in respect of the general insurer has occurred).

Any such a determination may have a negative impact on the general insurer, its related bodies corporate or the group as a whole. Similar laws may exist in other jurisdictions in which the group carries on business.

Equivalent powers exist in relation to authorized deposit-taking institutions and life insurance companies (and certain of their related bodies corporate).

The Insurance Contracts Act

Most types of insurance contracts that QBE Insurance (Australia) Limited and QBE Lenders’ Mortgage Insurance write are subject to the provisions of the Insurance Contracts Act 1984 (Cth). The act does not apply to CTP, workers’ compensation, marine insurance or reinsurance. The legislation, regulated by ASIC, codifies the duty of utmost good faith in applicable insurance contracts and provides for appropriate disclosure of information by insurers and policyholders. It also provides rules covering a wide variety of things such as cancellation of insurance, fraudulent claims and misrepresentation.

Following a number of catastrophes in 2010 and 2011, amendments were made to the Insurance Contracts Act in April 2012 to introduce a standard definition of flood for use in certain types of insurance policies (such as home buildings and home contents insurance policies) to limit consumer confusion over the meaning and extent of flood coverage. For those prescribed contracts, this standard definition of flood will apply over any other definition or meaning included in the policy wording. Insurers offering prescribed types of home building and home contents insurance must also provide customers with a one page ‘key facts sheet’.

Further amendments were codified in The Insurance Contracts Amendment Act 2013 (the “**2013 Amendment Act**”), which was enacted by the Australian federal parliament on June 28, 2013.

The 2013 Amendment Act contains a number of significant changes to the Insurance Contracts Act to correct perceived deficiencies and ambiguities in the Insurance Contracts Act, including the unbundling of exempt and non-exempt provisions of insurance contracts and allowing service of documents/notices by electronic means where the insured consents. The 2013 Amendment Act also contains measures intended to enhance consumer protection already available under the Insurance Contracts Act, including:

- extending the duty of utmost good faith in section 13 of the Insurance Contracts Act to third-party beneficiaries (but only after the contract is entered into);
- reminder obligations on the insurer in relation to the duty of disclosure where entry into the contract of insurance is delayed;
- changes to circumstances in which an insurer can cancel or seek remedies for non-disclosure or misrepresentation of life insurance contracts;
- clarification regarding the distribution of proceeds from a recovery action against a third party by an insurer under a right of subrogation; and
- empowering ASIC to bring representative action for breaches of the utmost good faith provisions in section 14 of the Insurance Contracts Act, where there is a public interest in doing so.

Following the release of the Royal Commission’s final report, the Treasury Laws Amendment (Strengthening Corporate and Financial Sector Penalties) Act 2019 (the “**Penalties Act**”) was passed by Parliament. The Penalties Act amends the Corporations Act, the ASIC Act 2001 (Cth), the National Consumer Credit Protection Act 2009 (Cth) and the Insurance Contracts Act to consolidate the penalties framework in these acts, expand the civil penalty regime to new provisions, and introduce stronger penalties for bodies corporate and individuals. The Penalties Act introduces civil penalties for breaches of section 13 (in relation to the duty of utmost good faith) and section 33C (in relation to ‘key facts sheets’) of the Insurance Contracts Act. Section 33C is now also an infringement notice section.

The Australian government has agreed to act on all the recommendations of the Royal Commission and, on January 31, 2020, has released for consultation a raft of proposals to implement 24 of the Australian government’s responses to recommendations of the Financial Services Royal Commission final report. This consultation period has since ended and the legislation is proposed to take effect on July 1, 2020. Under the draft legislation, the Insurance Contracts Act will be amended to replace the duty of disclosure with a duty to take reasonable care not to make a misrepresentation to an insurer.

In response to the recommendations of the Royal Commission, the Australian government passed the Financial Sector Reform (Hayne Royal Commission Response—Protecting Consumers (2019 Measures)) Act 2020 (Cth) (“**Hayne Royal Commission Act**”) on February 17, 2020. From April 5, 2021, the Insurance Contracts Act will be further amended by the Hayne Royal Commission Act to allow the unfair contract terms regime under the Australian Securities and Investments Commission Act 2001 (Cth) (“**ASIC Act**”) to apply to insurance contracts governed by the Insurance Contracts Act.

The Explanatory Memorandum to the Hayne Royal Commission Act makes it clear that the unfair contract terms regime sits independently of the duty of utmost good faith in the Insurance Contracts Act, and that a finding that a term is an unfair contract term will not automatically constitute a breach of that duty. This is particularly important in light of recent amendments mentioned above which make section 13 of the Insurance Contract Act (the duty of good faith) a civil penalty provision and

allow ASIC to seek declarations or pecuniary penalty orders or to issue infringement notices. Nevertheless, it is possible that some scenarios may give rise to relief under both sets of provisions.

Unfair contract terms

The Australian Consumer Law, which contains a new unfair contract terms regime, came into effect on July 1, 2010. The relevant provisions were included in the Competition and Consumer Act 2010 and, for financial products and services, in the ASIC Act.

The unfair contract terms regime currently has limited application to insurance contracts, due to section 15 of the Insurance Contracts Act (which expressly excludes insurance contracts from the operation of any legislation that provides relief in the form of judicial review of harsh or unfair contracts). The regime does, however, apply to other standard form consumer contracts such as standard form broker agreements and to standard form small business contracts where the upfront price payable under the contract does not exceed A\$300,000 or A\$1 million if the contract is for a period exceeding 12 months. In particular, the ASIC Act permits the court to render void any unfair or prohibited term contained in a standard form consumer contract that is a financial product, or a contract for the supply or possible supply of financial services. ASIC's enforcement powers in the event of breaches have been expanded. The regime may also increase the potential underwriting exposure of insurers who insure persons issuing consumer contracts.

However, as mentioned above, from April 5, 2021, the unfair contract terms regime will be extended to the insurance industry. The Hayne Royal Commission Act will amend the Insurance Contracts Act to allow the unfair contract terms regime under the ASIC Act to apply to insurance contracts governed by the Insurance Contracts Act.

Corporations Act

In addition to the existing disclosure requirements under the Insurance Contracts Act, there are disclosure rules under Chapter 7 of the Corporations Act which apply to financial products (including insurance).

The disclosure regime aims to provide a uniform regulatory framework for the licensing and conduct of all providers of financial products and services. It applies to most general insurance products other than those specifically excluded from the definition of financial products which forms the basis of the regulatory framework. For example, workers compensation insurance and CTP motor vehicle insurances are excluded from this framework on the basis that these are insurance products that are state insurances.

For general insurance products that are financial products for the purposes of the Corporations Act, general insurers are required to provide a Product Disclosure Statement (“PDS”) in respect of the general insurance products issued to retail clients (i.e., usually individuals or small business). Amongst other things, the PDS must set out the cost and benefits of the insurance product, any risks associated with it, its significant characteristics such as exclusions and the statutory cooling-off period. A PDS must be provided when a licensee first offers or recommends insurance products to retail clients. Other disclosure requirements imposed under Chapter 7 may also require a general insurer to provide financial services guides and/or statements of advice.

The Corporations Act also contains licensing requirements which apply to certain insurance service providers that are in the business of providing a financial service. This includes businesses that do any of the following things:

- provide financial product advice—this category includes insurers or intermediaries who make recommendations or statements of opinion, or a report of either of those things, that are intended to influence a prospective insured's decision in relation to a particular insurance

product. It also includes recommendations or statements that could reasonably be regarded as having such an influence; and

- deal in a financial product—this category includes insurers and agents who issue insurance and also intermediaries who arrange for a person to acquire insurance.

Providers of services who do not obtain a license can be authorized by a licensee with the necessary authorizations listed on their license to provide such services on the licensee's behalf as the licensee's authorized representative. However, where they are so appointed by a licensee, that licensee becomes, subject to a few exceptions, liable for the actions of the authorized representative. There are a number of exemptions which apply to the license requirement. For example:

- an insurer licensed by APRA will not need an Australian financial services license to provide a service in relation to which APRA has regulatory or supervisory responsibility and which is provided only to wholesale clients;
- where insurance services are provided only to related bodies corporate of the provider; and
- insurance agents that act as distributors for insurers and satisfy the conditions of ASIC's class order relief for general insurance distributors.

Australian financial services licenses are issued by ASIC and may be issued subject to conditions imposed by ASIC on the licensee. The licensee must comply with any conditions attached to the license in addition to statutory obligations set out in the Corporations Act. The key requirements include:

- the licensee must do all things necessary to ensure its financial services are provided efficiently, honestly and fairly;
- the licensee must maintain the competence to provide the financial services;
- the licensee must comply with financial services laws;
- the licensee must have in place adequate arrangements for the management of conflicts of interest and compensation arrangements for compensating persons for loss or damage suffered because of breaches of relevant licensing obligations under the Corporations Act;
- the licensee must take reasonable steps to ensure its representatives also comply with the legislation;
- the licensee must ensure its representatives are adequately trained and competent to provide the services;
- the licensee must have risk management and dispute resolution systems in place;
- the licensee must deal with clients' money as required by the Corporations Act;
- the licensee must comply with ASIC's information gathering powers and any legislative instruments that ASIC has the power to make; and
- the licensee must comply with product disclosure requirements noted above.

In addition to the key obligations discussed above, from April 5, 2021, the new Design and Distribution Obligations (“**DDO**”) will come into effect introducing various design and distribution

obligations on issuers and distributors of certain insurance services. These obligations generally include:

- an obligation on issuers of regulated products to prepare a target market determination (TMD) for each affected product that must be publicized and reviewed; and
- an obligation on issuers and distributors of regulated products to take reasonable steps to ensure that the distribution of a product is consistent with the most recent TMD.

DDO is a significant new regime for issuers and distributors of financial products in Australia. In addition to the requirement to prepare a TMD, it also introduces a number of additional monitoring, record-keeping and reporting obligations which will apply to both distributors and issuers (as relevant).

Australian financial services licenses have been obtained by QBE Insurance (Australia) Limited and Elders Insurance (Underwriting Agency) Pty Limited. Our other authorized general insurance companies, QBE Insurance (International) Pty Limited and QBE Lenders' Mortgage Insurance Limited, are not required to obtain an Australian financial services license. QBE Lenders' Mortgage Insurance Limited holds a credit license for the purposes of conducting claims recovery on credit contracts. QBE Strategic Capital Company Pty Limited, which is not an authorized insurance company, has an exemption issued by ASIC from the requirement to hold an Australian financial services license in respect of dealing in derivatives and foreign exchange contracts.

The Insurance Acquisitions and Takeovers Act

The Insurance Acquisitions and Takeovers Act 1991 (Cth) ("**IAT Act**") sets out rules relating to, among other things, certain acquisitions and leasing of assets of Australian-registered insurers and the entering into of agreement relating to directors of such companies. The IAT Act aims to protect public interest by ensuring that the affairs of Australian-registered insurers are carried out in a prudential manner, preventing unsuitable persons from being in a position of influence over such companies and preventing undue concentration of economic power in the Australian insurance industry or financial system. Under the IAT Act, approval must be sought from the Australian federal treasurer (the "**Australian Treasurer**") for a proposed acquisition or arrangement where:

- there occurs an acquisition or lease of 15% or more of the total book value of the assets of a general insurance company;
- there occurs an acquisition or lease of 15% or more of the total book value of the liabilities of a general insurance company;
- a person with interests of 15% or more in the company will have control over the appointment or actions of the directors; or
- the acquisition of the insurer's interests in its contracts of insurance results in a reduction of 15% or more of a company's unearned premium or outstanding claims provisions.

The Australian Treasurer applies a public interest test to these decisions (having regard to the aims of the IAT Act and the national interest). The Australian Treasurer may delegate its power to approve the acquisition or arrangement, among other powers, to APRA.

Terrorism Insurance Act

The Australian government enacted its own terrorism insurance legislation, the Terrorism Insurance Act 2003 (Cth) (the "**TIA**"). The TIA has the effect of imposing a compulsory terrorist cover on certain "eligible insurance contracts" (as that term is defined in the TIA) which includes non-

residential property, business interruption and liability (where liability arises out of the insured being the owner or occupier of eligible property) insurance contracts.

Although the Australian government has established a reinsurance pool for the risk, participation by insurers in the pool is neither automatic nor compulsory. Insurers who issued eligible insurance contracts which were in force prior to July 1, 2003 or incepted after July 1, 2003 but before October 1, 2003 will receive an automatic indemnity from the pool. Otherwise, insurers of eligible insurance contracts wishing to purchase reinsurance cover from the pool will be required to pay a reinsurance premium.

The TIA provides that if the Australian government declares that a “terrorist incident” (as that term is defined in the TIA) has occurred in Australia, then, in respect of an “eligible insurance contract” (as that term is defined in the TIA), any exclusion which would exclude liability for terrorism is deemed to have no effect to the extent that a loss or liability covered by the policy is an “eligible terrorism loss” (as that term is defined in the TIA).

The reinsurance terms and premiums for the pool are as follows. A retention will be imposed on participating insurers. The minimum retention for an insurer is A\$100,000 and the maximum is A\$12.5 million. The retention for each insurer is calculated as 5% of their total Australian fire and industrial special risk premium income unless it is below A\$100,000 or above A\$12.5 million, in which case the minimum or maximum retention will apply. There is an industry-wide maximum retention of US\$200 million. Once retention and retrocession has been exhausted, claims will continue to be met by the Australian government guarantee. If the total claims of all insurers exceed A\$10 billion then there is a pro-rata reduction in the relevant insurer’s retentions. The pool is backed by an unlimited Australian government guarantee. Although the amount of the guarantee is expected to be unlimited, the TIA provides that the Australian government can declare a “reduction percentage” if without the reduction percentage the amount payable under the guarantee would be more than A\$10 billion. If the Australian government declares a reduction percentage then the amount payable by the insurer under eligible insurance reinsured to the pool will be reduced by the reduction percentage.

The premiums to be charged by the pool vary with the location of the risk. Generally the reinsurance premium will be 16% for central business district property, 5.3% for urban property and 2.6% for rural property of the premium charged by the insurer, net of stamp duty, goods and services tax and fire services levy. These premiums may increase if a terrorist incident occurs.

QBE Insurance (Australia) Limited, QBE Insurance (International) Pty Limited, QBE Insurance (PNG) Limited, QBE Insurance (Fiji) Limited, QBE UK Limited, QBE Europe SA/NV and certain syndicates managed by QBE Underwriting Limited issue eligible insurance contracts and participate in the TIA reinsurance program.

Anti-Money Laundering and Privacy legislation

The Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) imposes various obligations on “reporting entities” that provide “designated services” under the act. The act does not apply to general insurers in general. However, general insurers may be caught as “reporting entities” under the act if they provide other designated services such as life insurance, managed funds and superannuation or banking services.

The private sector in Australia is, subject to limited exceptions, required to comply with a privacy regime which strictly regulates the collection, use, storage and disclosure of personal information. Since its enactment in 1988, the Privacy Act 1988 (Cth) (the “**Privacy Act**”) has expanded its coverage to protect personal information in the private sector, to regulate credit information and more recent major reforms include to:

- provide the Office of the Australian Information Commissioner with additional audit powers, as well as the power to accept enforceable undertakings, develop and register binding privacy codes, make determinations in relation to own-motion investigations and apply to the Federal Court for orders that corporations pay a pecuniary penalty of up to A\$2.1 million in the case of serious or repeated interferences with privacy set forth in the Privacy Act;
- set out a single set of privacy principles applying to both private sector organizations and Australian government agencies;
- introduce a consumer data right regime and a comprehensive revised credit reporting regime, which enables credit reporting bodies to collect certain ‘positive’ data about individuals. To offset this increased access to information, the reforms include significant new protections for individuals in relation to their credit information and a binding code of practice for credit reporting;
- significantly change the previous cross-border transfer regime. In certain circumstances, an Australian entity is liable for a breach of the Australian Privacy Principles set forth in the Privacy Act by an overseas recipient of personal information disclosed by the Australian entity;
- restrict the use or disclosure of personal information for direct marketing unless an exception applies; and
- require organizations to ensure that their privacy policies and collection statements address a list of prescribed matters, including whether the entity is likely to disclose personal information to overseas recipients and, where practicable, to which countries.

Additional proposed legislation

Subsequent to the Royal Commission, the Australian government made a commitment to implement recommendations from the Royal Commission. A number of bills have now been drafted for consultation to address some of the recommendations. The key aspects of these bills that affect insurance service providers include:

- inclusion of insurance claims handling as a financial service for the purpose of the Corporations Act;
- introducing fundamental changes to breach reporting, reference checking requirements and a new onerous remediation regime;
- introducing an industry-wide deferred sales model for the sale of all add-on insurance products;
- introducing a comprehensive anti-hawking regime;
- introducing new obligations for financial services licensees/authorized representatives providing personal financial product advice to retail clients under ongoing fee arrangements and obligations to disclose in writing if they are not independent and why;
- placing restriction on the use of the term “insurance” and “insurer”; and

- giving ASIC strengthened enforcement powers and allowing it to issue a direction to regulate conduct in response to mere suspicion of contravention of financial services law before (or as an alternative to) exercising its general investigation powers.

Initial consultation for these proposed bills has now concluded. However, these proposed bills have not yet been passed.

United Kingdom and Belgium Insurance Regulation

Overview

Overview—Permission to Carry on Insurance Business in the United Kingdom. Under the Financial Services and Markets Act 2000 and its subordinate legislation (the “**FSMA**”), it is unlawful to carry on insurance business in the United Kingdom without permission to do so from the relevant regulators (for insurance undertakings this will be both the PRA and the Financial Conduct Authority (the “**FCA**”). Permission to undertake a regulated activity is granted under Part 4A of the FSMA (a “**Part 4A Permission**”).

Insurers must apply for authorization through the PRA if they wish to effect or carry out contracts of insurance. The PRA will lead the administration of the application and be responsible for granting authorization, however authorization will not be granted unless both the PRA, as prudential regulator, and the FCA, as conduct regulator, are satisfied that it should be granted. Both organizations will cooperate with each other closely in making this determination. Before granting authorization, the PRA will assess whether the firm satisfies the relevant statutory Threshold Conditions set out in the FSMA (the “**Threshold Conditions**”). As part of this determination, the PRA will consider whether the applicant has adequate resources (including capital, human resources and effective means of managing risks) to carry out the proposed regulated activities, whether persons connected with the applicant (controllers and companies within the same group) may prevent the effective supervision of the applicant, whether the applicant’s affairs would be conducted soundly and prudently, with integrity and in compliance with proper business standards and whether it has competent and prudent management. Both regulators may impose limitations and requirements relating to the operation of the company and the carrying on of insurance business in connection with granting a Part 4A Permission.

Each of the PRA and FCA apply rules to support their statutory and operational objectives. Both regulators maintain separate rulebooks. PRA rules are maintained in a PRA Rulebook found on the Bank of England website. The Rulebook is supported by “policy statements”, “supervisory statements” and “statements of policy,” which set out regulatory expectations on a topic. The PRA Rulebook contains rules for Solvency II insurance firms (and also for insurers that do not fall within Solvency II). The PRA Rulebook Solvency II Firms provisions closely reflect the Solvency II Directive supplemental regulations. In addition to Solvency II Directive requirements, the PRA Rulebook contains general provisions relating to the supervision of United Kingdom insurance firms and Lloyd’s managing agents. The FCA Handbook contains rules that concern the conduct of firms including the scope of systems and controls, conduct of business requirements, obligations in respect of approved persons and individual fitness and propriety (in the form of the Senior Managers and Certification Regime) and rules relating to the jurisdiction of the Financial Ombudsman Service and Financial Services Compensation Scheme.

Financial services in the United Kingdom are regulated under an institutional framework within which an independent Financial Policy Committee (“**FPC**”) at the Bank of England has power to supervise the financial services sector at a macro-prudential level, responding to sectoral issues that could threaten economic and financial stability. At the micro-prudential level, the PRA has responsibility for authorizing financial services firms including insurance companies, the Society of

Lloyd's and Lloyd's managing agents, banks and certain significant investment firms and for promoting their long-term soundness and stability. The FCA's core strategic supervisory objective is to ensure that the relevant United Kingdom financial markets function well, and its day-to-day operational objectives are to secure an appropriate degree of protection for consumers; protect and enhance the integrity of the United Kingdom financial system; and to promote effective competition in the interests of consumers. The FPC has powers to make recommendations and give directions to both the PRA and the FCA.

Overview—Permission to Carry on (Re)Insurance Business in Belgium. Under the Solvency II Act of March 13, 2016 (the "**Solvency II Act**"), it is unlawful to carry on (re)insurance business in Belgium without permission to do so from the relevant regulators (for insurance undertakings this will be both the National Bank of Belgium (*Banque Nationale de Belgique/Nationale Bank van België*, the "**NBB**") and the Belgian Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des Services et Marchés Financiers*, the "**BFSMA**"). Permission to undertake a regulated activity as a Belgium incorporated company is granted under Book II of the Solvency II Act.

The NBB is the entity responsible for the authorization of (re)insurance undertakings in Belgium, and for prudential purposes (above all, solvency), monitoring and supervising their activities. The BFSMA monitors and supervises these entities' compliance with conduct of business rules. Updated cooperation protocols ensure extensive cooperation and consultation between the NBB and BFSMA.

The BFSMA is also responsible for regulation of (re)insurance distributors, following registration in specific BFSMA registers (broker, agent, sub-agent and ancillary insurance intermediary). As part of a package of measures in preparation for a potential "no-deal" Brexit, the Brexit Act dated April 3, 2019 introduced new rules creating the new category of "mandated underwriters".

(Re)insurers must apply for authorisation through the NBB if they wish to effect or carry out contracts of (re)insurance (the "**NBB Permission**"). Authorisation is granted on fulfilment of statutory and regulatory conditions. The insurer is authorised for specific classes of insurance or reinsurance. Applicants for authorisation must demonstrate that, taking into account reinsurance cessions, the company's technical and financial resources are sufficient for its scheme of operations and that they meet other conditions and rules of the Solvency II Act. Numerous provisions of the Belgian Code of Companies and Associations ("**BCCA**"), referring to the classic form of a private company under Belgian law, apply to Belgian (re)insurance entities, while specific adjustments are reflected in the Solvency II Act.

Each of the NBB and BFSMA apply rules to support their statutory and operational objectives. Both regulators maintain separate regulations. NBB regulations are issued when needed and are to be found on the NBB website together with the associated regulatory expectations per topic. The NBB regulations contain rules for Solvency II (re)insurance firms (and also for insurers that do not fall within Solvency II). The NBB Solvency II regulations closely reflect the Solvency II Directive Supplemental Regulations. In addition to Solvency II Directive requirements, the NBB regulations include regulatory principles about corporate governance of (re)insurance companies, as well as rules relating to fit & proper of NBB Approved Persons (the "**Fit & Proper Handbook**"). The NBB also issue regulations on the conduct of firms including the scope of its systems and controls and conduct of business requirements.

Financial services in Belgium are regulated under an institutional framework within which the BFSMA has power to supervise the financial services sector at a macro-prudential level, responding to sectoral issues that could threaten economic and financial stability. At the micro-prudential level, the BFSMA has responsibility for authorizing financial services firms including insurance companies and insurance distributors, banks and certain significant investment firms and for promoting their

long-term soundness and stability. The BFSMA has responsibility for supervising the day-to-day conduct of insurance firms and other authorized firms in dealing with their customers and clients.

The Belgian Insurance Ombudsman is a separate entity (funded by the sector) that deals with insurance complaints (mostly consumer related where the insured has the choice to address their complaint to the Ombudsman before going to court).

Lloyd's. Lloyd's is not an insurance company, but an association of insurance underwriters incorporated as the Society of Lloyd's ("**Lloyd's**"). Members of Lloyd's underwrite through syndicates with the agency of Lloyd's managing agents. Lloyd's is itself authorized and regulated by both the PRA and FCA under the FSMA. The role of Lloyd's is to provide the market infrastructure which enables its participants to engage in insurance business. If Lloyd's is in breach of any of the obligations imposed on it by the FSMA, both regulators have available to them broadly the same powers of intervention in respect of Lloyd's that they would have in relation to an insurance company in the same circumstances.

Members of Lloyd's are not currently required to obtain a Part 4A Permission under the FSMA to conduct insurance business at Lloyd's but, by virtue of their membership, agree to abide by rules laid down by Lloyd's. Managing agents must, however, be authorized and regulated by both Lloyd's and the two regulators in respect of their business. The Solvency II Directive recognizes the Lloyd's market and treats the "association of underwriters known as Lloyd's" as a single entity. Accordingly, solvency capital requirements apply to the whole market with Lloyd's responsible for ensuring that managing agents comply with the Solvency II Directive. The PRA Rulebook sets out the application of the Solvency II Directive for the Lloyd's market, including obligations for managing agents.

Participants of Lloyd's (including members and managing agents) are subject to rules and regulations imposed by the bylaws promulgated by the Council of Lloyd's under the powers conferred on it by the Lloyd's Act 1982. Lloyd's rules and regulations prescribe certain minimum standards relating to the management and control, solvency, reporting and various other requirements.

QBE European Operations Insurance Business. QBE UK Limited is our principal insurance subsidiary in the United Kingdom and QBE Europe SA/NV is our principal (re)insurance subsidiary in Belgium and the European Union. QBE UK Limited is an insurance company having a Part 4A Permission under the FSMA and is a dual regulated firm, supervised by both the PRA and the FCA. QBE Europe SA/NV is a public limited liability company (*société anonyme/naamloze vennootschap*) incorporated in Belgium on February 12, 2018 under the Belgian Companies Code and is registered with the Crossroads Bank for Enterprises (*Kruispuntbank voor Ondernemingen/Banque-Carrefour des Entreprises*) with registered number 0690537456. QBE Europe SA/NV is a Belgian incorporated insurance and reinsurance company authorised by the NBB and is regulated by the NBB and the BFSMA. Our principal Lloyd's market subsidiaries are: QBE Corporate Limited (the "**QBE Corporate Member**") and QBE Underwriting Limited, which is a managing agent at Lloyd's (the "**QBE Managing Agent**").

Each of these companies is a wholly owned, indirect subsidiary of QBE European Operations plc. The QBE Corporate Member is not regulated under the FSMA. The QBE Managing Agent is authorized and regulated by the regulators under the FSMA and by Lloyd's under the Lloyd's Acts 1871 to 1982. As an authorized firm, the QBE Managing Agent is subject to both the PRA's and the FCA's rules including the high-level principles, conduct of business, prudential and systems and controls requirements. It is also required to manage the insurance business of the syndicates it oversees in line with the PRA's prudential requirements. In particular, the rules require that managing agents establish and maintain appropriate controls over risks affecting insurance business carried on through the syndicates they manage and that they assess the capital needed to support the

business of each such syndicate taking account of the particular risks arising from such business or operational infrastructure.

The following paragraphs describe the general rules applicable to the QBE UK Limited, QBE Europe SA/NV, the QBE Corporate Member and the QBE Managing Agent.

Regulatory Regime in the United Kingdom and Belgium

Regulatory Reporting in the United Kingdom. QBE UK Limited, the QBE Corporate Member and the QBE Managing Agent are required to prepare their accounts in accordance with accounting requirements applicable to them under the Companies Act 2006 and the FSMA which require them to file, and provide their shareholders with, audited financial statements and related reports. They are also required to prepare their accounts in accordance with UK GAAP. QBE UK Limited is also required under the Solvency II Directive to file two key reports to the PRA: a Solvency and Financial Condition Report (“**SFCR**”), to be submitted on an annual basis (although a waiver granted by the PRA (currently effective until January, 31 2021) allows for a single group-wide SFCR to be submitted by QBE European Operations plc that covers both it and QBE UK Limited and QBE Europe SA/NV), and a Regular Supervisory Report, which is submitted in full every three years. In addition, the FCA requires an annual report and audited accounts to be submitted to it in line with the Companies Act 2006. In addition, the QBE Managing Agent is required to submit quarterly and annual regulatory returns to Lloyd’s as laid-down under the Lloyd’s byelaws.

Regulatory Reporting in Belgium. QBE Europe SA/NV is required to prepare its accounts in accordance with accounting requirements applicable to them under the Belgian Code of Companies and Associations, which require it to file, and provide its shareholders with audited financial statements and related reports. QBE Europe SA/NV is required to prepare its accounts in accordance with BE GAAP. QBE Europe SA/NV is also required under the Solvency II Directive to file two key reports to the NBB: a Solvency and Financial Condition Report (“**SFCR**”), to be submitted on an annual basis, and which to date, QBE Europe SA/NV has obtained a derogation from the NBB and is authorized to file one single group-wide SFCR to be submitted by QBE European Operations plc that covers both it and QBE UK Limited and QBE Europe SA/NV. The other key report is the Regular Supervisory Report (“**RSR**”), which is submitted in full each year. Besides the template deriving from Solvency II reporting, the NBB has issued its own additional requirements for the RSR (additional chapter on Governance).

Solvency Margins and Reserves. The Solvency II Directive requires that insurers hold assets to match their liabilities. The calculation of insurance liabilities (known as technical provisions under the Solvency II Directive) include both a ‘best estimate’ of liabilities and, unless they can find a hedge for their liabilities, a risk margin (to reflect the cost of capital that would be required to transfer the liabilities to a third party). A best estimate of technical provisions is reached by forecasting expected future net cash-flows. In addition to technical provisions that cover expected liabilities, insurers must hold a buffer of capital. Under Solvency II this capital buffer is known as ‘own funds’. Own funds are divided into basic and ancillary own funds. Basic own funds consist of the excess of assets over liabilities and subordinated liabilities. Ancillary own funds are items other than basic own funds which can be called up to absorb losses. There are two capital requirements within own funds under the Solvency II regime: a minimum capital requirement (“**MCR**”) and solvency capital requirement (“**SCR**”). The SCR is a risk-based requirement that shall correspond to the Value-at-Risk of the basic own funds of the undertaking subject to a confidence level of 99.5 % over a one-year period. The SCR can be calculated using either a standard formula or a tailored internal model approved by the relevant regulator. QBE UK Limited and QBE Europe SA/NV use a tailored internal model that has been approved by the PRA (in respect of QBE UK Limited) and jointly by the PRA and the NBB (in respect of QBE Europe SA/NV). As QBE UK Limited and QBE Europe SA/NV are subject to Solvency II, they must maintain these two margins of solvency. The SCR should be calculated on the

assumption that QBE UK Limited and QBE Europe SA/NV will each continue to pursue their business as a going concern. The calibration should ensure that all risks to which QBE UK Limited and QBE Europe SA/NV are exposed are taken into account and shall cover not only existing business but new business expected to be written over the following 12 months.

As part of their risk-management, both QBE UK Limited and QBE Europe SA/NV must each produce an Own Risk and Solvency Assessment (“**ORSA**”). The PRA has granted a waiver to allow for the production of a single Group ORSA including QBE European Operations plc, QBE UK Limited and QBE Europe SA/NV. An individual ORSA must in addition be produced for QBE Europe SA/NV for the NBB. Each ORSA covers the overall solvency needs of the business taking into account, among other matters: the specific risk profile, approved risk tolerance limits and business strategy of the insurer; compliance with both the MCR and SCR and with the requirements in relation to technical provisions; and the significance from which the risk profile differs from either the assumptions underlying the SCR (on the basis of the internal model applied). The PRA and the NBB, as applicable may in exceptional circumstances set a capital ‘add-on’, for example, where the risk profile of the insurer deviates significantly from the assumptions in the SCR (whether calculated according to the standard formula or an internal model) or where the PRA and/or the NBB concludes that governance arrangements prevent the business from being able to identify, measure and monitor risks appropriately.

In relation to the QBE Corporate Member (which is not subject to regulation under the FSMA), no direct solvency requirements are imposed. However, the PRA Rulebook imposes solvency requirements on Lloyd’s that have a similar effect on Lloyd’s as a whole to those imposed on authorized insurance companies. Lloyd’s is required to carry out a two-part solvency test: firstly, a calculation of the capital requirements for each individual member; and secondly, a calculation of the solvency position of the Lloyd’s market as a whole. The QBE Managing Agent is required to assess the capital requirements of the syndicates it manages as it has the closest understanding of syndicate level risks and controls. In circumstances where a member’s assets are insufficient to cover its individual required capital amount, any shortfall must be covered by the central assets held by Lloyd’s itself. Accordingly, in order that Lloyd’s meet its own regulatory requirements, Lloyd’s requires each member to hold assets equal to its individually calculated capital requirement using their internal model, taking into account the syndicate level assessment of the managing agent.

Insurance Group capital. The Solvency II Directive contains rules on the supervision of insurance groups. Group supervision applies in addition to supervision of solo undertakings. Accordingly, the Solvency II Directive imposes requirements in relation to group solvency (requiring the calculation of a group SCR), governance, reporting and group supervision where a Solvency II group can be identified. Solvency II group supervision applies to the entire group (or sub-group) of which an European Economic Area (“**EEA**”) or United Kingdom (re)insurance undertaking forms a part. QBE European Operations plc is the relevant EEA group entity for the purposes of the Solvency II Directive. The group supervisor is the PRA. A PRA approved internal model to calculate the group SCR for the QBE European Operations plc group is in place.

Under the Solvency II Directive, where the relevant group has operations outside the EEA or the United Kingdom, it may be permissible to apply, when calculating group-level capital, local capital rules to non-EEA/United Kingdom operations under the rules of ‘equivalence’ for group solvency. Australia, the United States, Canada and several other jurisdictions have been granted provisional equivalence by the European Commission in respect of group solvency. Groups with solo EEA or United Kingdom firms are required to publish a SFCR revealing the group’s solvency position, activities and compliance with the Solvency II Directive. Perhaps the most important aspect of group supervision (as distinct from group solvency) for QBE is whether the Australian insurance regulatory regime will ever be recognized by the European Commission as an “equivalent” jurisdiction for group supervision purposes, enabling QBE to avoid potential problems linked to ‘double regulation’. In the

absence of a European Commission equivalence determination with respect to Australia, the United States, Canada and several other jurisdictions, EU Member State or United Kingdom supervisors (e.g., the PRA) may undertake an equivalence determination with respect to a non-EEA/United Kingdom-headquartered insurance group, or approve and apply “other methods” to ensure appropriate supervision (e.g., requiring the establishment of an intermediate holding company for all EEA subsidiaries). QBE has been granted a waiver by the PRA until March 1, 2022 from the application of certain requirements for group supervision as they apply in the United Kingdom that limits the requirements to additional reporting to the PRA.

Regulated entities within a “financial conglomerate” are subject to additional prudential requirements resulting from the United Kingdom implementation of the European Union Directive on the Supplementary Supervision of Credit Institutions, Insurance Undertakings and Investment Firms in a Financial Conglomerate (2002/87/EC). A financial conglomerate is a financial group which satisfies a number of threshold requirements as to minimum holdings in, on the one hand, the insurance sector and, on the other hand, the banking/investment sectors. QBE is not a financial conglomerate or part of a financial conglomerate and is not currently expected to be affected by conglomerate regulation.

Supervision of Management and Control

Under the United Kingdom change of control regime a person who has decided to acquire or increase its “control” over a United Kingdom firm authorized under the FSMA is required to notify the appropriate regulator (depending upon whether the authorized firm is PRA or FCA authorized) of his decision and to receive approval from either the PRA or FCA as appropriate before becoming a “controller” or increasing his interest in such a firm to or above one of the thresholds referred to below. No prior approval for reducing control below one of the thresholds referred to below is needed, though notification must still be given to the appropriate regulator of the relevant transaction.

In addition, the authorized firm itself is expected to discuss any prospective changes of which it is aware with the appropriate regulator, regardless of whether the controller or the proposed controller proposes to submit a change of control application.

A proposed “controller” for the purposes of the controller regime is any natural or legal person, or such persons “acting in concert,” who has or have taken a decision to acquire or increase, directly or indirectly, a qualifying holding in, broadly, a United Kingdom FSMA-authorized firm (including a United Kingdom FSMA-authorized insurance company).

A person acquires “control” over a United Kingdom FSMA-authorized insurance company where such person acquires 10% or more of the shares or voting rights in that company or in its parent undertaking or otherwise becomes able to exercise significant influence over the management of the company by virtue of acquiring shares or voting power. In respect of increases and decreases, the relevant thresholds are 20, 30 and 50% or an acquired insurance company becoming (or ceasing to be) a subsidiary undertaking of the acquirer.

An exhaustive list of criteria for determining the suitability and financial soundness of a proposed “controller” is set out in the FSMA.

The appropriate regulator has 60 working days from the day on which it acknowledges the receipt of a complete notice of control to determine whether to approve the new controller or object to the transaction, although if the regulator requires further information to be provided in order to complete its review this period will be interrupted for up to 30 working days while the regulator is awaiting the provision of that further information. If the approval is given, it may be given unconditionally or subject to conditions.

Where notice is given to the PRA, before making any decision on whether to approve the change of control the PRA must consult with the FCA. The FCA is only permitted to make directions to the PRA objecting to the application if it considers that there are reasonable grounds to suspect that any money-laundering or terrorist financing is being committed or attempted in connection with the proposed acquisition or increase in control, or that the risk of such activity could increase. In these circumstances, the FCA may direct the PRA to object to the application or to approve the application subject to specified conditions. In all other circumstances, the FCA may make representations to the PRA on any matter.

Where the target firm is solely regulated by the FCA but a member of its group is dual regulated the FCA will determine the change in control application. However, the PRA may make representations to the FCA on any matter. In addition, the PRA may require the FCA to impose conditions in certain circumstances. Where the proposed controller is dual regulated and the target firm is regulated by the FCA, the position is the same.

Breach of the requirement to notify the appropriate regulator of a decision to acquire or increase control or of the requirement to obtain approval before completing the transaction in question is a criminal offense attracting potentially unlimited fines. The regulators can also seek other remedies, including suspension of voting rights and a forced disposition of shares acquired without prior approval.

As a result of the above requirements, direct controllers, and holding companies who indirectly acquire a certain level of control of QBE UK Limited or the QBE Managing Agent are required to apply for PRA approval prior to acquiring such entities. In the case of the QBE Managing Agent and the QBE Corporate Member, approval by Lloyd's must also be obtained.

Under the Belgium change of control regime, a person who has decided to acquire or increase a "qualified control" over a Belgium firm authorized under by the NBB is required to notify the NBB of his decision and to receive approval from the NBB before becoming a "controller" or increasing his interest in such a firm to or above one of the thresholds referred to below. No prior approval for reducing control below one of the thresholds referred to below is needed, though notification must still be given to the NBB.

Under Belgian law, the definitions of "controller" or "control" are the same as under U.K. law.

The same rules apply as in the United Kingdom such as the discussion with the regulator (NBB) of any prospective changes.

An exhaustive list of criteria for determining the suitability and financial soundness of a proposed "controller" is set out on the website of the NBB.

The NBB has 60 working days in order to approve the new controller or object to the transaction.

Where notice is given to the NBB, before making any decision on whether to approve the change of control the NBB may consult with the BFSMA.

Breach of the requirement to notify the NBB of a decision to acquire or increase control or of the requirement to obtain approval before completing the transaction in question can lead to the NBB imposing administrative sanctions and to criminal sanctions (jail and/or criminal fine).

As a result of the above requirements, direct controllers, and holding companies who indirectly acquire a certain level of control of QBE Europe SA/NV, are required to apply for NBB approval prior to acquiring such entities.

Senior Management and Certification Regime. In December 2018, the PRA and FCA introduced the Senior Managers and Certification Regime (“**SMCR**”) for regulated entities. SMCR was introduced to enhance individual accountability by clarifying the specific responsibilities of senior managers and expanding the range of persons who would be subject to standards of conduct. Under SMCR the PRA and the FCA have designated certain key functions as senior manager functions (“**SMFs**”). These SMFs must be allocated to a senior manager who is responsible for taking all reasonable steps to ensure that no regulatory breaches occur within their particular area/function. All senior managers carrying out an SMF must be preapproved by the PRA/FCA as fit and proper. In addition, each regulated entity to which SMCR applies must identify those who could pose a risk of significant harm to the entity or its customers and ensure that these individuals are fit and proper to carry out their role. These individuals are known as Certified Persons and must be signed off as fit and proper on an annual basis. All employees except ancillary staff employed by an entity to which SMCR applies (including Senior Managers and Certified Persons) are subject to the Conduct Rules. Breaches of the Conduct Rules should be notified to the PRA/FCA.

A statement of responsibilities and a management responsibilities map should be maintained in respect of each regulated entity to which SMCR applies, to clarify which individuals hold SMFs, their reporting lines and which, if any, prescribed responsibilities have been allocated to them.

As for QBE Europe SA/NV, certain key functions in the operation of an insurance business (“**controlled functions**”) may only be carried out by persons who are approved for such tasks by the regulators under the Fit & Proper Handbook. The NBB requires that Board directors, members of the Management Committee, persons responsible for an independent control function (compliance, risk management, actuarial function or internal audit) and general managers of any branch of QBE Europe SA/NV should be approved by the NBB prior to assuming such a position. These individuals must be ‘fit and proper’ to undertake roles in the organization.

Investigation and Intervention. The United Kingdom regulators have various powers to intervene in the affairs of an insurance company. The PRA’s powers include the ability to impose requirements in relation to the investments of the insurance company, to limit the insurance company’s premium income, to require an actuarial investigation of the company to be made, to appoint someone to investigate whether the Threshold Conditions are being met with respect to the insurance company, to obtain information and require production of documents, to search and enter premises, and a residual power to take such action as it thinks appropriate to protect policyholders against the possibility that the insurance company may not be able to make payments due to policyholders. These powers may be exercised for example where the PRA considers that such intervention is desirable in order to protect policyholders or potential policyholders against the risk that the company may be unable to meet its liabilities, that the Threshold Conditions may not be met, that the company or its parent has failed to comply with obligations under the relevant legislation, that the company has furnished misleading or inaccurate information or that there has been a substantial departure from any proposal or forecast submitted to the PRA. The FCA also has a wide range of powers available in terms of intervention including the ability to intervene in the product life-cycle and being able to impose temporary bans on products without consultation.

For breaches of prudential requirements, the NBB can impose extensive measures such as proceedings to object to or unwind an acquisition of a holding in a company, requiring a company to increase its reserves or adjust its premium bases, as well as safeguard and recovery measures, administrative or criminal fines, or winding-up proceedings.

For breaches of conduct of business requirements, the BFSMA has extensive powers, such as investigating unlawful market practices, conducting inquiries or issuing recommendations to offending companies. The BFSMA can also ban or require amendment or withdrawal of certain products and documentation.

Both the NBB and BFSMA have the power to punish breaches through "name and shame" warning notices, fines and injunctions, and to refer matters to the public prosecutor.

Consequences for breaches include (extra-)judicial proceedings by policyholders and other interested persons, both in civil (contract or tort) and criminal circumstances. Class action proceedings are also possible in Belgium. Under certain circumstances, directors may be personally liable for damages incurred for failure to comply with prudential requirements.

Power to Cancel or Vary (Part 4A) Permission or NBB Permission. The United Kingdom or Belgian regulators may respectively cancel or vary the Part 4A Permission or the NBB-Permission of an insurance company either at the request of the company or, for instance, if the company has failed to satisfy its obligations under the FSMA or if it appears that the Threshold Conditions are not being, or have not been met. Permission to carry on insurance business will be cancelled if the company ceases to carry on insurance business for a significant period.

Investment of Funds—Capital and Reserves. Under Solvency II, insurers have greater flexibility in their investment choices than previously. However, insurers are required to invest all their assets in accordance with the 'prudent person principle'. Requirements for insurers under the 'prudent person principle' are (a) insurers shall only invest in assets and instruments whose risks they can properly identify, measure, monitor, manage, control and report, (b) all assets are to be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole, (c) assets held to cover technical provisions shall be invested in a manner appropriate to the nature and duration of the insurance and reinsurance liabilities, (d) assets shall be invested in the best interest of all policyholders and beneficiaries taking into account any disclosed policy objectives and (e) in the case of a conflict of interest, insurers or the entity managing their asset portfolio shall ensure that the investment is made in the best interest of policyholders and beneficiaries. The rules under Solvency II also require that (a) investment and assets which are not admitted to trading on a regulated financial market shall be kept to prudent levels, (b) assets be properly diversified in such a way as to avoid excessive reliance on a particular asset, issuer or group, or geographical area and excessive accumulation of risk in the portfolio as a whole and (c) investments in assets issued by the same issuer, or by issuers belonging to the same group, shall not expose the insurer to excessive risk concentration. We have a comprehensive set of investment guidelines to address market, credit, liquidity and concentration risks.

In relation to the QBE Corporate Member, Lloyd's is required to hold all assets equal to each member's individual capital requirement in trust in the form of "funds at Lloyd's." Additionally, each member must establish one or more trust funds to hold all premiums received by the member or on its behalf. Separate premiums trust funds must be established to segregate premium income for life or other long-term business, on the one hand, and general business, on the other.

Distribution and Sale of General Insurance. The distribution and sale of general insurance products by insurance intermediaries has been regulated in the United Kingdom under the FSMA since January 2005 and in Belgium since 2002 and, in accordance with the Insurance Distribution Directive (2016/97/EU) ("IDD"), the regime also applies to direct sales by insurers themselves. The FCA's Insurance (Conduct of Business) Sourcebook contains rules that govern the treatment by insurers and insurance intermediaries of their customers, including conflicts of interests and remuneration transparency and the quality of advice and information for customers in addition to professional standards. The so-called AssurMiFID rules, which were an anticipation of IDD, were introduced in Belgium in 2014. Adaptations to the new IDD rules was therefore softer for the Belgian market, where some of the IDD requirements were even gold-plated. The IDD requires that all insurance distributors should act "honestly, fairly and professionally in accordance with the best interests of its customers." This requirement imposes a high standard upon all distributors (including direct sellers

and those distributing to professional customers) to consider the interests of customers in their business. Furthermore, distributors are required to ensure that they do not remunerate or assess the performance of their employees in a way that conflicts with the duty to act in the best interests of customers. Accordingly, insurance undertakings are required to disclose the nature of the remuneration received by staff who sell directly to customers (i.e., any bonus payments). The IDD also requires that firms operate and review a process for the approval of each insurance product they offer and to review any significant adaptations of existing products before they are marketed or distributed to customers. This process requires firms to identify target markets and ensure that risks to the target market are assessed and managed.

Treating Customers Fairly. The Principles for Businesses, among other things, require that all regulated firms treat their customers fairly (the “TCF” principle). The emphasis of the TCF principle is on outcomes for customers more than the means by which those outcomes are achieved.

For firms that fall within its scope, the TCF principle affects the whole of the firm’s regulated business with customers. The FCA focuses on a number of key areas where firms need to ensure TCF compliance. Of particular importance for insurers is the emphasis on ensuring adequate governance throughout the product life-cycle (from product design including contract terms through to sales, administration and complaints handling), staff training, record-keeping, remuneration, incentives and preparation and use of management information. It is the responsibility of the senior management of each firm to ensure that compliance with TCF is implemented and fully embedded across the firm’s culture and business. Monitoring firms’ compliance with the TCF principles forms part of the FCA’s core supervisory work.

The FCA has wide-ranging powers to take enforcement action against both firms and individuals (for example, against senior management if it considers that they have failed in their responsibilities) for breach of the TCF principle, including where it finds that a firm’s systems or actions cause actual or potential consumer detriment.

As part of the IDD implementation, the same principles govern the business activities for QBE Europe SA/NV across Continental Europe such as treating customer friendly, adequate governance throughout the product life-cycle, staff training, record-keeping, remuneration, incentives and preparation and use of management information. The BFSMA has also wide investigation powers against firms and individuals.

Recent and Proposed Legal and Regulatory Changes

Brexit. Prior to Brexit, the European Union (Withdrawal Agreement) Act 2020 (the “**Withdrawal Act**”) entered into law in the United Kingdom on January 23, 2020. The Withdrawal Act provides for the Brexit Transition Period during which time existing arrangements between the United Kingdom and the European Union will continue to apply until at least December 31, 2020.

The London market is currently the largest global center for insuring commercial and specialty risk. A substantial amount of insurance and reinsurance is distributed and underwritten both into and out of the United Kingdom, including through the European Union. This level of market access may change depending on how the United Kingdom continues to engage with the European Union following the expiry of the Brexit Transition Period. The ongoing trading relationship (if any) to be put in place between the United Kingdom and the European Union following the expiry of the Brexit Transition Period is yet to be finalized and the outcome remains uncertain.

During the Brexit Transition Period, the United Kingdom continues to benefit from the European single market, under the terms set out in the Withdrawal Act, including temporary passporting rights in financial services and other areas to take advantage of free movement principles in the European

Union treaties. Accordingly, once authorized in one EU Member State or the United Kingdom, an insurer or broker can provide services or establish a branch in another EU Member State or the United Kingdom without the need to seek a separate license. These treaty rights will cease to apply following the expiry of the Brexit Transition Period. Subject to the outcome of any negotiations, the United Kingdom might adopt a number of models to determine its relationship with the European Union and other insurance markets.

The PRA has been heavily involved in the negotiation of Solvency II, which was based on the United Kingdom's own 'risk-based' regime. We therefore expect that, at least for the foreseeable future, the approach to the regulation of United Kingdom insurers is unlikely to change. Unless EEA status is achieved however, the United Kingdom must seek recognition of equivalence under the Solvency II Directive in order to continue to operate in European markets on anything like a level playing field.

If the United Kingdom does not negotiate to maintain access to European markets through membership of the EEA and has not secured a Swiss model bilateral agreement for the insurance sector, United Kingdom insurers may still be able to cover European insurance risks. They could do so by seeking local authorization to establish branches in European countries in which they wish to operate. They would not have the benefit of the passport but could still trade in European Union countries to the extent that they met the local reserving, capital and conduct requirements. Furthermore, there is currently no consistent law governing where insurance is underwritten in the European Union. Accordingly, London market insurers might insure European risks where local law does not trigger the need for a local license (known as non-admitted business), although the ability to conduct non-admitted business may hinge upon the United Kingdom's ability to attain equivalency status for its insurance and reinsurance regulatory regimes. For example, the General Agreement on Trading Services, which is annexed to the World Trade Organization rules, describes marine, aviation and transport risks as suitable for being written on a non-admitted basis. However, without passport rights, it would only be possible for such businesses to be conducted by United Kingdom insurers in the European Union if the United Kingdom reinsurance regulatory regime attains equivalence, under Article 172 of Solvency II. Equivalence is a unilateral and discretionary act of the European Union. There is no requirement to negotiate with the third country and the process can be politically driven.

To mitigate the above, QBE has established a Belgian entity, QBE Europe SA/NV to write the Group's EEA business so as to ensure continuity for the Group's business partners and customers in a post-Brexit Europe (and the entirety of the reinsurance business previously underwritten by QBE Re (Europe) Limited (now dissolved) and the European branch business of QBE UK Limited transferred to QBE Europe SA/NV pursuant to separate (re)insurance business portfolio transfers on January 1, 2019). Along with its head office in Belgium, QBE Europe SA/NV has established branches in Denmark, France, Germany, Italy, Spain, Sweden and the United Kingdom. QBE UK Limited is currently undertaking an additional (re)insurance business portfolio transfer, pursuant to which the business QBE UK Limited previously wrote on a freedom of services basis from the United Kingdom into the EEA will also transfer to QBE Europe SA/NV with a planned effective date prior to expiry of the Brexit Transition Period.

In addition, Lloyd's has also established a Belgian entity, Lloyd's Insurance Company S.A. ("**Lloyd's Brussels**"), an insurance company authorized and regulated by the NBB and regulated by the BFSMA. Lloyd's Brussels is a fully operational, capitalized insurance company under Solvency II, licensed to write non-life risks across the EEA and the United Kingdom. All Lloyd's Brussels policies are 100% reinsured back to Lloyd's London syndicates. Lloyd's is also undertaking an insurance business transfer under Part VII of FSMA (the "**Lloyd's Portfolio Transfer**") to ensure that the existing policies of Lloyd's policyholders (including those of the Lloyd's syndicates managed by the QBE Managing Agent) across the EEA can continue to be serviced without breaching legal or regulatory requirements. The Lloyd's Portfolio Transfer will transfer all non-life direct EEA insurance and inwards German reinsurance business written through Lloyd's allocated to a year of

account from 1993 to 2020 (inclusive) to Lloyd's Brussels. The Lloyd's Portfolio Transfer has a planned effective date prior to expiry of the Brexit Transition Period.

Notwithstanding the changes referred to above, the Group's European Operations will remain headquartered in London. Once the Brexit Transition Period ends, there may be adverse changes in the fiscal, monetary and regulatory environment in which the Group operates. For example, the capital requirements that will apply to the regulated entities within European Operations may increase (particularly when the United Kingdom branch of QBE Europe SA/NV becomes authorized as a third country branch after the expiry of the Brexit Transition Period). These changes may adversely affect its business, results of operations and financial condition. For example, it may become necessary for the Group to amend the existing approval to use a tailored internal model to calculate its SCR or to apply for a separate approval for a QBE Europe SA/NV internal model. In the alternative, it is also possible that regulators in the United Kingdom may use the United Kingdom's withdrawal from the European Union as an opportunity to reduce some of the regulatory requirements of the Solvency II Directive ("**Solvency II**") on insurers, while still ensuring that equivalence is recognized (this is not a potential outcome for QBE Europe SA/NV in Belgium, however, given that it will continue to be part of the European Union). It should also be noted that there is a risk that the United Kingdom branch of QBE Europe SA/NV (which currently writes United Kingdom or rest of the world and European business) will no longer be permitted to write European business from the United Kingdom.

Reform to the Solvency II Directive. The European Insurance and Occupational Pensions Authority is conducting a comprehensive review of the Solvency II regime. The consultation period closed on January 15, 2020. Key proposals currently being considered as part of the review including resolving perceived deficiencies in volatility adjustment methods, revising group supervision definitions and related group governance expectations, reduction of certain reporting requirements, establishment of a recovery and resolution framework for insurers and the introduction of the ability for regulators to impose a capital surcharge for the purpose of mitigating systemic risks. In the context of the United Kingdom's withdrawal from the European Union, as noted above, it is unclear the extent to which United Kingdom regulators will mirror the European Union Solvency II requirements (as they exist before and after reform) following expiry of the Brexit Transition Period.

Reform to the law of insurance contracts in the United Kingdom. In August 2016 the United Kingdom legislation governing aspects of commercial insurance contracts changed. All insurance contracts subject to English law are contracts of utmost good faith. The Insurance Act 2015 specifies that in order to meet the obligation of good faith prospective insureds must make a 'fair presentation of the risk'. Making a fair presentation requires the insured to present information in such a way as to put an insurer on notice that they may need to make further inquiries regarding the risk. Where a misrepresentation or non-disclosure is made that is not deliberate or reckless a proportionate remedy can be applied. This may result in the amount of claims monies paid to the insured being reduced or the premium increased. The risk for QBE is that the change in the approach to misrepresentations and non-disclosures made by insureds will mean a period of practical and judicial uncertainty until sufficient case law develops.

The Enterprise Act 2016 came into effect in May 2017. The Enterprise Act 2016 will imply a term into all insurance contracts made subject to English law to the effect that the insurer must pay all claims within a 'reasonable time'. The insurer is allowed sufficient time to investigate the claim thoroughly but must then pay promptly once liability is established. Although it will be possible to contract out of this implied term, any attempt to do so must be sufficiently transparent for the insured to understand the consequences of the reduced contractual rights.

U.K. Bribery Act 2010. The Bribery Act, which received Royal Assent in April 2010 and which came into force on July 1, 2011, reforms the criminal law to provide a new, modern and

comprehensive scheme of bribery offenses intended to enable courts and prosecutors to respond more effectively to bribery at home or abroad.

The Bribery Act repeals the common law offense of bribery, as well as various statutory offenses, and replaces them with four specific bribery offenses. These consist of two general bribery offenses, which cover bribing another person and accepting a bribe, and a new offense of bribery of a foreign official. Most significantly, the Bribery Act introduced a far-reaching new ‘corporate offense’, which consists of failure by a commercial organization to prevent a bribe being paid on its behalf by a person associated with the organization. The offense does not need to have been committed in the United Kingdom, and the offense does not apply only to United Kingdom organizations, but also to any body corporate, regardless of its jurisdiction of incorporation, which does business in the United Kingdom. The associated person could be any person which provides services for the organization, for instance, an employee, subsidiary, agent or outsourced service provider. The organization will be criminally liable for failing to prevent the bribery, unless it can demonstrate that it had adequate procedures in place to prevent bribery. Guidance as to the meaning of ‘adequate procedures’ was published on March 30, 2011, but notwithstanding this, organizations must carefully assess their own procedures based on its individual circumstances. Prosecution in relation to the corporate offense could result in an unlimited fine.

Data protection laws. The Data Protection Act 1998 of the United Kingdom, which previously regulated the obtaining and use of personal data relating to living individuals in the United Kingdom, was replaced by the European Union’s General Data Protection Regulation (“**GDPR**”) with effect from May 25, 2018 (which was implemented in the United Kingdom and other Continental European countries subsequently). GDPR, which applies to everyone working in the Group’s European business requires, among other things, businesses to perform data protection impact assessments, and entitles data subjects to data portability. It also grants increased enforcement powers to national data protection authorities (and provides for maximum fines for non-compliance of the higher of €20 million and four per cent of an organization’s worldwide turnover). The concept of accountability is at the heart of the GDPR rules, meaning that organizations need to be able to demonstrate that they have analysed the GDPR’s requirements in relation to their processing of personal data and that they have implemented a system or programme that allows them to achieve compliance. It is not anticipated that the substantive law on data protection will change in the United Kingdom after the expiration of the implementation period provided for in the Withdrawal Act, although (dependent on the outcome of ongoing negotiations between the United Kingdom and the European Union) it is possible that it may be more difficult for firms in the EEA to transfer personal data to the United Kingdom.

Amendments to IFRS. Changes to IFRS for insurance companies have been proposed in recent years and further changes may be proposed in the future. The International Accounting Standards Board has issued a new insurance contract standard, IFRS 17, with an effective date of January 1, 2023. Replacing IFRS 4, IFRS 17 will change the presentation of insurance contracts in the financial statements and the recognition and measurement criteria thereof. These and any other changes to IFRS that may be proposed in the future, whether or not specifically targeted at insurance companies, could adversely affect the business, prospects, results of operations and financial position of the relevant operating subsidiaries.

United States Insurance Regulation

General

Our U.S. insurance subsidiaries, which are domiciled in Indiana, Minnesota, North Dakota, Pennsylvania and Wisconsin, are regulated by the insurance regulators in the states in which they are domiciled as well as each of the insurance regulators in the other states where each is authorized to

transact insurance business. Such state insurance regulators are the primary regulators with authority over the supervision of our U.S. insurance subsidiaries. The NAIC is a standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. The NAIC itself is not a regulator, but through the NAIC, state insurance regulators establish standards and best practices, conduct peer review and coordinate regulatory oversight. The NAIC develops model laws and regulations that often form the basis, once enacted at the state level (sometimes with changes), of state insurance statutes and regulations.

The insurance statutes and regulations that apply to our U.S. insurance subsidiaries are extensive and such regulation is designed primarily for the protection of policyholders of our U.S. insurance subsidiaries and not shareholders or investors. The insurance statutes and regulations govern many activities and products related to our U.S. insurance subsidiaries, including requirements for licenses to transact insurance business, rates for insurance business, policy language and forms, rating, underwriting and claims practices, limitations on the amount of premiums that may be charged, the amount of compensation that may be paid as a percentage of premiums, corporate governance, claims adequacy, market conduct, transactions with affiliates, provisioning requirements, dividends, mandatory capital and surplus requirements, insurer solvency, withdrawal from certain markets, investment standards and other related matters. In addition, our U.S. insurance subsidiaries are subject to statutes, regulations and judicial decisions that define the risks and benefits for which insurance is sought and provided, including in such areas as product liability and environmental coverages. Financial statements filed by our U.S. insurance subsidiaries, and examination reports filed by our relevant insurance regulators, are generally publicly available.

Financial Reporting and Statutory Examinations

Financial Statements. Our U.S. insurance subsidiaries are required to file detailed annual and quarterly financial statements and other reports with state insurance regulators in each of the states in which they are licensed to transact business. Such annual and quarterly financial statements and other reports are required to be prepared on a calendar year basis and include financial statements and other information prepared on a statutory accounting basis (“**statutory accounting practices**” or “**SAP**”) promulgated by the NAIC, which basis differs in certain material respects from U.S. GAAP.

Market Conduct Examinations. The laws and regulations of the states where our U.S. insurance subsidiaries operate include numerous provisions governing the market place activities of insurers, including provisions governing the form and content of disclosure to consumers, product illustrations, advertising, sales and underwriting practices, complaint handling and claims handling. These provisions are enforced by the state insurance regulatory agencies through periodic market conduct examinations of our U.S. insurance subsidiaries. To date none of these market conduct examinations have resulted in material adverse findings or material fines.

Financial Examinations. As part of the regulatory oversight process, domiciliary state insurance regulators conduct periodic detailed examinations of the books, records, accounts, financial reporting and business practices of insurers domiciled in their state, generally every five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. The State of Pennsylvania Department of Insurance has been designated as the NAIC’s Lead Coordinating State for our U.S. insurance subsidiaries. Our U.S. insurance subsidiaries endeavor to respond to such inquiries in an appropriate way and to take corrective action if warranted. The respective reports filed by the insurance regulators with respect to the most recent periodic examinations of our U.S. insurance subsidiaries contained no material adverse findings.

Insurance Regulatory Information System. The Insurance Regulatory Information System (“**IRIS**”) was developed by the NAIC to assist state insurance regulators in monitoring the financial condition of insurance companies operating in their states. IRIS identifies twelve key financial ratios and specifies “usual ranges” for each ratio. Insurers typically submit financial information about themselves to the NAIC annually, which in turn analyzes the data using the prescribed ratios. While, in some years, it may not be unusual for financially sound insurance companies to have one or more ratios with results outside the usual ranges, departures from the usual ranges may lead to inquiries from state insurance regulators. Generally, regulators will begin to investigate or monitor an insurance company if four or more of its IRIS ratios fall outside the usual ranges and insufficient explanatory information is not available as provided. Based on the most recent statutory filings of our U.S. insurance subsidiaries, none of those subsidiaries would be subject to enhanced regulatory scrutiny.

Holding Company System Regulation

We and our U.S. insurance subsidiaries are subject to regulation under the insurance holding company system laws of various jurisdictions, including each jurisdiction in which our U.S. insurance subsidiaries are domiciled. The insurance holding company system laws and regulations vary from jurisdiction to jurisdiction, but generally require, among other things, the insurance holding company and each insurance company directly or indirectly owned by the holding company, to register with the insurance departments of their respective domiciliary states and to furnish annually financial and other information about the operations of companies within the holding company system, including information concerning its holding company and affiliates and its capital structure, ownership, financial condition, certain affiliate transactions and general business operations. Generally, transactions between an insurance company registrant and any company within its holding company system must be fair and reasonable and, if material or relating to certain types of transactions, will require prior notification to or approval (or non-disapproval) from the registrant’s domiciliary regulator. Such laws and regulations also require advance regulatory approval by the domiciliary regulator of any direct or indirect change of control of a subject registrant insurance company.

Because such regulation focuses on the ultimate control of the insurance company, regulatory compliance would be required with respect to any person that sought to acquire control of QBE. Generally, such control is presumptively deemed to exist through the ownership of 10% or more of the outstanding voting securities of a domestic insurance company or any entity that controls a domestic insurance company, although control can otherwise exist under certain circumstances. Thus, any transaction involving the acquisition of 10% or more of QBE’s common stock would generally require prior approval by the state insurance regulators in Indiana, Minnesota, North Dakota, Pennsylvania and Wisconsin. Such approval requirements may deter, delay, or prevent certain transactions affecting the ownership of QBE’s common stock. Moreover, prior notification would be required in those states where our insurance subsidiaries are admitted to transact business that have adopted pre-acquisition notification provisions. While these pre-acquisition notification statutes do not contain the authority for the state insurance regulators to disapprove the change in control, they do authorize regulatory action in the affected state if particular conditions exist such as undue market concentration. Any future transactions that would constitute a change in control of our insurance subsidiaries may require prior notification in those states that have adopted pre-acquisition notification laws. In addition, the NAIC’s Insurance Holding Company System Regulatory Act (the “**Model Act**”) amendments described below include a requirement to the effect that any person divesting control over an insurer must provide 30 days’ notice to the regulator and the insurer (unless a person acquiring control from the divesting party has filed notice of the proposed acquisition of control with the relevant insurance regulator). The amendments direct the domestic state insurance regulator to determine those instances in which a divesting person will be required to file for and obtain approval of the transaction.

In the wake of the 2008-09 global financial crisis, the NAIC, as part of its solvency modernization initiative, engaged in a concerted effort to strengthen the ability of U.S. state insurance regulators to monitor U.S. insurance holding company groups. The NAIC's solvency modernization initiative, among other things, has expanded the authority and focus of state insurance regulators to encompass U.S. insurance holding company systems at the group level. The holding company reform efforts at the NAIC culminated in December 2010 in the adoption of significant amendments to the Model Act (as so amended, the "**Amended Model Act**") and the NAIC's Insurance Holding Company System Model Regulation (the "**Amended Model Regulation**"). Among other things, the Amended Model Act and the Amended Model Regulation explicitly address "enterprise risk"—the risk that an activity, circumstance, event or series of events involving one or more affiliates of an insurer that, if not remedied promptly, is likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system as a whole—and require annual reporting of potential enterprise risk and access by state insurance regulators to information concerning not only domestic insurers, but also any affiliate within the insurer's holding company system to allow regulators to assess such enterprise risk (including any "contagion" risk). The NAIC's solvency modernization initiative also resulted in the adoption of the ORSA Act, which requires larger insurers to at least annually assess the adequacy of the insurer's and its group's risk management and current and future solvency position. In 2014, the NAIC promulgated further revisions to the Amended Model Act that would, following enactment at the state level, permit an insurance commissioner to acknowledge the authority of another regulatory official, from another jurisdiction, to act as the group-wide supervisor for an internationally active insurance group. U.S. state insurance regulators are developing a group capital calculation for use in solvency-monitoring activities. The calculation is intended to provide additional analytical information to the lead state for use in assessing group risks and capital adequacy to complement the current holding company analysis in the United States. It will include information on potential risks to policyholders emanating from outside the insurance companies, as well as location and sources of capital within the group. The calculation will help regulators perform an assessment of capital when combined with other information obtained by regulators. The NAIC's Group Capital Calculation (E) Working Group leads this effort. In 2019, the Working Group completed its construction of a U.S. group capital calculation and 32 insurance groups field-tested the calculation in the second half of 2019. In 2020, the calculation and corresponding instructions are expected to be revised to incorporate findings from the testing and then ultimately adopted by the NAIC in late 2020.

Rate and Form Approvals

Our U.S. insurance subsidiaries are subject to each state's laws and regulations regarding policy rate and form approvals. The applicable state laws and regulations are used by states to establish standards to ensure that rates are not excessive, inadequate, unfairly discriminatory or used to engage in unfair price competition. An insurer's ability to increase rates and the relative timing of the process are dependent upon each respective state's requirements.

Statutory Surplus and Dividend Limitations

Statutory surplus (i.e., the net worth of an insurance company, as calculated in accordance with SAP) is an important measure utilized by insurance regulators and rating agencies to assess our U.S. insurance subsidiaries' ability to support business operations and provide dividend capacity. As a holding company with no significant business operations of its own, QBE relies on dividends as one of the principal sources of cash to meet its obligations. Our U.S. insurance subsidiaries are subject to various state statutory and regulatory restrictions that limit the amount of dividends or other distributions that may be paid without prior approval from the applicable regulatory authorities. These restrictions differ by state, but are generally based on calculations incorporating statutory surplus, statutory net income and/or investment income.

Risk Based Capital Requirements

In order to enhance the regulation of insurer solvency, the NAIC adopted in December 1993 a formula and model law to implement risk-based capital requirements for property and casualty insurance companies. These risk-based capital requirements are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policyholder obligations. The risk-based capital model for property and casualty insurance companies measures three major areas of risk facing property and casualty insurers:

- underwriting, which encompasses the risk of adverse loss development and inadequate pricing;
- declines in asset values arising from credit risk; and
- declines in asset values arising from investment risks.

An insurer will be subject to varying degrees of regulatory action depending on how its statutory surplus compares to its risk-based capital calculation. For equity investments in an insurance company affiliate, the risk-based capital requirements for the equity securities of such affiliate would generally be our U.S. insurance subsidiaries' proportionate share of the affiliate's risk-based capital requirement.

Under the approved formula, an insurer's total adjusted capital is compared to its authorized control level risk-based capital. If this ratio is above a minimum threshold, no company or regulatory action is necessary. Below this threshold are four distinct action levels at which a regulator can intervene with increasing degrees of authority over an insurer as the ratio of surplus to risk-based capital requirement decreases. The four action levels include:

- insurer is required to submit a plan for corrective action;
- insurer is subject to examination, analysis and specific corrective action;
- regulators may place insurer under regulatory control; and
- regulators are required to place insurer under regulatory control.

As of December 31, 2019, each of our U.S. insurance subsidiaries' surplus (as calculated for statutory purposes) is above the risk-based capital thresholds that would require either company or regulatory action.

Regulation of Investments

Our U.S. insurance subsidiaries are subject to state laws and regulations that require diversification of their investment portfolios and impose qualitative and quantitative limits upon the amount and type of their investments in certain investment categories such as non-investment grade fixed income securities, real estate and equity investments, and imposes certain concentration limits with respect to certain types of investment classes. Investments exceeding regulatory limitations are generally treated as non-admitted assets for purposes of measuring statutory surplus, and, in some instances, require divestiture.

Guaranty Associations

Virtually all states where the U.S. insurance subsidiaries are licensed to transact business have insurance guaranty fund laws requiring insurance companies doing business within those jurisdictions

to participate in guaranty associations. Guaranty associations are organized to cover, subject to limits, contractual obligations under insurance policies, and certificates issued under group insurance policies, issued by impaired, insolvent or failed insurance companies. These associations levy assessments, up to prescribed limits, on each member insurer doing business in a particular state on the basis of their proportionate share of the premiums written by all member insurers in the lines of business in which the impaired, insolvent or failed insurer is engaged. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets, usually over a period of years. Assessments levied against our U.S. insurance subsidiaries by guaranty associations during each of the past five years have not been material.

U.S. Federal Government Oversight

The U.S. federal government's oversight of the insurance industry was expanded under the Dodd-Frank Act. Prior to the enactment of the Dodd-Frank Act in July 2010, the U.S. federal government's regulation of the insurance industry was essentially limited to certain insurance products, such as flood insurance, MPCl and reinsurance of losses from terrorism. As part of the overall federal financial regulatory reform package contained in the Dodd-Frank Act, Congress has legislated reforms in the reinsurance and surplus lines sectors.

Under the reinsurance credit provisions established under the Dodd-Frank Act, a U.S. ceding insurer need not satisfy the reinsurance credit rules of any nondomestic state if the following two conditions are met: (1) the ceding insurer's domestic state is NAIC-accredited and (2) the ceding insurer's domestic state recognizes credit for reinsurance for its ceded risk.

The Dodd-Frank Act incorporates the Nonadmitted and Reinsurance Reform Act of 2010 ("NRRA"), which became effective on July 21, 2011. Among other things, the NRRA establishes national uniform standards on how states may regulate and tax surplus lines insurance and sets national standards concerning the regulation of reinsurance. In particular, the NRRA gives regulators in the home state of an insured exclusive authority to regulate and tax surplus lines insurance transactions, and regulators in a ceding insurer's state of domicile the sole responsibility for regulating the balance sheet credit that the ceding insurer may take for reinsurance recoverables.

The Dodd-Frank Act also created the FIO under the U.S. Department of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the FIO is authorized to monitor all aspects of the insurance industry and of lines of business, other than certain health insurance, certain long-term care insurance and crop insurance, monitor the extent to which traditionally underserved communities and consumers have access to affordable non-health insurance products and to represent the United States on prudential aspects of international insurance matters, including at the International Association of Insurance Supervisors. The FIO also has the authority to gather information, to advise the Treasury Secretary on key issues (such as terrorism risk coverage and insurance accounting rules) and to send reports to the United States' Congress.

The Dodd-Frank Act also established the FSOC, which is authorized to subject non-bank financial companies (including insurance holding companies) to enhanced prudential standards and supervision by the Federal Reserve if the FSOC determines the company to be "systemically significant." The director of the FIO serves as a nonvoting member of the FSOC and has the ability to recommend to the FSOC that an insurance company or an insurance holding company be deemed "systemically significant." There are currently no such non-bank financial companies designated by the FSOC as "systematically significant."

In limited circumstances relating to "covered agreements" (bilateral or multilateral agreements between the U.S. and a foreign authority regarding prudential measures with respect to the business of insurance or reinsurance), the FIO can declare a state insurance law or regulation "preempted," but this can be done only after extensive consultation with state insurance regulators and the Office of the

U.S. Trade Representative, and the satisfaction of several other conditions and procedural requirements. In 2017 and 2018, the U.S. Treasury Department announced it had formally signed covered agreements with the European Union and the United Kingdom, respectively. These agreements require states to eliminate reinsurance collateral requirements for certain qualifying reinsurers within five years (by September 22, 2022) or risk preemption. In exchange, the European Union and the United Kingdom will not impose local presence requirements on U.S. firms operating in the European Union and the United Kingdom, and effectively must defer to U.S. group capital regulation for U.S. entities of European Union or U.K.-based firms.

Historically, U.S. state insurance regulators have required non-U.S. reinsurers to hold 100% consumer protection collateral within the United States for risk assumed from U.S. insurers. Foreign reinsurers' regulators and politicians have objected to this requirement, arguing it reduces capital available for other purposes. State insurance regulators recognize variation across states makes planning for consumer protection collateral liability more uncertain, and thus potentially more expensive. As such, they have been working through the NAIC to reduce consumer protection collateral requirements in a consistent manner, commensurate with the financial strength of the reinsurer and the quality of the regulatory regime that oversees it.

In 2011, the NAIC passed amendments to the Credit for Reinsurance Model Law (#785) and Credit for Reinsurance Model Regulation (#786) (together, the "CFR Model Laws"). In states that have adopted such, the amendments allow certified foreign reinsurers to post significantly less than 100% consumer protection collateral for U.S. claims.

On June 25, 2019, the NAIC Executive (EX) Committee and Plenary adopted revisions to the CFR Model Laws, which implement the reinsurance collateral provisions of the Covered Agreements with the European Union and the United Kingdom. These revisions create a new type of jurisdiction, which is called a "Reciprocal Jurisdiction" and eliminate reinsurance collateral requirements and local presence requirements for European Union and U.K. reinsurers that maintain a minimum amount of own-funds equivalent to US\$250 million and a solvency capital requirement of 100% under Solvency II. U.S. states must adopt these revisions prior to September 1, 2022 or face potential federal preemption by the Federal Insurance Office. The revisions also provide Reciprocal Jurisdiction status for accredited U.S. jurisdictions and certain "Qualified Jurisdictions" if they meet certain requirements in the credit for reinsurance models.

The U.S. federal government has also undertaken in the past, and may undertake in the future, initiatives in several other areas that may impact the insurance industry, including tort reform, corporate governance and the taxation of insurance companies. We cannot predict with certainty whether, or in what form, future reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect our businesses or whether any effects will be material. Changes in federal statutes or state statutes and regulations may be more restrictive than current requirements, may result in higher costs and could materially adversely affect the insurance industry and our business, financial condition and results of operations.

The following is a summary of certain aspects of the Dodd-Frank Act that may affect us:

Orderly Liquidation. The Dodd-Frank Act provides the Federal Deposit Insurance Corporation ("**FDIC**") with expanded orderly liquidation powers over financial institution holding companies. Insurance holding companies and any non-insurance subsidiaries of insurers may be subject to this authority. Insurance companies are generally exempt from the liquidation authority and would remain subject to state-based insurance resolution statutes. Under the provisions of the Dodd-Frank Act relating to the resolution or liquidation of certain types of financial institutions, if we were to become insolvent or were in danger of defaulting on our obligations, we could be compelled to undergo liquidation with the FDIC as receiver. In order for FDIC oversight to be applicable, a number of determinations would have to be made, including that a default by the affected company would have serious adverse effects on financial stability in the U.S. If the FDIC were to be appointed as the

receiver for such a company, the liquidation of that company would occur under the provisions of the new liquidation authority, and not under the Bankruptcy Code.

Derivatives. The Dodd-Frank Act generally imposed comprehensive regulation with respect to derivatives transactions that fall within the ‘swap’ or ‘security-based swap’ definitions in the Dodd-Frank Act. Under rules adopted (or in some cases to be adopted or implemented) by the CFTC for swaps and by the SEC for security-based swaps, swaps and security-based swaps are required (or will be required) to be traded on an exchange or regulated swap execution facility and to be centrally cleared through regulated central clearinghouses, unless an exemption is available, which exemptions include an exemption for transactions not accepted for trading or central clearing. The rules adopted under the Dodd-Frank Act also impose, among other requirements, mandatory minimum levels of margin for non-cleared transactions. The requirements to exchange trade and centrally clear certain swap and security-based swap transactions, as well as the mandatory minimum margin requirements, may, due to the added costs of such transactions, increase our costs and may inhibit our ability to engage in various derivatives transactions of the type we have found useful.

Gramm-Leach-Bliley Act and State Privacy Laws

The Gramm-Leach Bliley Act (the “**GLBA**”) and regulations promulgated under the GLBA, as well as state privacy statutes and regulations, govern the privacy of consumer financial information. The regulations limit disclosure by financial institutions of “nonpublic personal information” about individuals who obtain financial products or services for personal, family or household purposes. The GLBA, as well as the Fair Credit Reporting Act (“**FCRA**”) and related regulations, as well as state financial privacy laws, generally apply to restrict disclosures to nonaffiliated third parties, subject to specified exceptions, and the FCRA in particular puts certain limitations on the disclosure of consumer reports to third parties and affiliates or the use of consumer reports by affiliates for marketing purposes without providing certain consumer choices. Financial privacy laws also create certain information security obligations to safeguard personal information. In addition to financial privacy laws, there are generally applicable privacy laws and regulation at the federal and state level that prohibit unfair or deceptive business practices, and create information security obligations, including laws that require data breach notification in all 50 states, the District of Columbia, Puerto Rico, Guam and the U.S. Virgin Islands. Privacy law and regulation is an evolving area, with new laws like the California Consumer Privacy Act that came into effect in January 2020 and other state and federal regulation proposals requiring us to continue to monitor developments and occasionally invest in resources to ensure continuing compliance.

New York’s cybersecurity regulation for financial services institutions, including insurance entities under its jurisdiction, requires entities to establish and maintain a cybersecurity program designed to protect private consumer data. The regulation specifically provides for: (i) controls relating to the governance framework for a cybersecurity program; (ii) risk-based minimum standards for technology systems for data protection; (iii) minimum standards for cyber breach responses, including notice to the New York Department of Financial Services (“**NYDFS**”) of material events; and (iv) identification and documentation of material deficiencies, remediation plans and annual certification of regulatory compliance with the NYDFS.

In addition, in October 2017, the NAIC adopted the Insurance Data Security Model Law (the “**Cybersecurity Model Law**”), which is intended to establish the standards for data security and for the investigation and notification of data breaches applicable to insurance licensees in states adopting such law. The NAIC model law is functionally similar to the NYDFS rule.

Terrorism Risk Insurance Act

On November 26, 2002, President Bush signed into law the Terrorism Risk Insurance Act of 2002 (as amended, “**TRIPRA**”). The act has been amended and extended several times, most recently by the Terrorism Risk Insurance Program Reauthorization Act of 2019, which extends the terrorism

insurance program through December 31, 2027. TRIPRA provides a federal backstop for insurance-related losses resulting from certified acts of terrorism on U.S. soil or against certain U.S. air carriers, vessels or foreign missions. Under TRIPRA, all US-based property and casualty insurers are required to make terrorism insurance coverage available in specified commercial property and casualty insurance lines. The federal backstop is triggered if losses from an act of terrorism (or aggregate losses from multiple acts of terrorism) total at least US\$120 million during the calendar year (the “**Program Trigger**”). The Program Trigger increased to US\$140 million for calendar year 2017, US\$160 million for calendar year 2018, US\$180 million for calendar year 2019 and US\$200 million for calendar year 2020. At that point, the U.S. federal government will pay 84% of covered losses that exceed an insurer’s deductible (the “**Federal Co-share**”) up to a combined annual aggregate limit for the U.S. federal government and all insurers of US\$100 billion. The Federal Co-share was reduced to: 83% for calendar year 2017, 82% for calendar year 2018, 81% for calendar year 2019 and 80% for calendar year 2020. The insurer deductible for each year is fixed at 20% of an insurer’s direct commercial earned premiums for property and casualty insurance for the prior calendar year, excluding certain non-covered lines of business such as commercial auto, surety, professional liability, farmowners’ multi-peril and earthquake lines of business.

All of our U.S. insurance subsidiaries are impacted by TRIPRA, as well as QBE UK Limited in our International segment and certain syndicates managed by QBE Underwriting Limited in our Lloyd’s operations, each of which writes U.S. business.

Federal and State Legislative and Regulatory Changes

From time to time, various regulatory and legislative changes have been proposed in the insurance industry. The NAIC and many state insurance regulators are re-examining existing laws and regulations specifically focusing on issues relating to the solvency of insurance companies, interpretations of existing laws and the development of new laws. During the past several years, various regulatory and legislative bodies have adopted or proposed new laws or regulations to address the cyclical nature of the insurance industry, catastrophic events and insurance capacity and pricing and increased access to information about non-regulated affiliates of insurers. These regulations include (i) the creation of “market assistance plans” under which insurers are induced to provide certain coverages, (ii) restrictions on the ability of insurers to rescind or otherwise cancel certain policies in mid-term or to not renew policies at their scheduled expirations, (iii) advance notice requirements or limitations imposed for certain policy non-renewals, (iv) limitations upon or decreases in rates permitted to be charged, (v) expansion of governmental involvement in the insurance market, (vi) increased regulation of insurers’ policy administration and claims handling practices and (vii) regulation of insurance producer activities and disclosure of compensation paid thereto. The NAIC, FIO and state insurance regulators continually re-examine the appropriate nature and scope of insurance regulation.

Bermuda

On November 26, 2015, the European Commission recommended that Bermuda be granted full equivalency under Solvency II for the purpose of provisions relating to reinsurance, group solvency and group supervision. The process for a three-month review by the European Parliament and Council was subsequently also completed. As such, Bermuda is considered by all EU Member States as applying equivalent statutory insurance regime in accordance with the requirement of the relevant Solvency II articles.

International Association of Insurance Supervisors

The IAIS represents insurance regulators and supervisors of more than 200 jurisdictions in nearly 140 countries and seeks to promote globally consistent insurance industry supervision. The IAIS itself is not a regulator, but one of its activities is to develop insurance regulatory standards for use by local authorities across the globe.

On November 14, 2019, the IAIS adopted a comprehensive set of reforms that enable more effective cross-border supervision of insurance groups and contribute to global financial stability. APRA as a member of IAIS' Executive Committee and our Group Wide Supervisor has been actively involved in their development. The adopted reforms include the ComFrame and the ICS. The ComFrame aims to help supervisors efficiently and effectively cooperate and coordinate by providing a basis for comparability of IAIGs regulation and supervision processes. The ICS was developed with the purpose of creating a common language for supervisory discussions of group solvency of IAIGs to enhance global convergence among group capital standards.

Accounting Standards.

Changes to AAS and IFRS for insurance companies have been proposed in recent years and further changes may be proposed in the future. The IASB has issued a new insurance contract standard, IFRS 17, which has been adopted into AAS. The current effective date is January 1, 2021; however, the IASB has tentatively agreed to postpone this to January 1, 2023, which is expected to also apply to AAS. Replacing IFRS 4, IFRS 17 will change the presentation of insurance contracts in the financial statements and the recognition and measurement criteria thereof. These and any other changes to IFRS that may be proposed in the future, whether or not specifically targeted at insurance companies, could adversely affect the business, prospects, results of operations and financial position of the relevant operating subsidiaries.

OUR BOARD AND SENIOR MANAGEMENT

Overview

Our Board currently comprises eight directors, being the independent chairman, six other independent non-executive directors and the Group chief executive officer. All non-executive directors on our Board are considered independent, using the “independence” definition of the ASX Corporate Governance Council. Applying this definition, the Board has determined that a non-executive director’s relationship with QBE as a professional adviser, consultant, supplier, customer or otherwise is not material unless amounts paid under that relationship exceed 0.1% of our revenue. None of the independent directors provide services to us other than in their capacity as an independent director and they do not have a business relationship with any other director on the Board or otherwise with us. The role of chairman and Group chief executive officer are not exercised by the same individual.

Directors are selected to achieve a broad range of qualifications, skills, experience, diversity and geographic location of the Board complementary to our activities. The Board regularly discusses its composition, including the nomination of potential members. All directors are members of the nomination committee and are involved in the selection of new Board members. External consultants may be engaged where necessary in searching for prospective Board members. The Board has adopted non-executive director nomination guidelines.

The chairman oversees the performance of the Board, its committees and each director. The Board regularly reviews its performance through internal and external assessments, and recommendations for either improvement or increased focus are agreed and then implemented. In 2019, a Board evaluation was undertaken using the services of external consultants. The review covers the performance of the Board and its committees. The Chairman is in regular liaison with the independent directors regarding their performance. The result of the review was reported to the Chairman and discussed in detail by the Board in June 2019.

Our constitution provides that no director, except the Group chief executive officer, shall hold office for a continuous period in excess of three years or past the third annual general meeting following the director’s appointment, whichever is the longer, without submitting for re-election. If no such director would otherwise be required to submit for re-election but the listing rules of the ASX require that an election of directors be held, the director to retire at the annual general meeting will be the director who has been longest in office since their last election, but, as between persons who became directors on the same day, the one to retire shall (unless they otherwise agree among themselves) be determined by lot. Retiring directors may offer themselves for re-election at the annual general meeting. Directors appointed by the Board are subject to re-election at the annual general meeting. Under our constitution, there is no maximum fixed term or retirement age for non-executive directors.

The period for which a director has served on a Board is not part of the ASX Corporate Governance Council’s independence definition. Nevertheless, as a general guide, the Board has agreed that a non-executive director’s term should be approximately 10 years. The Board considers that a mandatory limit on tenure would deprive us of valuable and relevant corporate experience in the complex world of international general insurance and reinsurance.

Directors advise the Board on an ongoing basis of any interest they have that they believe could conflict with our interests. If a potential conflict does arise, either the director concerned may choose not to, or the Board may decide he or she should not, receive documents or take part in Board discussions while the matter is being considered. There are no material conflicts between any duties of QBE and any private interests or other duties of the members of our Board that have not been disclosed.

The role of the Board is to represent and serve the interests of shareholders by providing guidance and oversight of the QBE’s strategies, policies and performance. This includes demonstrating leadership,

setting the strategic direction for the Group, monitoring the performance of management in the delivery of strategy, and approving and instilling of the values and desired culture of the Group. The Board's principal objective is to maintain and increase shareholder value while ensuring that the activities of the Group are properly managed.

The Board ensures it has the information it requires to be effective including, where necessary, external professional advice. A non-executive director may seek such advice at our cost with the consent of the chairman. All directors would receive a copy of such advice. Non-executive directors may attend relevant external training courses at our cost with the consent of the chairman.

Strategic issues and management's detailed budget and three-year business plans are reviewed at least annually by the Board. The Board receives updated forecasts during the year. Visits by non-executive directors to our offices in key locations are encouraged. To assist the Board in maintaining its understanding of the business and in effectively assessing management, directors attend regular presentations by the divisional chief executive officers and other senior managers of the various divisions on topics, including budgets, three year business plans and operating performance, and have contact with senior employees at numerous times and in various forums during the year. The Board meets regularly in Australia and, due to our substantial overseas operations, in the United Kingdom and United States each year, usually for a total of 5 days. Meetings are held in other overseas offices as and when the Board considers it appropriate. Each meeting normally considers reports from the Group chief executive officer and Group chief financial officer together with other relevant reports. The Board regularly meets in the absence of management. The Chairman and Group chief executive officer, and Board members in general, have substantial contact outside Board and committee meetings.

The Board delegates responsibility to the Group chief executive officer for management of the business on a day-to-day basis.

For more information on our corporate governance (including the responsibilities of the Board and our senior management), see our Corporate Governance Statement included the extract of our 2019 Annual Financial Report available on our U.S. Investor Website.

Board of Directors

Currently, our Board consists of the following nine directors, all of whom may be contacted at our principal executive offices:

<u>Name</u>	<u>Position</u>	<u>Age</u>
Michael Wilkins	Non-executive director and chairman	63
Patrick Regan	Group chief executive officer and director	54
Stephen Fitzgerald	Non-executive director	56
John M. Green	Non-executive director and deputy chairman	67
Kathryn Lisson	Non-executive director	68
Sir Brian Pomeroy	Non-executive director	75
Jann Skinner	Non-executive director	63
Rolf Tolle	Non-executive director	72

Mr. Michael (Mike) Wilkins (B Com, MBA, FCA, FAICD). Mike was appointed as an independent non-executive director in November 2016 and as Chairman effective March 1, 2020. Mike is Deputy Chairman of the People & Remuneration Committee and a member of the Audit and Operations & Technology Committees.

Mike has more than 30 years' experience in financial services. He was the Managing Director and CEO of Insurance Australia Group Limited until November 2015 and previously served as Managing

Director and CEO of Promina Group Limited and Managing Director of Tyndall Australia Limited. He is currently a non-executive director of Medibank Private Limited (appointed in May 2017) and previously served as a non-executive director of AMP Limited (September 2016 to February 2020), Alinta Limited, Maple-Brown Abbott Limited, The Geneva Association and the Australian Business and Community Network. Mike was the founding member of the Australian Business Roundtable for Disaster Resilience & Safer Communities from 2013 until his retirement in 2015.

Mr. Patrick Regan (BSc, FCA). Patrick (Pat) Regan joined the Group in 2014 and was appointed Group chief executive officer in 2018. He previously held the position of Group chief financial officer (June 2014 to September 2017) and Chief Executive Officer, Australian & New Zealand Operations (August 2016 to December 2017). Before joining the Group, Pat was the Chief Financial Officer at Aviva plc in London (2010 to 2014) with responsibility for finance, strategy, investor relations and mergers and acquisitions. Pat has over 30 years' business experience with more than 20 of those in insurance and financial services. Pat was previously the CFO/COO of Willis and has held several roles at RSA and AXA.

Mr. Stephen Fitzgerald (BEc). Stephen Fitzgerald was appointed as an independent non-executive director in 2014. He is Chairman of the Investment Committee and People & Remuneration Committee. He is also a member of the Risk & Capital Committee.

Stephen enjoyed a long career with Goldman Sachs (1992–2012) holding a number of leadership roles in London, Tokyo, Hong Kong and Australia. He was Chairman of Goldman Sachs, Australia and New Zealand when he retired in 2012. Stephen was also previously a member of the Board of Guardians of the Future Fund (Australia's Sovereign Wealth Fund). Stephen is currently the Managing Partner of Affirmative Investment Management and sits on the board of The Great Barrier Reef Foundation, the Male Champions of Change Limited and is a member of the Investment Committee of the British Museum.

Mr. John M. Green (B. JURIS/LLB, FAICD, SF FIN). John M. Green became an independent non-executive director in 2010. As well as Deputy Chairman of the Board, he is also Deputy Chairman of the Investment and Operations & Technology Committees and a member of the People & Remuneration Risk & Capital, and Audit Committees. He also chaired the Board's subcommittee on QBE's self-assessment against APRA's CBA report on governance, accountability and culture.

John has extensive Australian and international board and advisory experience, including as a director of Worley Limited (2002–2016), as an executive director at Macquarie Group leading its financial institutions group, and as a partner at two major law firms. John is a non-executive director of the Cyber Security Cooperative Research Centre and Challenger Limited (both appointed December 2017). He is also a novelist and co-founder of independent book publisher Pantera Press.

Ms. Kathryn Lisson (BSc (Hons)). Kathryn (Kathy) Lisson was appointed as a non-executive director in September 2016. Kathy is Chair of the Operations & Technology Committee and a member of the Audit Committee.

Kathy has over 30 years' experience across insurance and banking in technology, operations and management. In England, she was Chief Operating Officer for two insurance companies (QBE Europe and Brit Insurance) and Operational Transformation Director at Barclays Bank, which included delivering global solutions in digital technology, cyber security and IT risk. In Canada, Kathy held several executive positions at Bank of Montreal, including President of its Mortgage Corporation and EVP Technology Strategy and Delivery. Kathy was also a senior partner at Ernst & Young and Price Waterhouse in Canada, leading their insurance and banking advisory practices. Kathy has previously held non-executive director roles in the United Kingdom and in Canada.

Sir Brian Pomeroy (MA, FCA). Sir Brian Pomeroy was appointed as an independent non-executive director in June 2014. Sir Brian is Deputy Chairman of the Audit Committee and a member of the Investment and Risk & Capital Committees.

Sir Brian has extensive experience in the insurance industry, including in his previous role as a Nominated Member of the Council of Lloyd's and as Chairman of the Independent Commission on Equitable Life Payments. He was formerly a non-executive member of the Board of the Financial Conduct Authority in the United Kingdom and a non-executive director on QBE's European regulated boards. Sir Brian also chaired the U.K. Treasury's Financial Inclusion Taskforce, the Payments Council and the Gambling Commission. He was the senior partner of Deloitte Consulting in the United Kingdom until 1999.

Ms. Jann Skinner (B. Com, FCA, FAICD). Jann Skinner was appointed as an independent non-executive director in October 2014. She is Chairman of the Audit Committee, Deputy Chairman of the Risk & Capital Committee and a member of the People & Remuneration Committee.

Jann was a non-executive director on QBE's Australian regulated boards, where she was also Chairman of the Audit and Risk & Capital Committees. Jann has over 30 years' professional experience in audit and accounting with a focus on financial services, particularly the insurance industry. She worked with PricewaterhouseCoopers from 1975–2004 and was an audit partner of the firm for 17 years before retiring in 2004. Jann is a non-executive director of Telix Pharmaceuticals Ltd, HSBC Bank Australia Limited and Create Foundation Limited. Previously, Jann was a non-executive director of Enstar Australia Group and the Tasmanian Public Finance Corporation.

Mr. Rolf Tolle (Dip PS). Rolf Tolle was appointed as an independent non-executive director in March 2016. Rolf is the Chairman of the Risk & Capital Committee and a member of the People & Remuneration and Audit Committees.

Rolf has significant experience in specialist insurance and reinsurance businesses, having held senior positions in a number of global companies, including being Lloyd's first ever Franchise Performance Director. He was in this role for approximately seven years and was consequently awarded the Silver Medal for Services at Lloyd's, an honor bestowed to only a few individuals since its creation in 1917. He is also on the advisory board of Wrisk Ltd. Rolf was previously a director of Beazley plc and Beazley Furlonge Ltd.

Board Committees

The board of directors (the "**Board**") is supported by several committees which meet regularly to consider audit, risk management, investments, remuneration, board composition, operations and technology and other matters. The main committees of the Board are the audit committee (the "**Audit Committee**"), the investment committee (the "**Investment Committee**"), the people and remuneration committee (the "**People & Remuneration Committee**"), the governance and nomination committee (the "**Governance & Nomination Committee**"), the risk and capital committee (the "**Risk & Capital Committee**") and the operations and technology committee (the "**Operations & Technology Committee**"). These committees operate under written charters approved by the Board. Any non-executive director may attend a committee meeting. The committees have free and unfettered access to our senior managers and may consult external advisers at our cost, including requiring their attendance at committee meetings, with the consent of the chairman of the relevant committee. A report of each committee's last meeting is provided at the subsequent Board meeting. Each committee comprises at least three independent directors and each committee chairman is an independent director who is not the chairman of the Board (excluding the Governance & Nomination Committee, the chairman of which is Mike Wilkins). Committee membership is reviewed regularly.

Audit Committee

The Audit Committee may only comprise non-executive directors. The Audit Committee membership currently comprises six non-executive directors and it normally meets five times per year. The chairman must be an independent non-executive director who is not the chairman of the Board. The current composition of the Audit Committee complies with the recommendations set by the ASX Corporate Governance Council. The chairman is appointed by the Board. The current members of the Audit Committee are Ms. Jann Skinner (chairman), Sir Brian Pomeroy (deputy chairman), Mr. Michael Wilkins, Mr. John Green, Ms. Kathryn Lisson and Mr. Rolf Tolle.

The Audit Committee operates under a written charter determined by the Board. The role of the Audit Committee is to oversee and monitor the integrity of our financial reporting. The objectives of the Audit Committee include reviewing the Group's:

- financial reporting to regulators and shareholders;
- financial reporting risks;
- accounting policies, practices and disclosures;
- the financial control environment;
- the scope of external actuarial reviews;
- the adequacy and independence of the internal and external audit functions; and
- the scope and outcome of external and internal audits.

The Audit Committee's scope includes reviewing the financial statements (including items such as the outstanding claims provision and reinsurance recoveries and income tax), external and internal audit, internal controls, financial reporting, tax compliance and significant changes in accounting policies.

Other non-member non-executive directors often attend Audit Committee meetings which consider our June 30 and December 31 financial statements. Meetings of the Audit Committee also include, by invitation, our Group chief executive officer, our Group chief financial officer, our Group chief actuary, our Group chief risk officer, our Group head of internal audit and our external auditor. On occasion, as appropriate, other senior managers also attend.

The Audit Committee has free and unfettered access to the external and internal auditors (in the absence of management if required) and senior management. The Audit Committee also has the right to obtain external professional advice at our expense. Our Group head of internal audit, the external auditor and our Group chief actuary have free and unfettered access to the Audit Committee chairman and the external auditors have a reporting line to the Audit Committee chairman.

The Audit Committee meets with the external auditor in the absence of management in relation to our June 30 and December 31 financial statements and otherwise as required. The external auditor normally confers with the Audit Committee in the absence of management as part of each meeting.

The Group chief executive officer and Group chief financial officer provide the Board with certificates in relation to the risk management and internal control as recommended by the ASX Corporate Governance Council and on the financial reports as required by the Corporations Act.

Investment Committee

The Investment Committee may only comprise non-executive directors. The membership of the Investment Committee currently comprises three non-executive directors and it normally meets four times a year. The chairman must be a non-executive director who is not the chairman of the Board. The current members of the Investment Committee are Mr. Stephen Fitzgerald (chairman), Mr. John Green (deputy chairman) and Sir Brian Pomeroy. The meetings also include, by invitation, the Group chief executive officer, the Group chief financial officer and the Group chief investment officer. As appropriate, other relevant senior managers also attend.

The Investment Committee operates under a written charter determined by the Board. The role of the Investment Committee is to oversee our investment activities. This includes review of:

- investment strategy;
- investment risk management;
- investment exposures across asset classes and counterparties.

The Investment Committee's scope includes review of economic and investment conditions as they relate to us, and overseeing investment performance, including the performance of our defined benefit funds.

People & Remuneration Committee

The membership of the People & Remuneration Committee may only comprise non-executive directors and currently comprises five non-executive directors. It normally meets four times a year. The chairman must be a non-executive director who is not the chairman of the Board. The current members of the People & Remuneration Committee are Mr. Stephen Fitzgerald (chairman), Mr. Mike Wilkins (deputy chairman), Mr. John Green, Ms. Jann Skinner and Mr. Rolf Tolle. Meetings of the People & Remuneration Committee also include, by invitation, the Group chief executive officer and the Group executive, people and change.

The People & Remuneration Committee operates under a written charter determined by the Board. The role of the People & Remuneration Committee is to oversee QBE's major remuneration practices. The People & Remuneration Committee's scope includes:

- recommendations on the total remuneration (fixed and at-risk) of the Group chief executive officer and executives reporting to him;
- review of short-term and deferred incentives, such as equity based plans;
- review of superannuation;
- review of performance measurement criteria, succession plans and other major human resource practices;
- monitoring of personal development plans for the Group executive and other senior positions;
- recommendations on non-executive director remuneration to the Board;
- review of reward structures (including incentive schemes) for employees of APRA regulated entities (such as risk and financial control employees) in accordance with the requirements of APRA prudential standards relating to the governance of remuneration; and

- review of workplace diversity.

The People & Remuneration Committee considers independent external advice in determining policies and practices that will attract and retain high quality people.

The People & Remuneration Committee has free and unfettered access to internal and external risk and financial control personnel and our senior executives. The People & Remuneration Committee also has the right to obtain external professional advice at our expense. The Group executive, people and change has free and unfettered access to the People & Remuneration Committee chairman.

Governance & Nomination Committee

The Governance & Nomination Committee meets regularly during the year around the time of the Board meetings. The Governance & Nomination Committee assists the Board in appointing directors so that the Board as a whole has the necessary range of skills, knowledge and experience to be effective. The Governance & Nomination Committee is comprised of all the non-executive Directors of the Board and is chaired by Mr. Mike Wilkins.

Risk & Capital Committee

The membership of the Risk & Capital Committee may only comprise non-executive directors and currently comprises five non-executive directors. The Risk & Capital Committee normally meets six times a year to support the Board. The current members of the Risk & Capital Committee are Mr. Rolf Tolle (chairman), Ms. Jann Skinner (deputy chairman), Mr. Stephen Fitzgerald, Mr. John Green and Sir Brian Pomeroy. Meetings of the Risk & Capital Committee also include, by invitation, the Group chief executive officer, the Group chief financial officer and the Group chief risk officer.

The Risk & Capital Committee operates under a written charter determined by the Board. The role of the Risk & Capital Committee is to support the Board in overseeing the effectiveness of the Group's risk and capital management frameworks in order to support strategic objectives, support and inform business plans, and ensure¹ that current and future risks are identified, assessed and monitored in line with risk appetite. The Risk & Capital Committee is required to review the risk framework periodically to confirm it continues to be sound. The Risk & Capital Committee's scope includes:

- in relation to our risks, the process of risk identification and our assessment and management actions as a consequence, material risks, proposed changes to desired risk appetite, key risk policies, reports from management concerning the resolution of significant risk exposures and material compliance breaches and major litigation; and
- in relation to our capital requirements, the internal capital adequacy assessment process, the appropriate mix of debt and equity capital, rating agency and regulatory criteria, private placement versus public subscription, performance of capital instruments, market conditions, dividend policy, cost of capital, suitable capital and balance sheet ratios given QBE's risk appetite and cash flow and liquidity.

The Risk & Capital Committee has free and unfettered access to our finance, risk and other senior managers. The Risk & Capital Committee also has the right to obtain external professional advice at our expense. The Group chief executive officer, Group chief financial officer and Group chief risk officer have free and unfettered access to Risk & Capital Committee chairman.

¹ Note: References to the term "ensure" should be interpreted as taking all reasonable steps and making all appropriate inquiries so that the Board can determine, to the best of its knowledge, that the stated matter has been properly addressed.

Operations & Technology Committee

The membership of the Operations & Technology Committee may only comprise non-executive directors and currently comprises three non-executive directors. The Operations & Technology Committee meets at least quarterly. The current members of the Operations & Technology Committee are, namely, Ms. Kathryn Lisson (chairman), Mr. John Green (deputy chairman) and Mr. Mike Wilkins. Meetings of the Operations & Technology Committee also include, by invitation, the Group chief executive officer and the Group chief financial officer.

The role of the Operations & Technology Committee is to support the Board in overseeing, monitoring and, where appropriate, approving the technology and operational activities of the Group. The Operations & Technology Committee's scope includes overseeing and monitoring:

- the performance of the Group's strategic transformation portfolio (including projects, technological efforts and investments) in support of business strategies;
- the significant emerging technology and digitization issues and trends that may affect the Group, its business and its strategic direction;
- the Group's technology strategy;
- the Group's information security strategy which aims to maintain the security of the assets and information of the Company and its customers; and
- the evolution of operations across QBE.

External Auditor Independence

We have issued an internal policy on external auditor independence. Under this policy, the external auditor is not allowed to provide the excluded services of preparing accounting records, financial reports or asset or liability valuations. Furthermore, the external auditor cannot act in a management capacity, as an advocate, a custodian of assets or as share registry.

The Board believes some non-audit services are appropriate given the external auditor's knowledge of the Group. We may engage the external auditor for other audit-related and assurance services, such as required regulatory audits and reviews, as well as 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. External tax services are generally provided by an accounting firm other than the external auditor.

The Audit Committee approves the audit plan each year and receives regular information on the external auditor's fees. We also consider the terms of engagement of the external auditor every few years; the last occasion concluding in 2018. The Corporations Act and Australian professional auditing standards require rotation of the lead engagement partner after five years. The lead engagement partner of the external auditor was last rotated in 2019 and will rotate again in 2024. In the event that the Audit Committee thought it appropriate to change the firm undertaking our external audit, it would conduct an appropriate competitive tender process.

Risk management

Our strategy for managing risk is to (a) achieve competitive advantage by better understanding the risk environments in which we operate, (b) give confidence to the business to make objective, risk-based decisions to optimize returns and (c) avoid unwelcome surprises to the achievement of business objectives by reducing uncertainty and volatility through the identification and management of risks. These objectives are designed to support and meet our overall vision, values and strategy.

We identify and assess risks that may impact our ability to deliver on our strategic and business objectives. These risks are then categorized into one of eight categories for aggregation, reporting and modelling purposes. Our risk categories as of December 31, 2019 are as follows:

- *strategic risk*—The current and prospective impact on earnings and/or capital arising from strategic business decisions and responsiveness to external change, including risks related to our businesses, product, market and distribution approach, our capital structure, organizational structure, strategic asset planning and management, any acquisition/disposal decisions and negotiations and our external environment, including disruption from competitors, economic, social and governance risks, reputational impact and geo-political and regulatory uncertainty;
- *insurance risk*—The risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations, including risks related to underwriting/pricing, insurance concentrations and reserving;
- *credit risk*—The risk of financial loss where a customer, counterparty or issuer fails to meet their financial obligations to QBE in accordance with agreed terms. Our exposure to credit risk results from financial transactions with securities issuers, debtors, brokers, policyholders, reinsurers and guarantors;
- *market risk*—The risk of adverse impacts on earnings resulting from changes in market factors, which include but are not limited to interest rates, credit spreads, foreign exchange rates and equity prices;
- *liquidity risk*—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;
- *operational risk*—The risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events, including risks related to fraud perpetrated by employees or by external parties, employment practices, improper business practices, business disruption and system failures or business and transaction processing failures;
- *compliance risk*—The risk of legal or regulatory penalties, financial loss or impacts or non-financial loss or impacts (including reputational damage) resulting from a breach of obligations. Obligations refers to our obligations pursuant to legislation, regulation, industry codes and standards, internal policies and ethical and business standards; and
- *group risk*—The risk to a division arising specifically from being part of the wider Group, including financial impact and loss of support from QBE Insurance Group Limited (as the parent company).

See note 4 to our 2019 Annual Financial Statements for additional discussion of our risk management policies and procedures.

Codes of Conduct

We have a global Code of Ethics and Conduct (the “**Code**”) that provides guidance to our staff in the following areas: QBE’s commitment to complying with its obligations (pursuant to relevant laws, regulations, codes/standards and ethical business practices), the giving and receiving of bribes and gifts, managing conflicts of interest and other significant aspects, such as ethical competition, use of company resources and procedures for reporting suspected violations of the Code (the Code is supported by a global Whistleblowing Policy approved by the Audit Committee in December 2019 and an Anti-Bribery and Corruption Standard endorsed by the Audit Committee and the Risk &

Capital Committee in August 2019). We have communicated the Code to our employees and the Code is publicly available. All employees receive training in the Code as part of our induction program and employees must undertake refresher training every two years. The Code, which is expected to be reviewed every two years, was last updated in March 2019.

Executive Key Management Personnel

The following table shows our executive key management personnel:

<u>Name</u>	<u>Position</u>	<u>Age</u>
Patrick Regan	Group chief executive officer	54
Inder Singh	Group chief financial officer	43
Vivek Bhatia	Chief executive officer, Australia Pacific	47
Jason Brown	Group chief underwriting officer	50
Peter Grewal	Group chief risk officer	52
Todd Jones	Chief executive officer, North America	55
Richard Pryce	Chief executive officer, International	60
Margaret Murphy	Group executive, people & change	48

Patrick Regan. See biographical details under “—Board of Directors” above.

Inder Singh (BCom). Inder joined the Group in 2015 and was appointed Group Chief Financial Officer in 2018. His previous roles at QBE include Chief Financial Officer for Australian & New Zealand Operations, and Group Head of Corporate Development and Financial Planning & Analysis. Inder has 20 years’ experience in financial services spanning property & casualty, life insurance and banking. He started his career at Arthur Andersen before working in investment banking in Sydney and London with Deutsche Bank and UBS. Prior to joining the Group, he was Group M&A Director at Aviva plc in London where he led a number of transformational transactions.

Vivek Bhatia (BEng, MBA, CFA). Vivek joined the Group in February 2018 in the role of Chief Executive Officer, Australian & New Zealand Operations. Before joining the Group, Vivek was inaugural Chief Executive Officer and Managing Director of icare, the NSW Government public financial corporation managing the state's insurance and care schemes. Vivek has more than 20 years' experience in the insurance and management consulting sectors. Vivek was previously the Chief Executive Officer of Wesfarmers Insurance in Australia, where he was responsible for leading the multi-brand, multi-channel insurer through a significant transformation journey. He has also co-led McKinsey & Co’s Asia Pacific Restructuring & Transformation practice.

Jason Brown (BEcon, ACA). Jason has been involved in the financial services industry for over 25 years. Jason was the Chief Executive Officer, Asia Pacific from August 2017 and commenced the newly created role of Group Chief Underwriting Officer from January 2019. Jason joined the Group in 2002 after 13 years at Ernst & Young in the Financial Services Group in both assurance and consulting in Australia and the United Kingdom. Jason, worked in Australian & New Zealand Operations as Executive General Manager, Technical & Operations (2005–2012) with responsibility for underwriting, reinsurance, actuarial and acquisitions before becoming Chief Risk Officer for Australian & New Zealand Operations and subsequently QBE Group.

Peter Grewal (BA (Hons), CMIIA). Peter joined the Group in July 2018 as Group Chief Risk Officer. Prior to joining the Group, Peter was the Chief Risk Officer, Reinsurance, at Swiss Re with a global remit covering property and casualty and life and health reinsurance. Earlier in his career Peter held roles in internal audit including Head of Group Internal Audit for Swiss Re, Head of Internal Audit for Scottish Re and Head of Audit for HSBC (Bank of Bermuda).

Todd Jones (BSc, MBA). Todd joined the Group in October 2019 as Chief Executive Officer, North America. Prior to joining the Group, Todd held a number of senior roles at Willis Towers Watson

including most recently as Head of Global Corporate Risk and Broking, and previously as CEO for Willis North America. Todd began his career as a technical broker in D&O and management liability, serving both large complex as well as middle market clients. Todd has over 25 years insurance and financial services industry experience.

Margaret Murphy (BA (Hons) Business). Margaret joined the Group in October 2016. Prior to this, she spent 10 years at Barclays Bank, based in the United Kingdom and working globally. She held various human resources and transformation roles across the Group including within the retail bank, corporate bank and global functions leading large scale organizational change. She began her career with London Underground and subsequently spent time with Inchcape, British American Tobacco, and was Head of Reward and Performance at J Sainsbury plc before joining Barclays in 2006.

Richard Pryce BHis (Hons). Richard joined the Group in 2012 and was appointed Chief Executive Officer, European Operations in 2013. Richard began his insurance career with R.W. Sturge syndicate at Lloyd's where he became Claims Director. In 1996, Richard moved to Ockham as Professional Lines Class Underwriter for Syndicate 204. Richard went on to run ACE's Financial Lines business in London before becoming President of ACE Global Markets in 2003 and ACE UK in 2007. He has worked in the London insurance market for 35 years.

Compensation of Non-Executive Directors and Executive Key Management Personnel

For information regarding compensation of our non-executive directors and executive key management personnel, see our remuneration reports for the years ended December 31, 2019, 2018 and 2017 included in the extracts of our 2019 Annual Financial Report and our 2018 Annual Financial Report available on our U.S. Investor Website. The remuneration reports include a summary of our policy and strategy in connection with executive and director remuneration and our equity-based remuneration plans.

Share Ownership of Non-executive Directors and Executive Key Management Personnel

The following table shows share ownership of our non-executive directors and executive key management personnel as of December 31, 2019:

	<u>Total Ordinary Shares</u>	<u>Options Over Ordinary Shares</u>	<u>Conditional Rights to Ordinary Shares</u>
Non-executive directors:⁽¹⁾			
Stephen Fitzgerald	54,237	-	-
John M. Green	37,258	-	-
Kathryn Lisson.....	28,293	-	-
Sir Brian Pomeroy	27,527	-	-
Jann Skinner.....	50,000	-	-
Rolf Tolle.....	45,885	-	-
Michael Wilkins.....	28,514	-	-
Executive key management personnel:			
Patrick Regan (Group CEO).....	915,538	-	773,138
Vivek Bhatia	44,030	-	262,815
Jason Brown.....	165,572	-	167,493
Peter Grewal	-	-	138,061
Todd Jones	-	-	467,668
Margaret Murphy.....	12,029	-	230,093
Richard Pryce.....	202,984	-	481,298
Inder Singh.....	31,631	-	213,100
Total:	<u>1,643,498</u>	<u>-</u>	<u>2,733,666</u>

Notes:

- (1) Excluding Mr. Marty Becker who retired from the Board on April 30, 2020. As of December 31, 2019 Mr. Marty Becker held 148,067 ordinary shares.

OUR PRINCIPAL SHAREHOLDERS

The following table sets forth information known to us concerning the beneficial ownership of our ordinary shares by the following persons or entities:

- beneficial owners of 5% or more of our outstanding ordinary shares; and
- all members of our Board and executive key management personnel, as a group.

The applicable percentage of ownership for each holder of ordinary shares is based on 1,305,403,687 total issued ordinary shares of QBE as of December 31, 2019. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary shares of QBE subject to options, warrants and convertible notes currently exercisable or convertible, or exercisable or convertible within 60 days of the date of this Report, are deemed outstanding for computing the percentage of the person holding the options but are not deemed outstanding for computing the percentage of any other person. The individuals named in the table have sole voting and investment power with respect to all ordinary shares of QBE shown as beneficially owned by them.

	<u>Number of Shares</u>	<u>Percentage Ownership</u>
The Vanguard Group, Inc. ⁽¹⁾	80,289,148	6.2
BlackRock, Inc. ⁽¹⁾	79,689,478	6.1
Executive key management personnel and directors (15 persons) as a group (excluding former directors)	1,643,498	0.1

Notes:

(1) Ownership is based on our share register as of January 31, 2020.

There are several provisions of Australian law that are relevant to the ability of any person to gain control of QBE. Mergers, acquisitions and divestments of Australian public companies listed on the ASX (such as QBE) are regulated by detailed and comprehensive legislation and the rules and regulations of the ASX.

Notably, under the Corporations Act, a person must not acquire a relevant interest in issued voting shares in an Australian listed company if, broadly, because of the transaction, that person's or someone else's voting power in the company increases from 20% or below to more than 20%, or from a starting point that is above 20%. And below 90%, unless those shares are acquired in a manner specifically permitted by law. This restriction also limits the options available to a shareholder wanting to sell a shareholding of more than 20% in an Australian listed company.

Australian law also regulates acquisitions which would have the effect, or be likely to have the effect, of substantially lessening competition in a market in Australia, in a state, in a territory or in a region of Australia.

Acquisitions of certain interests in Australian companies by foreign interests are also subject to review and prohibition by the Australian Treasurer.

There are also specific limitations on the acquisition of a shareholding in an insurance company or the non-operating holding company of an insurance company under the Financial Sector (Shareholdings) Act 1998 of Australia (the "FSSA"). Under the FSSA, a person (including a company) must not acquire an interest in an Australian financial sector company where the acquisition would take that person's voting power (which includes the voting power of the person's associates) in the financial sector company to more than 15% of the voting power of the financial sector company without first obtaining the Australian Treasurer's approval. Even if a person has less than 15% of the voting power,

the Australian Treasurer has the power to declare that a person has practical control of that company and, by applying for an order from the Federal Court may require the person to relinquish that control. The definition of a financial sector company includes non-operating holding companies of insurers such as QBE Insurance Group Limited.

There are no arrangements in place within the Group, the operation of which may result in a change of control of QBE Insurance Group Limited.

APPENDIX A: GLOSSARY OF CERTAIN INSURANCE TERMS

Set forth below are definitions of some of the insurance terms used in this Report. For a definition of some of the insurance product terms used in this Report, see “Our Business—Operational Summary—Description of Products and Services.”

Accident year	The annual calendar accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid.
Accident year claims development or accident year development	<p>The increase or decrease in incurred claims and claim adjustment expenses as a result of the re-estimation of claims and claim adjustment expense reserves at successive valuation dates for a given group of claims.</p> <p>Accident year claims development may be related to prior accident year or current accident year development.</p>
Acquisition cost	The total of net commission and operating expenses incurred in the generation of net earned premium and often expressed as a percentage of net earned premium.
Actuarial analysis	Evaluation of risks to ensure that claims provisions adequately reflect expected future claims experience and claims payments; in evaluating risks, mathematical models are used to predict future claims experience and claims payments based on historical claims ratios, claims development patterns and other relevant data and assumptions.
Agent	One who negotiates contracts of insurance or reinsurance as an insurance company’s representative i.e. the agent’s primary responsibility is to the insurance carrier, not the insurance buyer.
Assume	To accept from the primary insurer or reinsurer all or a portion of the liability underwritten by such primary insurer or reinsurer.
Attritional claims	Attritional claims are claims costing less than US\$2.5 million.
Attritional claims ratio	Total of all claims with a net cost of less than US\$2.5 million as a percentage of net earned premium.
Broker	One who negotiates contracts of insurance or reinsurance on behalf of an insured party, receiving a commission from the insurer or reinsurer for placement and other services rendered. In contrast with an agent, the broker’s primary responsibility is to the insurance buyer and not the insurance carrier.

Capacity	In relation to a Lloyd's member, the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate, the aggregate of each member's capacity allocated to that syndicate.
Cash profit	Net profit after tax attributable to QBE shareholders, adjusted for the post-tax effect of amortization and impairment of intangibles and other non-cash items. This definition is used for the purpose of our dividend policy.
Casualty insurance	Insurance that is primarily concerned with the losses resulting from injuries to third persons or their property (i.e., not the policyholder) and the resulting legal liability imposed on the insured. It includes, but is not limited to, general liability, employers' liability, workers' compensation, professional liability, public liability and motor liability insurance.
Catastrophe reinsurance	A reinsurance contract (often in the form of excess of loss reinsurance) that, subject to specified limits and retention, compensates the ceding insurer for losses related to an accumulation of claims resulting from a catastrophe event or series of events.
Ceding	Reinsuring a part or a whole of an underwriting risk with a reinsurer by making a premium payment.
Claim	The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.
Claims incurred	The aggregate of all claims paid during an accounting period adjusted by the change in claims provisions for that accounting period.
Claims provisions	The estimate of the most likely cost of settling present and future claims and associated claims adjustment expenses plus a risk margin for the possible fluctuation of the liability.
Claims ratio	Net claims incurred as a percentage of net earned premium
Combined operating ratio	The sum of the claims ratio, commission ratio and expense ratio. A combined operating ratio below 100% indicates profitable underwriting results. A combined operating ratio over 100% indicates unprofitable underwriting results.
Commercial lines	Refers to insurance for businesses, professionals and commercial establishments.
Commission	Fee paid to an agent or broker as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer and the marketing methods.
Commission ratio	Net commission expense as a percentage of net earned premium.

Cover	The scope of protection provided by an insurance policy.
CTP	Compulsory third party motor vehicle personal injury insurance in Australia.
Credit spread	The difference in yield between a corporate bond and a reference yield (e.g. LIBOR, BBSW or a fixed sovereign bond yield).
Deductible	The amount or proportion of some or all losses arising under an insurance contract that the insured must bear.
Direct insurance	The provision of insurance directly by an insurer to an insured, i.e., not through an intermediary.
Excess of loss reinsurance	A form of reinsurance in which, in return for a premium, the reinsurer accepts liability for losses for claims settled by the original insurer in excess of an agreed amount, generally subject to an upper limit.
Expense ratio	Underwriting and administrative expenses as a percentage of net earned premium.
Facultative reinsurance	The reinsurance of individual risks through a transaction between the reinsurer and the cedant (usually the primary insurer) involving a specified risk.
General insurance	Generally used to describe non-life insurance business including property and casualty insurance.
Gross earned premium (GEP)	The proportion of gross written premium recognized as income in the current financial year, reflecting the pattern of the incidence of risk and the expiry of that risk.
Gross written premium (GWP)	The total premium on insurance underwritten by an insurer or reinsurer during a specified period, before deduction of reinsurance premium.
Incurred but not reported (IBNR)	Claims arising out of events that have occurred before the end of an accounting period but have not been reported to the insurer by that date.
Insurance profit	The sum of the underwriting result and net investment income on policyholders' funds.
Insurance profit margin	The ratio of insurance profit to net earned premium.
Insurance solvency ratio	Ratio of net tangible assets to net earned premium, which is an important industry indicator in assessing the ability of general insurers to pay their existing liabilities.
Inward reinsurance	See Reinsurance.

Lenders' mortgage insurance (LMI)	A policy which protects the lender (e.g. a bank) against non-payment or default on the part of the borrower of a residential property loan.
Lender-placed insurance (LPI)	Coverage obtained by the lender when the customer's voluntary home building insurance has lapsed, been cancelled or proof of the customer's insurance has not been received. Coverage is required by the mortgage contract to protect the lender's interest in the property if damage was to occur and the customer had not maintained adequate coverage.
Letters of credit	Written undertaking by a financial institution to provide funding if required.
Lloyd's	Insurance and reinsurance market in London. It is not a company but is a society of individuals and corporate underwriting members.
Lloyd's managing agent	An underwriting agent which has permission from Lloyd's to manage one or more syndicates and carry on underwriting and other functions for a member.
Long-tail	Classes of insurance business involving coverage for risks where notice of a claim may not be received for many years and claims may be outstanding for more than one year or more before they are finally quantifiable by the insurer and settled.
Managing General Agent (MGA)	A wholesale insurance agent with the authority to accept placements from (and often to appoint) retail agents on behalf of an insurer. MGAs generally provide underwriting and administrative services such as policy issuance on behalf of the insurers they represent. Some may handle claims.
Modified duration	The weighted average term of cash flows in a bond. It is used to measure the price sensitivity of a bond to changes in credit spreads.
Multi-peril crop insurance (MPCI)	U.S. federally regulated crop insurance covering crop losses caused by natural events
Net claims incurred	The amount of claims incurred during an accounting period after deducting reinsurance recoveries.
Net discounted central estimate	An amount equal to the outstanding claims provisions <i>plus</i> IBNR and IBNER <i>plus</i> claims settlement costs provision <i>less</i> expected reinsurance recoveries net of provision for doubtful debts, discounted to present value using the relevant risk free rate.
Net earned premium (NEP)	Net written premium adjusted by the net change in net unearned premium.
Net investment income	Gross investment income including foreign exchange gains and losses and net of investment expenses.

Net undiscounted central estimate	An amount equal to the outstanding claims provisions <i>plus</i> IBNR and IBNER <i>plus</i> claims settlement costs provision <i>less</i> expected reinsurance recoveries net of provision for doubtful debts.
Net written premium (NWP)	The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.
Outstanding claims provision	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.
Outward reinsurance	The reinsurance or cession of risks by the insurer to an assuming reinsurer.
Personal lines	Insurance for individuals and families, such as private motor vehicle and homeowners' insurance.
Policyholders' funds	Those financial assets held to fund the net insurance liabilities of the Group.
Premium	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.
Prescribed Capital Amount (PCA)	This comprises the sum of the capital charges for asset risk, asset concentration risk, insurance concentration risk and operational risk as required by APRA. The PCA must be disclosed at least annually.
Prior accident year / prior accident period	This refers to the re-estimations in the current period or year of claims provisions for events that occurred in a prior calendar year or other applicable prior period.
Probability of adequacy	A statistical measure of the level of confidence that the outstanding claims provision will be sufficient to pay claims as and when they fall due.
Proportional reinsurance	A type of reinsurance in which the original insurer and the reinsurer share claims in the same proportion as they share premiums.
Prudent Capital Requirement (PCR)	The sum of the Prescribed Capital Account (PCA) plus any supervisory adjustment determined by APRA. The PCR may not be disclosed.
Quota share	A form of reinsurance in which the ceding insurer cedes an agreed-on percentage of every risk it insures that falls within a class or classes of business.
Recoveries	The amount of claims recovered from reinsurance, third parties or salvage.

Reinstatement premium	Reinsurance premium charged for the reinstatement of the amount of reinsurance coverage that was reduced as the result of a reinsurance loss payment under a catastrophe cover.
Reinsurance	An agreement to indemnify a primary insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the primary insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedant or ceding company and is said to place outward reinsurance.
Reinsurer	The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer. The term includes retrocessionaires, being insurers that assume reinsurance from a reinsurer.
Retention	That amount of liability for which an insurance company will be responsible after it has completed its reinsurance arrangements.
Retrocession	Reinsurance of a reinsurer by another reinsurance carrier
Risk-free rates	The risk-free interest rate is the theoretical rate of return of an investment with no risk of financial loss.
Run-off	The management of claims to finalization in respect of a discontinued class of business.
Short-tail	Classes of insurance business involving coverage for risks where claims are usually known and settled within 12 months.
Syndicate	A member or group of members underwriting insurance business at Lloyd's through the agency of a managing agent.
Treaty reinsurance	Reinsurance of risks in which the reinsurer is obliged by agreement with the cedant to accept, within agreed limits, all risks to be underwritten by the cedant within specified classes of business in a given period of time.
Underwriting	The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.
Underwriting expenses	The aggregate of policy acquisition costs, excluding commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.
Underwriting result	The amount of profit or loss from insurance activities exclusive of net investment income and capital gains or losses.

Underwriting year	The year in which the contract of insurance commenced or was underwritten.
Unearned premium	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
Whole account reinsurance	An excess of loss contract that protects the whole of the business written by the reinsured.
Written premium	Premiums written, whether or not earned, during a given period.
Year of account	The year in which an insurance or reinsurance contract that is underwritten by a syndicate is allocated for accounting purposes and into which all premiums and claims arising in respect of that contract are payable.