

Directors' Report

FOR THE YEAR ENDED 31 DECEMBER 2018

Your directors present their report on QBE Insurance Group Limited and the entities it controlled at the end of, or during, the year ended 31 December 2018.

Directors

The following directors held office during the whole of the financial year and up to the date of this report:

Marty Becker (Chairman)
 Stephen Fitzgerald AO
 John M Green (Deputy Chairman)
 Kathryn Lisson
 Sir Brian Pomeroy
 Patrick Regan
 Jann Skinner
 Rolf Tolle
 Michael Wilkins AO

Mr Fred Eppinger was appointed to the Board on 1 January 2019.

Consolidated results

	STATUTORY RESULT	
	2018 US\$M	2017 US\$M
Gross written premium	13,657	13,328
Gross earned premium revenue	13,601	13,611
Net earned premium	11,640	11,351
Net claims expense	(7,405)	(8,114)
Net commission	(1,957)	(1,938)
Underwriting and other expenses	(1,798)	(1,806)
Underwriting result	480	(507)
Net investment income on policyholders' funds	346	447
Insurance profit (loss)	826	(60)
Net investment income on shareholders' funds	201	311
Financing and other costs	(305)	(302)
Gains (losses) on sale of entities and businesses	12	(1)
Unrealised losses on assets held for sale	(25)	–
Share of net loss of associates	(2)	(1)
Amortisation and impairment of intangibles	(80)	(740)
Profit (loss) before income tax	627	(793)
Income tax expense	(72)	(423)
Profit (loss) after income tax from continuing operations	555	(1,216)
Loss after income tax from discontinued operations	(177)	(37)
Profit (loss) after income tax	378	(1,253)
Net loss attributable to non-controlling interests	12	4
Net profit (loss) after income tax	390	(1,249)

Result

Net profit after tax for the year ended 31 December 2018 was \$390 million compared with a net loss of \$1,249 million last year.

During 2018, QBE announced the sale of its Latin American Operations. Given the materiality of this transaction, it is reported as a discontinued operation such that the results of Latin American Operations are presented separately from those of our continuing business, with the comparatives restated for consistency as required by accounting standards. Commentary below reflects the performance of our continuing operations against 2017 restated results. Details of the results of our discontinued operations are provided in note 7.1.3 to the financial statements.

Net earned premium of \$11,640 million was up 3% compared with \$11,351 million last year. Gross written premium growth of 2% mainly reflected a stronger premium rating environment in North America and Europe, partly offset by remediation-led contraction of our business in Asia Pacific. Our cost of reinsurance reduced in the period, with the prior year result impacted by the cost of reinsuring US commercial auto run-off liabilities (\$415 million) whilst the 2018 result includes the cost of reinsuring our Hong Kong workers' compensation portfolio (\$190 million).

The Group's underwriting profit was \$480 million compared with a loss of \$507 million last year, equating to a combined operating ratio of 95.9% compared with 104.5% last year. The result benefited from significantly reduced catastrophe activity, a strong improvement in the attritional claims ratio and slightly increased positive prior accident year claims development which are reflected

in the lower net claims ratio of 63.6% compared with 71.5% last year. The prior year ratio was also adversely impacted by the Ogden decision in the UK (\$141 million).

The combined commission and expense ratio improved to 32.3% from 33.0% last year. Cost savings from efficiency initiatives were achieved in all divisions, partly offset by the Group's investment in a number of strategic initiatives during the year and reduced fee income in Australian & New Zealand Operations.

Net investment and other income was \$547 million compared with \$758 million last year, resulting in a net return of 2.3% compared with 3.0% last year. Fixed income returns were adversely impacted by higher US Treasury yields and wider global credit spreads.

The Group's effective tax rate was 11%, reflecting the mix of corporate rates in the jurisdictions in which QBE operates as well as the recognition of deferred tax assets and the utilisation of previously unrecognised tax losses in the US tax group. The prior year effective tax rate was materially distorted by the write down of the deferred tax asset in North American Operations due to the reduction in the US corporate tax rate to 21% and significant catastrophe claims in both North American Operations, where an already substantial deferred tax asset precluded the further recognition of tax losses, and in Equator Re.

Dividends

The directors announce a final dividend of 28 Australian cents per share, up from the final dividend of four Australian cents per share for 2017. The dividend will be 60% franked. The total dividend payout is A\$669 million, or 70% of cash profit, compared with A\$356 million for 2017. Further details in relation to dividends paid during the year are set out on [page 134](#) of this Annual Report.

Our objective is to deliver a stable and growing dividend to our shareholders. Our current dividend policy sets the full year dividend payout ratio at around 65% of cash profit.

Activities

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

Presentation currency

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

Operating and financial review

A review of the Group's operations during the year and the results of those operations is set on [pages 4 to 35](#) of this Annual Report. These pages also deal with the Group's operations, financial position, business strategies and prospects for future financial years.

Outstanding claims liability

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

As in previous years, the directors consider that substantial risk margins are required over the actuarial net central estimate to mitigate the inherent uncertainty in the net central estimate. The probability of adequacy of the outstanding claims liability at 31 December 2018 was 90.1% compared with 90.0% last year. The Australian Prudential Regulation Authority (APRA) prudential standards provide a capital credit for outstanding claims in excess of a probability of adequacy of 75%.

Group indemnities

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

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

The indemnity extends to legal costs other than where:

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

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



Directors' Report continued

FOR THE YEAR ENDED 31 DECEMBER 2018

Directors' and officers' insurance

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

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

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

Significant changes

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

Likely developments and expected results of operations

Likely developments in the Group's operations in future financial years and the expected results of those operations have been included in the review of operations on [pages 4 to 35](#) of this Annual Report.

Events after balance date

Operations in Colombia were disposed of on 1 February 2019 for consideration of \$36 million, giving rise to an estimated pre-tax gain of \$3 million which remains subject to closing adjustments and is before the reclassifications of foreign currency translation reserve. After the reclassification of foreign currency translation reserve, the estimated pre-tax loss is \$10 million.

Other than the above and the declaration of the final dividend, no matter or circumstance has arisen since 31 December 2018 that, in the opinion of the directors, has significantly affected or may significantly affect the Group's operations, the results of those operations or the Group's state of affairs in future financial periods.

Material business risks

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

Some of the material business risks that QBE faces include strategic, insurance, credit, market, liquidity, operational and group risks. Explanations of these risks and their mitigations are set out in detail in note 4 to the financial statements which we recommend you read. Further details of how QBE manages risk are set out in the Chief Risk Officer's Report on [pages 42 to 43](#), QBE's climate change action plan on [pages 36 to 41](#) and the section of the corporate governance statement addressing the ASX Corporate Governance Council's Principle 7: Recognise and Manage Risk on [page 55](#).

The Group makes judgements and estimates in respect of the reported amounts of certain assets and liabilities, the most significant of which are in relation to the determination of the net outstanding claims liability, the application of the liability adequacy test and the valuation of deferred tax assets and goodwill in North American Operations. More detail of each of these is included in notes 2.3, 2.5.1, 6.2.3 and 7.2.1 respectively.

Meetings of directors

	FULL MEETINGS OF DIRECTORS ¹		MEETINGS OF NON-EXECUTIVE DIRECTORS		MEETINGS OF COMMITTEES													
					GOVERNANCE & NOMINATION				OPERATIONS & TECHNOLOGY				PEOPLE & REMUNERATION		RISK & CAPITAL		SUB-COMMITTEES ²	
	H	A	H	A	AUDIT		NOMINATION		INVESTMENT		TECHNOLOGY		H	A	H	A	H	A
Marty Becker	10	10	6	6	5	5	5	5	4	4	6	6	4	4	6	6	2	2
Stephen Fitzgerald	10	10	6	6	–	–	5	5	4	4	2	2	3	3	6	6	–	–
John M Green	10	10	6	6	5	5	5	5	4	4	6	6	4	4	6	6	8	8
Kathryn Lisson	10	10	6	6	5	5	5	5	–	–	6	6	–	–	–	–	–	–
Sir Brian Pomeroy	10	10	6	6	5	5	5	5	4	4	–	–	–	–	6	6	7	5
Patrick Regan ³	10	10	–	–	–	–	–	–	–	–	–	–	–	–	–	–	8	5
Jann Skinner	10	10	6	6	5	5	5	5	–	–	–	–	4	4	6	6	7	5
Rolf Tolle	10	10	6	6	5	5	5	5	–	–	–	–	4	4	6	6	–	–
Michael Wilkins	10	10	6	6	5	5	5	5	–	–	6	6	4	4	–	–	8	7

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

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

1 Includes meetings in the UK and the US.

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

3 Patrick Regan attended Audit, Investment, Operations & Technology, People & Remuneration and Risk & Capital Committee meetings by invitation, not being members of these committees.

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

Directorships of listed companies held by the members of the Board

From 1 January 2016 to 25 February 2019, the directors also served as directors of the following listed entities:

	POSITION	DATE APPOINTED	DATE CEASED
John M Green			
WorleyParsons Limited	Director	11 October 2002	25 October 2016
Challenger Limited	Director	6 December 2017	–
Michael Wilkins			
AMP Limited	Director	12 September 2016	–
Medibank Private Limited	Director	25 May 2017	–
Jann Skinner			
Telix Pharmaceuticals Limited	Director	19 June 2018	–

Qualifications and experience of directors

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

Qualifications and experience of company secretaries

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

Carolyn joined QBE in January 2016 as Group General Counsel and Group Company Secretary. Prior to joining QBE, Carolyn was Group General Counsel at global industrial property group, Goodman, for 17 years, where she ran a multi-disciplinary legal team working across 16 countries. Carolyn has extensive experience in corporate law, compliance, regulatory matters, litigation and managing the complexity of multiple jurisdictions.

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

Peter is Deputy Company Secretary of QBE Insurance Group Limited and a company secretary of various QBE subsidiaries in Australia. He has 27 years of insurance experience, which includes 21 years as a corporate lawyer. Prior to commencing employment with QBE in 2002, Peter worked for the NRMA Insurance Group in various corporate roles. In addition to his current company secretarial duties, he acts as a corporate lawyer advising QBE Group head office departments.

Directors' interests and benefits

Ordinary share capital

Directors' relevant interests in the ordinary share capital of the company at the date of this report are as follows:

DIRECTOR	NUMBER OF SHARES HELD
Marty Becker	136,985
Fred Eppinger	–
Stephen Fitzgerald	48,478
John M Green	37,258
Kathryn Lisson	23,297
Sir Brian Pomeroy	22,297
Patrick Regan	823,138
Jann Skinner	50,000
Rolf Tolle	39,759
Michael Wilkins	25,107

Options and conditional rights

At the date of this report, Patrick Regan had 446,654 (2017 581,339) conditional rights to ordinary shares of the company. No executives hold options at the date of this report. Details of the schemes under which options and rights are granted are provided in the Remuneration Report and in note 8.4 to the financial statements.

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

Environmental regulation

While the Group is not currently required to report under any significant environmental regulations under either Commonwealth, State or Territory legislation, details of QBE's climate change action plan are provided on pages 36 to 41 and operational greenhouse gas emissions and other environmental data is disclosed in the 2018 Sustainability Report.

