(print inside front cover)

ONE Smile Committee

The ONE Smile Committee was established in 2016 with the primary objectives of promoting employee engagement through charitable activities within the community, employee wellness promotion and professional development.

In 2020, the two charities supported were Saving Children and Revealing Secrets (SCARS) and The Living Reefs. SCARS began in 2011 and actively educates and promotes awareness on child abuse. The Living Reefs is an environmental charity that performs commendable work to protect the reefs and corals surrounding Bermuda. The company is proud to partner with both of these charities. ONE Smile also provided a donation to the Coalition for the Protection of Children to provide a hot breakfast to children at a local school.

ONE Smile also presents a series of Lunch and Learn seminars to assist employees with their professional development by giving employees exposure to all aspects of the Company's business outside their main responsibilities and rising topics in the industry.

In an effort to promote further employee engagement, ONE Smile also organizes regular social activities.

Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors of Equator Reinsurances Limited ("Equator Re" or the "Company") present their report on the financial statements for the year ended 31 December 2020.

Directors

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

M. Angelina
B. Carlino
D. Duclos
J. Brown
J. Fiore
N. Jones
A. Sodergren
R.Stone

David (Dave) Duclos — **Chairman, Independent non-executive director**

David was appointed non-executive director of the Company in July 2016 and is a member of the Audit and Risk and Capital Committees. David has over 40 years of insurance and reinsurance experience in a number of technical and executive level roles with CIGNA, XL and QBE. He also serves on the board of RLI Corporation, Non-Exec Chair of Lloyd's Global Network and on the advisory board of AAIS (American Association of Insurance Services).

James (Jim) Fiore — **President**
QBE Group Chief Reinsurance Officer

Jim has had management responsibility of the Company since 2012 and is a member of the Risk & Capital Committee. He also sits on the QBE Insurance Group Limited (the "QBE Group") Underwriting Committee and the QBE Group Security Committee. In his role as President of the Company, he oversees the day to day operations of QBE's reinsurance captive. In addition, he continues to work as the QBE Group Chief Reinsurance Officer. In this capacity, he is responsible for QBE's global ceded reinsurance strategy and purchasing, as well as the management and oversight of the QBE Group's exposures and accumulations. Jim began his career with QBE in 1992 and has over 35 years of industry experience.

Bruce Carlino — **Chief Claims Officer**

Bruce was appointed to the Board in September 2018. He has been involved in reinsurance and insurance claims for 40 years. In 2015 he returned to the QBE Group and has served as the Chief Claims Officer for Equator Reinsurances Limited and the Company. In that capacity he is responsible for the claims management process. Prior to re-joining QBE, Bruce was the Head of Claims for HCC Insurance responsible for their Specialty portfolios. Bruce also was Head of Claims for QBE Re and QBE Specialty from 2002 to 2012. Bruce is a qualified US attorney and holds the Associate in Reinsurance, the Chartered Property Casualty Underwriters (CPCU) and Chartered Insurance Operational Professional designations.

Robert (Rob) Stone — **Chief Financial Officer**

Rob was appointed to the Board as an executive director in April 2019. Rob has worked for the QBE Group for over 13 years and previously held various senior management roles within the finance function of QBE Group's European division. Rob is a Chartered Accountant and fellow of the Institute of Chartered Accountants in England and Wales (FCA). Prior to joining QBE, Rob spent 12 years within professional services. Rob is a member of the Risk and Capital Committee and a member of the Sanctions Committee, and also chairs the QBE Group Security Committee.

Michael (Mike) Angelina — **Independent non-executive director**

Mike was appointed as an independent non-executive director of the Company in July 2014 and is Chair of the Risk and Capital Committee and a member of the Audit Committee. He is an insurance professional, with over 30 years practicing experience. Mike is a qualified actuary, former Chief Risk Officer, and insurance professional with consulting, executive, and directorship roles throughout his career. He currently serves as an Executive in Residence of the Maguire Academy of Insurance and Risk Management of Saint Joseph's University in Pennsylvania, U.S., after serving as the Executive Director for nine years where he led the Risk Management and Insurance undergraduate program.

Jason Brown — **Non-independent non-executive director**

Jason was appointed as a non-independent non-executive director of the Company in August 2019. Jason has been involved in the financial services industry for over 30 years. Jason was the QBE Group Chief Underwriting Officer from January 2019 to March 2021. Jason's previous roles at QBE include Chief Executive Officer, QBE Asia Pacific; Executive General Manager, Technical & Operations for QBE Australian & New Zealand Operations with responsibility for underwriting, reinsurance, actuarial and acquisitions; Chief Risk Officer for QBE Australian & New Zealand Operations and QBE Group Chief Risk Officer. Jason joined QBE in 2002 after 13 years at Ernst & Young in the Financial Services Group in both assurance and consulting in Australia and the UK.

Neil Jones — **Non-independent non-executive director**
QBE Group Head of Underwriting Operations

Neil was appointed as a non-independent non-executive director of the Company in December 2017 and is a member of the Company's Sanctions Committee. He is also Chair of the QBE Group Technical Underwriting Committee. Neil has over 29 years' experience in the reinsurance industry, 26 years with the QBE Group.

Amanda Sodergren — **Independent non-executive director**

Amanda was appointed as an independent non-executive director of the Company in May 2018 and is Chair of the Audit and Sanctions Committees and a member of the Risk & Capital Committee. Amanda also serves on the Boards of Hellenic Mutual War Risks Association (Bermuda) Limited, The UK P&I Club and a number of the Validus AlphaCat funds. In 2020, Amanda also became an independent non-executive director of both OmegaCat Reinsurance Ltd (a carrier associated with the AlphaCat funds) and Pacific Life Re Global Ltd (a Bermuda Life reinsurer which is a subsidiary of the US Pacific Life Group). Amanda was Chief Legal Counsel and Chief Ethics Officer of PartnerRe Ltd until December 2012 and has over 30 years' experience in the insurance, reinsurance and banking industries.

Financial results highlights

	STATUTORY RESULT	
	2020 US$M	**2019 US$M**
Gross written premium	**1,079**	886
Gross earned premium revenue	**1,074**	915
Net earned premium	**528**	473
Net claims expense	**(616)**	(462)
Net commission	**(66)**	(55)
Underwriting and other expenses	**(8)**	(11)
Underwriting result	**(162)**	(55)
Net investment income on policyholders' funds	**290**	181
Insurance profit	**128**	126
Net investment income on shareholders' funds	**23**	50
Financing and other costs	**(19)**	(35)
Profit before income tax	**132**	141
Income tax expense	**(9)**	(11)
Profit after income tax	**123**	130

About the Company

The Company is a company limited by shares, incorporated and domiciled in Bermuda. The parent entity is QBE Blue Ocean Re Limited and the ultimate parent is QBE Insurance Group Limited (the QBE Group). The parent entity is incorporated and domiciled in Bermuda with its registered office at 19 Par-La-Ville Road, Hamilton HM11, Bermuda. The ultimate parent is incorporated and domiciled in Australia with its registered office at Level 5, 2 Park St, Sydney 2000 , NSW Australia.

The Company is the wholly owned internal reinsurer for the QBE Group. The Company provides reinsurance protections to the QBE Group's operations around the world to assist in management of QBE Group's capital and net exposure to large individual risk and catastrophe claims.

Result

Net profit after tax for the year ended 31 December 2020 was $123 million.

The insurance profit includes a net benefit to the Company on COVID-19 related exposure whereby a proportion of the gross losses retained in the QBE divisions are recoverable on the QBE Group reinsurance covers. Such recoveries are recorded within net investment income with further explanation provided in note 3.1. Partially offsetting this benefit was adverse prior accident year development on reinsurance business written with the International divisions and, to a lesser extent, the AusPac division.

The investment portfolio was severely impacted by COVID-19 market volatility, particularly in the first half of the year. While fixed income assets benefited from falling sovereign bond yields, realised losses on emerging market and high yield debt assets negatively impacted fixed income returns. Growth assets were substantially impacted by market volatility. The Company sold all listed equities, high yield and emerging market debt instruments to de-risk the investment portfolio in the first half of the year.

Dividends

Dividends of $nil were paid during 2020 (2019 $250 million).

Shareholders' funds

Shareholders' funds were $999 million at 31 December 2020 (2019 $923 million) consisting of issued share capital, share premium reserve and retained profits plus profit for the year, partially offset by the adverse impact of movement in foreign currency translation reserve.

Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2020

Presentation currency

The presentation currency of these financial statements is US $.

The functional currency of the Company is US dollar.

Outstanding claims liability

The net central estimate of outstanding claims is determined by the VP, Actuarial Reserving and Capital, after consultation with internal and external actuaries. The assessment takes into account, amongst other things, a statistical analysis of past claims, allowance for claims incurred but not reported, reinsurance and other recoveries and future interest and inflation factors. The VP, Actuarial Reserving and Capital provides an annual opinion on the adequacy of the outstanding claims liability as approved by the Board.

The directors consider that a risk margin is required, above the actuarial central estimate, to mitigate the inherent uncertainty in the central estimate. The probability of adequacy of the outstanding claims liability at 31 December 2020 and 31 December 2019 was within the Board's approved risk appetite.

Indemnification and insurance

During the year, a related company paid a premium in respect of a contract insuring directors and officers of the Company. In accordance with normal commercial practice, disclosure of the total 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 the auditor of the Company.

Significant changes

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

Likely developments and expected results

Information on likely developments in the Company's operations in future financial years and the expected results of those operations have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

Events after balance sheet date

The directors are not aware of any matter or circumstance that has arisen since the end of the year that has significantly affected, or may significantly affect, the Company's operations, the results of those operations and the Company's state of affairs in future financial years. Given the evolving and uncertain impact of COVID-19, we anticipate that there are likely to be changes in market conditions in the future and the impact of these changes will be accounted for in future reporting periods as they arise. Further details is included in note 1.2.3.

Material business risks

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

Some of the material business risks that the Company faces include strategic, insurance, credit, market, liquidity, operational and compliance risks. Explanations of these risks and their mitigations are set out in more detail in note 4 to the financial statements.

The directors are committed to high standards of Corporate Governance. The Company adopts a proactive governance framework consistent with the requirements of the Insurance Code of Conduct issued by the Bermuda Monetary Authority and the governance and risk management requirements and best practice standards of the QBE Group.

The Company 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 outstanding claims liability and the application of the liability adequacy test. More detail of each of these is included in notes 2.3 and 2.5.1 respectively.

Board selection criteria and terms of reference

Directors are selected to achieve a broad range of skills, experience and expertise complementary to the Company's activities. The Board currently comprises eight directors including three executive and five non-executive directors.

In accordance with its charter, the Board's functions include:

- establishing financial and strategic objectives;
- evaluating, approving and monitoring strategic, business and financial plans;
- establishing and monitoring an appropriate governance and operational structure of the Company for the purpose of ensuring the sound and prudent management of the Company;
- approving and monitoring the Company's risk management and internal control framework to enable key business risks to be appropriately identified and managed;
- approving and monitoring adherence to policies, including code of conduct, fitness and probity and outsourcing;

- monitoring the Company's operations against legal, regulatory and financial responsibilities;
- reviewing and ensuring the adequacy of human resources, information technology and other resources; and
- appointment and, where appropriate, removal of the external auditor.

The Board ensures it has the information it requires to be effective including, where necessary, professional advice.

Company Secretary

The Company's appointed Company Secretary is Compass Administration Services Ltd, a firm registered in Bermuda.

Directors' interests and benefits

Director fees

The Company paid directors fees of $217,500 during the financial year (2019 $217,500) to independent non-executive directors external to the QBE Group, being David Duclos, Michael Angelina and Amanda Sodergren. Executive directors of the Company and non-independent non-executive directors are remunerated for their contribution to the Board as part of their overall remuneration package, paid either by the Company or another entity within the QBE Group.

Ordinary share capital

At no time during the year did any director have a beneficial interest in the shares of the Company.

Loans to directors and executives

The Company does not provide loans to directors or executives.

Other governance matters

The Company has adopted a code of conduct which outlines a set of general business ethics that apply to all Directors and employees when conducting any activity on behalf of the Company. The code of conduct requires employees to carry out business in an open and honest manner with customers, shareholders, employees, regulatory bodies, outside suppliers, intermediaries and the community. The code provides guidelines in respect of other requirements including whistle-blowing, confidentiality, disclosure of information, conflicts of interest and fraud.

Environmental regulation

The Company is not currently required to report upon any significant environmental regulations under Bermuda legislation.

Auditor

PricewaterhouseCoopers Ltd., Chartered Professional Accountants, Bermuda, continue in office in accordance with section 327B of the *Corporations Act 2001* of the Commonwealth of Australia, and Bermuda's Insurance Act 1978, amendments thereto and related Regulations.

Non-audit services

During the year, PricewaterhouseCoopers Ltd did not perform other services in addition to its statutory duties however, a process remains in place by which any planned or actual activities are assessed.

A copy of the auditor's independence declaration required under section 307C of the *Corporations Act 2001* of the Commonwealth of Australia is set out on page 7.

Details of amounts paid or payable to PricewaterhouseCoopers Ltd. is provided in note 7.5 to the financial statements.

Rounding of amounts

Amounts have been rounded off in the Directors' Report to the nearest million dollars or, in certain cases, to the nearest thousand dollars in accordance with that instrument.

Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2020

Registered office and principal place of business

The Company's registered office and principal place of business is at the 4th Floor, 19 Par-La-Ville Road, Hamilton HM11, Bermuda.

Signed in HAMILTON, Bermuda 28th day of April 2021 in accordance with a resolution of the directors.

J. Fiore
Director

R. Stone
Director

Auditor's Independence Declaration

As lead auditor for the audit of Equator Reinsurances Limited for the year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Colm Homan

Colm Homan
Partner
PricewaterhouseCoopers Ltd.
Hamilton, Bermuda
April 28, 2021

Financial Report contents

Financial statements

Notes to the financial statements

All amounts in are presented in United States dollars unless otherwise stated.

The Company is a Company limited by shares, incorporated and domiciled in Bermuda. Its registered office is located at:

4th Floor, 19 Par-La-Ville Road,

Hamilton HM11, Bermuda.

The parent entity is QBE Blue Ocean Re Limited and the ultimate parent is QBE Insurance Group Limited (the QBE Group). The parent entity is incorporated and domiciled in Bermuda. The ultimate parent is incorporated and domiciled in Australia with their registered office at Level 5, 2 Park St, , Sydney 2000, NSW Australia.

The Company is a wholly owned internal reinsurer for the QBE Group.

The Financial Report was authorised for issue by the directors on 28 April 2021. The directors have the power to amend and reissue the financial statements.

Statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTE	2020 US$M	2019 US$M
Gross written premium		**1,079**	886
Unearned premium movement		**(5)**	29
Gross earned premium revenue	2.1	**1,074**	915
Outward reinsurance premium		**(564)**	(493)
Deferred reinsurance premium movement		**18**	51
Outward reinsurance premium expense		**(546)**	(442)
Net earned premium (a)		**528**	473
Gross claims expense	2.2	**(1,780)**	(948)
Reinsurance and other recoveries revenue	2.2	**1,164**	486
Net claims expense (b)	2.2	**(616)**	(462)
Gross commission expense		**(102)**	(82)
Reinsurance commission revenue	2.1	**36**	27
Net commission (c)		**(66)**	(55)
Underwriting and other expenses (d)		**(8)**	(11)
Underwriting result (a)+(b)+(c)+(d)		**(162)**	(55)
Investment and other income – policyholders' funds	3.1	**291**	182
Investment expenses – policyholders' funds	3.1	**(1)**	(1)
Insurance profit		**128**	126
Investment and other income – shareholders' funds	3.1	**24**	51
Investment expenses – shareholders' funds	3.1	**(1)**	(1)
Financing and other costs		**(19)**	(35)
Profit before income tax		**132**	141
Income tax expense	6.1	**(9)**	(11)
Profit after income tax		**123**	130
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net movement in foreign currency translation reserve	5.2.2	**(47)**	(45)
Total comprehensive income after income tax		**76**	85
Profit after income tax attributable to:			
Ordinary equity holders of the company		**123**	130
Total comprehensive income after income tax attributable to:			
Ordinary equity holders of the company		**76**	85

EARNINGS PER SHARE FOR PROFIT AFTER INCOME TAX ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	NOTE	2020 US CENTS	2019 US CENTS
Basic earnings per share	5.4	**250**	264

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

Balance sheet

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTE	2020 US$M	2019 US$M
Assets			
Cash and cash equivalents	5.1	**297**	24
Investments	3.2	**1,942**	2,169
Derivative financial instruments	5.5	**33**	10
Trade and other receivables	2.6	**1,100**	934
Deferred insurance costs	2.5	**181**	177
Reinsurance and other recoveries on outstanding claims	2.3	**2,997**	2,457
Right-of-use assets		**1**	1
Property, plant and equipment		**1**	2
Intangible assets		**–**	1
Total assets		**6,552**	5,775
Liabilities			
Derivative financial instruments	5.5	**91**	12
Trade and other payables	2.7	**558**	675
Unearned premium	2.5	**328**	325
Outstanding claims	2.3	**4,575**	3,839
Lease liabilities		**1**	1
Total liabilities		**5,553**	4,852
Net assets		**999**	923
Equity			
Share capital	5.2.1	**416**	379
Share premium reserves	5.2.2	**139**	126
Reserves	5.2.2	**(388)**	(291)
Retained profits		**832**	709
Total equity		**999**	923

The balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2020

2020	SHARE CAPITAL US$M	SHARE PREMIUM RESERVE US$M	FOREIGN CURRENCY TRANSLATION RESERVE US$M	RETAINED PROFITS US$M	TOTAL EQUITY US$M
As at 1 January	**379**	**126**	**(291)**	**709**	**923**
Profit after income tax	**–**	**–**	**–**	**123**	**123**
Other comprehensive loss	**–**	**–**	**(47)**	**–**	**(47)**
Total comprehensive (loss) income	**–**	**–**	**(47)**	**123**	**76**
Foreign exchange movement	**37**	**13**	**(50)**	**–**	**–**
As at 31 December	**416**	**139**	**(388)**	**832**	**999**

2019	SHARE CAPITAL US$M	SHARE PREMIUM RESERVE US$M	FOREIGN CURRENCY TRANSLATION RESERVE US$M	RETAINED PROFITS US$M	TOTAL EQUITY US$M
As at 1 January	380	126	(246)	812	1,072
Profit after income tax	–	–	–	130	130
Other comprehensive loss	–	–	(45)	–	(45)
Total comprehensive (loss) income	–	–	(45)	130	85
Dividends paid on ordinary shares				(250)	(250)
Commutations, novations and other movements				(1)	(1)
Foreign exchange movement	(1)	–	–	18	17
As at 31 December	379	126	(291)	709	923

The statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTE	2020 US$M	2019 US$M
Operating activities			
Premium received		**989**	800
Reinsurance and other recoveries received		**510**	1,213
Outward reinsurance paid		**(486)**	(459)
Claims paid		**(1,117)**	(1,360)
Acquisition and other underwriting costs paid		**(106)**	(74)
Interest received		**39**	63
Dividends received		**15**	21
Finance costs paid		**(8)**	(12)
Income taxes paid		**(9)**	(11)
Net cash flows from operating activities	7.3	**(173)**	181
Investing activities			
Proceeds on sale of growth assets		**86**	–
Payments for purchase of growth assets		**–**	(6)
Payments from foreign exchange transactions		**(197)**	(3)
Payments to purchase property plant & equipment		**(1)**	(2)
Proceeds on sale of interest bearing financial assets		**504**	95
Net cash flows from investing activities		**392**	84
Financing activities			
Payments to related entities		**(50)**	(379)
Net cash flows from financing activities		**(50)**	(379)
Net movement in cash and cash equivalents		**169**	(114)
Cash and cash equivalents at the beginning of the year		**24**	37
Effect of exchange rate changes		**104**	101
Cash and cash equivalents at the end of the year	5.1	**297**	24

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

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2020

1. OVERVIEW

1.1 About the Company

About our ultimate parent, the QBE Group

QBE Group is one of the world's largest insurance and reinsurance companies. Formed in Australia in 1886, QBE employs more than 11,000 people with operations in Australia, Europe, North America, Asia and the Pacific.

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

About our history and activities

The Company is a wholly owned internal reinsurer of the QBE Group. Based in Bermuda, the Company provides reinsurance protections to the QBE Group's operations around the world. Business written and retained by the Company is within the risk appetite of the Company and QBE Group.

About insurance

In simple terms, reinsurance companies help their policyholders (insurance companies) to manage risk. More broadly put, a reinsurance company creates value by pooling and redistributing risk. This is done by collecting premium from those that it insures, and then paying the claims of the few that call upon their insurance protection. The Company may also choose to reduce some of its own accumulated risk through the use of outward reinsurance. As not all policyholders will actually experience a claims event, the effective pooling and redistribution of risk lowers the total cost of risk management, thereby making insurance protection more cost effective for all.

The operating model of reinsurance companies relies on profits being generated:

- by appropriately pricing risk and charging adequate premium to cover the expected payouts that will be incurred over the life of the policy (both claims and operating expenses); and
- by earning a return on the collected premium and funds withheld to pay future claims through the adoption of an appropriate investment strategy.

Reinsurance therefore serves a critical function of providing customers with the confidence to achieve their business goals through cost-effective risk management. This is achieved within a highly regulated environment, designed to ensure that reinsurance companies maintain adequate capital to protect the interests of policyholders. The Company is regulated by the Bermuda Monetary Authority, who also liaises with other global regulators including the QBE Group regulator, Australian Prudential Regulatory Authority.

1.2 About this report

This Financial Report includes the financial statements for Equator Reinsurances Limited.

The Financial Report includes the four primary statements, namely the statement of comprehensive income (which comprises profit or loss and other comprehensive income), balance sheet, statement of changes in equity and statement of cash flows as well as associated notes as required by Australian Accounting Standards. Disclosures have been grouped into the following categories in order to assist users in their understanding of our financial statements:

1. **Overview** contains information that impacts the Financial Report as a whole.
2. **Underwriting activities** brings together results and balance sheet disclosures relevant to the Company's reinsurance activities.
3. **Investment activities** include the results and balance sheet disclosures relevant to the Company's investment activities.
4. **Risk management** provides commentary on the Company's exposure to various financial and capital risks, explaining the potential impact on the results and balance sheet and how the Company manages these risks.
5. **Capital structure** provides information about the Company's capital.
6. **Tax** includes required disclosures in relation to the Company's tax balances.
7. **Other** includes additional disclosures required in order to comply with Australian Accounting Standards.

Where applicable within each note, disclosures are further analysed as follows:

- **Overview** provides some context to assist users in understanding the disclosures.
- **Disclosures** (both numbers and commentary) provides analysis of balances as required by Australian Accounting Standards.
- **How we account for the numbers** summarises the accounting policies relevant to an understanding of the numbers.
- **Critical accounting judgements and estimates** explains the key estimates and judgements applied by management in determining the numbers.

The notes include information which the directors believe is required to understand the financial statements and is material and relevant to the operations, balance sheet and results of the Company. Information is considered material and relevant if:

- the amount in question is significant because of its size or nature; and

- it is important to assist an understanding the results of the Company.

1.2.1 Basis of preparation

This Financial Report is a general purpose financial report which:

- has been prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board (AASB), and complies with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and Interpretations as issued by the IFRS Interpretations Committee (IFRIC);
- has been prepared on a historical cost basis as modified by certain exceptions, the most significant of which are the measurement of investments and derivatives at fair value and the measurement of the net outstanding claims liability at present value;
- is presented in US dollars; and
- is presented with values rounded to the nearest million dollars or, in certain cases, to the nearest thousand dollars.

New and amended Accounting Standards and Interpretations issued by the AASB that are now effective are detailed in note 7.1.

The Company has not adopted any Accounting Standards and Interpretations that have been issued or amended but are not yet effective.

1.2.2 Critical accounting judgements and estimates

The preparation of the Company's financial statements requires management to make judgements and estimates that affect amounts reported in the profit or loss and balance sheet. The key areas in which critical estimates and judgements are applied are as follows:

- net outstanding claims liability (note 2.3);
- recoveries on the group reinsurance covers (note 3.2); and
- liability adequacy test (note 2.5.1).

1.2.3 COVID-19

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

While the critical accounting judgements and estimates do not materially change, the impact of COVID-19 resulted in the application of further judgement within those areas. Given the evolving and uncertain impact of COVID-19, we anticipate that there are likely to be changes in market conditions in the future and the impact of these changes will be accounted for in future reporting periods as they arise and/or are able to be reasonably predicted.

Areas which are most significantly impacted by COVID-19 are as follows:

- Recoveries on the QBE Group reinsurance covers: The Company has recorded recoveries on the QBE Group reinsurance covers consistent with the expected contributing claims incurred across QBE Group in the year to 31 December 2020. Whilst this claims estimate has been based on a detailed review of exposures, scenario analysis under a variety of macroeconomic outcomes demonstrates significant uncertainty remains around potential claims emergence from credit exposed classes given the current levels of government stimulus and credit support from the banking sector. The Company will continue to monitor market developments closely to ensure that the recoveries on the QBE Group reinsurance covers is reflective of the Company's best estimate of expected future claims.
- Liability adequacy test: This assessment is informed by the Company's expectation of future net claims including a risk margin and is therefore subject to the same uncertainties summarised above. Future claims assumptions used in the liability adequacy test have been prepared on a basis that is consistent with the COVID-19 assumptions informing the determination of the net discounted central estimate.

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

1.2.4 Foreign currency

Translation of foreign currency transactions and balances

Foreign currency transactions are translated into functional currencies at the spot rates of exchange applicable at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at that date. Resulting exchange gains and losses are included in profit or loss.

Translation of foreign currency ledgers

Consistent with previous years, the Company accounted for transactions in three separate currency ledgers, each reflecting the functional currency of one of the QBE Group's operating divisions and the underlying nature of premium and risks ceded to the Company from each QBE division. Results and balance sheets of these foreign currency ledgers were translated into US dollars as follows:

- income, expenses and other current period movements in comprehensive income translated at average rates of exchange; and
- balance sheet items translated at the closing balance sheet date rates of exchange.

On consolidation of these ledgers, exchange differences arising from the translation of net assets were taken to shareholders' equity and recognised in other comprehensive income.

During the year the Company transitioned to a single US dollar currency ledger. The assets and liabilities of the non US dollar ledgers were nil as at the balance sheet date. Income, expenses and other current period movements in comprehensive income generated in the non US dollar ledgers up until the date of transition to a single ledger currency, were translated at average rates of exchange.

Derivatives and hedging transactions

The Company uses derivatives in mitigating risk associated with foreign currency transactions and balances.

Exchange rates

The principal exchange rates used in the preparation of the financial statements were:

	2020		2019	
	PROFIT OR LOSS	BALANCE SHEET	PROFIT OR LOSS	BALANCE SHEET
A$/US$	**0.688**	**0.771**	0.695	0.702
£/US$	**1.283**	**1.368**	1.276	1.325

2. UNDERWRITING ACTIVITIES

Overview

This section provides analysis and commentary on the Company's underwriting activities. Underwriting, in simple terms, is the agreement by the reinsurer to assume reinsurance risk in return for a premium paid by the reinsured. The underwriter assesses the quality of the risk and prices it accordingly.

2.1 Revenue

Overview

Revenue comprises premiums charged for providing reinsurance coverage. Inwards reinsurance business assumed is largely from related entities on either a quota share or excess of loss basis. QBE Group exited Latin America and certain areas in Asia in 2018 and 2019. This business that the Company and its subsidiaries wrote in these areas is now in runoff. Materially all outwards reinsurance business is placed with third parties. Other sources of revenue include amounts recovered from reinsurers under the terms of reinsurance contracts and commission income from reinsurers.

	NOTE	2020 US$M	2019 US$M
Gross earned premium revenue			
Reinsurance business earned		**1,074**	915
Other revenue			
Reinsurance and other recoveries revenue	2.2	**1,164**	486
Reinsurance commission revenue		**36**	27
		2,274	1,428

How we account for the numbers

Premium revenue

Premium written comprises inwards reinsurance amounts charged to the reinsured, excluding taxes collected on behalf of other parties. Premium is recognised as revenue in profit or loss based on the incidence of the pattern of risk associated with the reinsurance policy. The earned portion of premium on unclosed business, being business that is written at the balance sheet date, but for which detailed policy information is not yet booked, is also included in premium revenue.

Reinsurance and other recoveries

Reinsurance and other recoveries on paid claims, reported claims not yet paid, claims incurred but not reported (IBNR), and claims incurred but not enough reported (IBNER) are recognised as revenue. Recoveries are measured as the present value of the expected future receipts.

2.2 Net claims expense

Overview

The largest expense for the Company is net claims expense, which is the difference between the net outstanding claims liability at the beginning and the end of the financial year plus any claims payments made net of reinsurance and other recoveries received during the financial year.

	NOTE	2020 US$M	2019 US$M
Gross claims and related expenses		**1,780**	948
Reinsurance and other recoveries revenue		**1,164**	486
Net claims expense		**616**	462
Analysed as follows:			
Movement in net discounted central estimate	2.4.2	**594**	500
Movement in risk margin	2.3.3	**22**	(38)
Net claims expense		**616**	462

2.3 Net outstanding claims liability

Overview

The net outstanding claims liability comprises the elements described below.

- The gross discounted central estimate (note 2.3.1). This is the present value of the expected future claims payments and includes claims reported but not yet paid, claims incurred but which have not yet been reported (IBNR), claims incurred but not enough reported (IBNER) and estimated claims handling costs.
- Less reinsurance and other recoveries (note 2.3.2). The Company purchases reinsurance to manage its exposure to any one claim or series of claims. When it incurs a claim as a result of an insured loss, it may be able to recover some of that claim from reinsurance. It includes an allowance for IBNR on these reinsurances to the extent that IBNR on gross claims would trigger a recovery.
- The net central estimate (gross central estimate less reinsurance and other recoveries) is discounted to present value recognising that the claim and/or recovery may not be settled for some time. The weighted average risk-free rate for each operating segment are summarised in note 2.3.4.
- Plus a risk margin (note 2.3.3). A risk margin is added to reflect the inherent uncertainty in the net discounted central estimate of outstanding claims.

	NOTE	2020 US$M	2019 US$M
Gross discounted central estimate	2.3.1	**4,366**	3,648
Risk margin	2.3.3	**209**	191
Gross outstanding claims liability		**4,575**	3,839
Reinsurance and other recoveries on outstanding claims	2.3.2	**(2,997)**	(2,457)
Net outstanding claims liability		**1,578**	1,382

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

		2020			2019		
	NOTE	GROSS US$M	REINSURANCE US$M	NET US$M	GROSS US$M	REINSURANCE US$M	NET US$M
At 1 January		**3,839**	**(2,457)**	**1,382**	4,176	(2,650)	1,526
Claims expense – current accident year	2.4.2	**1,293**	**(896)**	**397**	473	(171)	302
Claims expense – prior accident year	2.4.2	**465**	**(268)**	**197**	513	(315)	198
Movement in risk margin	2.3.3	**22**	**–**	**22**	(38)	–	(38)
Incurred claims recognised in profit or loss	2.2	**1,780**	**(1,164)**	**616**	948	(486)	462
Commutations, novation, and other movements		**–**	**–**	**–**	(8)	–	(8)
Claims payments		**(1,117)**	**648**	**(469)**	(1,307)	695	(612)
Foreign exchange		**73**	**(24)**	**49**	30	(16)	14
At 31 December		**4,575**	**(2,997)**	**1,578**	3,839	(2,457)	1,382

2.3.1 Gross discounted central estimate

	NOTE	2020 US$M	2019 US$M
Gross undiscounted central estimate excluding claims settlement costs [1]		**4,420**	3,820
Claims settlement costs		**1**	1
Gross undiscounted central estimate		**4,421**	3,821
Discount to present value		**(55)**	(173)
Gross discounted central estimate	2.3	**4,366**	3,648
Payable within 12 months		**1,569**	1,155
Payable in greater than 12 months		**2,797**	2,493
Gross discounted central estimate	2.3	**4,366**	3,648

1 At 31 December 2020 the Company had issued, in its own name and through QBE Group, letters of credit and funds held in trust accounts totalling $487 million (2019 $911 million) for the benefit of various ceding entities.

Critical accounting judgements and estimates

The gross discounted central estimate is the present value of the expected future payments for claims incurred and includes reported but unpaid claims, IBNR, IBNER and claims handling costs. The central estimate is determined by the VP, Actuarial Reserving & Capital, supported by a team of actuaries and with input from peers in other QBE divisions and QBE Group head office. The valuation process is performed quarterly 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. The risk management procedures related to the actuarial function are explained further in note 4.2.

The determination of the amounts that the Company will ultimately pay for claims arising under inward reinsurance contracts involves a number of critical assumptions. Some of the uncertainties impacting these assumptions are as follows:

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs for long tail insurance classes due to the longer period of time that can elapse before a claim is paid in full;
- the existence of complex underlying exposures;
- the incidence of catastrophic events close to the balance sheet date;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages
- changing social, political and economic trends for example price and wage inflation; and
- Impact of COVID-19 as described in note 1.2.3.

The estimation of IBNR and IBNER is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already reported to the Company but not yet paid, for which more information about the claims is generally available. The notification and settlement of claims relating to liability and other long tail classes of business may not happen for many years after the event giving rise to the claim. As a consequence, liability and other long tail classes typically display greater variability between initial estimates and final settlement due to delays in reporting claims and uncertainty in respect of court awards and future claims inflation. Claims in respect of property and other short tail classes are typically reported and settled soon after the claim event, giving rise to more certainty.

Central estimates for each class of business are determined using a variety of estimation techniques, generally based on an analysis of historical experience and with reference to external benchmarks where relevant. The gross central estimate is discounted to present value using the appropriate risk-free rate.

Central estimates are calculated gross of any reinsurance and other recoveries. A separate estimate is made of the amounts recoverable from reinsurers based on the gross central estimate (note 2.3.2).

2.3.2 Reinsurance and other recoveries on outstanding claims

	NOTE	2020 US$M	2019 US$M
Reinsurance and other recoveries on outstanding claims – undiscounted [1]		**3,024**	2,558
Discount to present value		**(27)**	(101)
Reinsurance and other recoveries on outstanding claims	2.3	**2,997**	2,457
Receivable within 12 months		**1,208**	796
Receivable in greater than 12 months		**1,789**	1,661
Reinsurance and other recoveries on outstanding claims	2.3	**2,997**	2,457

1 Net of a provision for impairment of $7 million (2019 $3 million)

How we account for the numbers

The recoverability of amounts due from reinsurers is assessed at each balance sheet date to ensure that the balances properly reflect the amounts that are ultimately expected to be received, taking into account counterparty credit risk and the contractual terms of the reinsurance contract. Counterparty credit risk in relation to reinsurance assets is considered in note 4.3. Recoveries are discounted to present value using the appropriate risk-free rate.

2.3.3 Risk margin

Overview

A risk margin is determined by the Company's Board to account for the inherent uncertainty in the net discounted central estimate.

The risk margin and the net discounted central estimate are key inputs in the determination of the probability of adequacy, which is a statistical measure of the relative adequacy of the outstanding claims liability to ultimately be able to pay claims. For example, a 90% probability of adequacy indicates that the outstanding claims liability is expected to be adequate nine years in ten.

		2020	2019
Risk margin	US$M	**209**	191
Risk margin as a percentage of the net discounted central estimate	%	**15.3**	16.0
Probability of adequacy[1]	%	**94.3**	92.7

1 The approach to determine the probability of adequacy of the outstanding claims liabilities is consistent with previous years. This said, as explained in note 1.2.3, given the evolving impact of COVID-19, there is a greater level of uncertainty in the level of reserves.

How we account for the numbers

AASB 1023 *General Insurance Contracts* requires an entity to adopt an appropriate risk margin. The resulting probability of adequacy is not of itself an accounting policy as defined by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The appropriate level of risk margin is not determined by reference to a fixed probability of adequacy.

The Company reviews a number of factors when determining the appropriate risk margin, including any changes in the level of uncertainty in the net discounted central estimate, the resulting probability of adequacy and the risk margin as a percentage of the net discounted central estimate.

Critical accounting judgements and estimates

The risk margin is determined by the Board and is held to mitigate the potential for uncertainty in the net discounted central estimate. The determination of the appropriate level of risk margin takes into account similar factors to those used to determine the central estimate, such as:

- mix of business, in particular the mix of short tail and long tail business and the overall weighted average term to settlement; and
- the level of uncertainty in the central estimate due to estimation error, data quality, variability of key inflation assumptions and possible economic and legislative changes.

The variability by class of business is measured using techniques that determine a range of possible outcomes of ultimate payments and assign a likelihood to outcomes at different levels. These techniques generally use standard statistical distributions, and the measure of variability is referred to as the coefficient of variation.

At a fixed probability of adequacy, the appropriate risk margin for two or more classes of business or for two or more geographic locations combined is likely to be less than the sum of the risk margins for the individual classes. This reflects the benefit of diversification in reinsurance. The statistical measure used to determine diversification is called the correlation. The higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class. For example, high correlation exists between classes of business affected by court cases involving bodily injury claims such as motor third party liability, workers' compensation and public liability, particularly in the same jurisdiction.

The probability of adequacy for the Company is determined by analysing the variability of each class of business and the correlation between classes of business and geographic locations. Correlations are determined for aggregations of classes of business, where appropriate. The correlations adopted by the Company are generally derived from industry analysis, the Company's (and QBE Group trends as appropriate) historical experience and the judgement of experienced and qualified actuaries.

2.3.4 Discount rate used to determine the outstanding claims liability

Overview

Claims in relation to long tail classes of business (e.g. professional indemnity and workers' compensation) typically may not settle for many years. As such, the liability is discounted to reflect the time value of money. The table below summarises the weighted average discount rates utilised for each operating segment

	2020 %	2019 %
North America	**(0.75) - 1.18**	(0.42) - 2.43
International	**(0.70) - 0.69**	(0.42) - 2.80
Australia Pacific	**(0.14) - 2.63**	0.56 - 2.63
Latin America	**0.39 - 0.39**	(0.35) - 2.66
All Segments	**(0.70) - 1.62**	(0.41) - 2.33

How we account for the numbers

AASB 1023 *General Insurance Contracts* requires that the net central estimate is discounted to reflect the time value of money using risk-free rates that are based on current observable, objective rates that relate to the nature, structure and terms of the future obligations.

2.3.5 Weighted average term to settlement

Overview

The weighted average term to settlement refers to the period from the balance sheet date to the expected date of claims settlement. All other factors being equal, a longer weighted average term to settlement generally results in a larger benefit from discount and a resulting lower net discounted central estimate.

	2020 YEARS						2019 YEARS					
	US$	£	A$	€	OTHER	TOTAL	US$	£	A$	€	OTHER	TOTAL
North America	**6.0**	**0.0**	**0.0**	**0.0**	**0.0**	**6.0**	7.1	0.0	0.0	0.0	0.0	7.1
International	**2.7**	**1.8**	**3.4**	**2.0**	**2.2**	**4.1**	3.0	3.1	2.3	2.5	1.8	4.2
Australia Pacific	**2.1**	**0.0**	**1.9**	**0.0**	**2.2**	**1.3**	3.0	0.0	2.5	0.0	1.5	0.7
Latin America	**2.3**	**0.0**	**0.0**	**0.0**	**0.0**	**2.3**	1.5	0.0	0.0	2.8	0.0	1.6
All Segments	**4.1**	**1.8**	**2.0**	**2.0**	**2.2**	**4.2**	2.9	3.1	2.4	2.6	1.6	4.2

2.3.6 Net discounted central estimate maturity profile

Overview

The maturity profile is the Company's expectation of the period over which the net central estimate will be settled. The Company uses this information to ensure that it has adequate liquidity to pay claims as they are due to be settled and to inform the Company's investment strategy. The expected maturity profile of the Company's net discounted central estimate is analysed below.

2020	LESS THAN ONE YEAR US$M	13 TO 24 MONTHS US$M	25 TO 36 MONTHS US$M	37 TO 48 MONTHS US$M	49 TO 60 MONTHS US$M	OVER 5 YEARS US$M	TOTAL US$M
North America	**90**	**53**	**45**	**26**	**16**	**86**	**316**
International	**145**	**103**	**158**	**123**	**91**	**188**	**808**
Australia Pacific	**135**	**67**	**29**	**29**	**5**	**3**	**268**
Latin America	**(9)**	**(6)**	**(2)**	**(1)**	**(1)**	**(4)**	**(23)**
All Segments	**361**	**217**	**230**	**177**	**111**	**273**	**1,369**

2019	LESS THAN ONE YEAR US$M	13 TO 24 MONTHS US$M	25 TO 36 MONTHS US$M	37 TO 48 MONTHS US$M	49 TO 60 MONTHS US$M	OVER 5 YEARS US$M	TOTAL US$M
North America	89	25	25	23	14	78	254
International	123	65	66	113	85	198	650
Australia Pacific	119	67	23	24	11	(15)	229
Latin America	28	9	10	7	4	0	58
All Segments	359	166	124	167	114	261	1,191

2.3.7 Impact of changes in key variables on the net outstanding claims liability

Overview

The impact of changes in key variables used in the calculation of the outstanding claims liability is summarised in the table below. Each change has been calculated in isolation from the other changes and shows the after-tax impact on profit or loss assuming that there is no change to any of the other variables. In practice, this is considered unlikely to occur as, for example, an increase in interest rates is normally associated with an increase in the rate of inflation. Over the medium to longer term, the impact of a change in discount rates is expected to be largely offset by the impact of a change in the rate of inflation.

The sensitivities below assume that all changes directly impact profit after tax. If the central estimate was to increase, it is possible that part of the increase may result in an offsetting change in the level of risk margin required rather than in a change to profit after tax, depending on the nature of the change in the central estimate and risk outlook. Likewise, if the coefficient of variation were to increase, it is possible that the probability of adequacy would reduce from its current level rather than result in a change to net profit after income tax.

	SENSITIVITY %	PROFIT (LOSS) [1] 2020 US$M	2019 US$M
Net discounted central estimate	+5	**(68)**	(60)
	-5	**68**	60
Risk Margin	+5	**(10)**	(10)
	-5	**10**	10
Inflation rate	+0.5	**(20)**	(18)
	-0.5	**19**	21
Discount rate	+0.5	**19**	21
	-0.5	**(20)**	(18)
Coefficient of variation	+1	**(17)**	(17)
	-1	**17**	17
Probability of adequacy	+1	**(11)**	(11)
	-1	**10**	10
Weighted average term to settlement	+10	**2**	6
	-10	**(3)**	(6)

1 The impact of a change in interest rates on net profit after income tax due to market value movements on fixed interest securities is shown in note 4.4.

2.4 Claims development – net undiscounted central estimate

Overview

The claims development table demonstrates the extent to which the original estimate of net ultimate claims payments in any one accident year (item (a) in the table below) has subsequently developed favourably (i.e. claims cost estimates have reduced) or unfavourably (i.e. further claims expense has been recognised in subsequent years). This table therefore illustrates the variability and inherent uncertainty in estimating the central estimate each year. The ultimate claims cost for any particular accident year is not known until all claims payments have been made which, for some long tail classes of business, could be many years into the future. The estimated ultimate claims payments at the end of each subsequent accident year demonstrates how the original estimate has been revised over time (b).

Cumulative net claims payments (d) are deducted from the estimate of net ultimate claims payments in each accident year (c) at the current balance sheet date, resulting in the undiscounted central estimate at a fixed rate of exchange (e). This is revalued to the balance sheet date rate of exchange (f) to report the net undiscounted central estimate (g), which is reconciled to the discounted net outstanding claims liability (h). The treatment of foreign exchange in the claims development table is explained on the following page.

The net increase (decrease) in estimated net ultimate claims payments (i) reflects the estimated ultimate net claims payments at the end of the current financial year (c) less the equivalent at the end of the previous financial year (b). This is further summarised in note 2.4.1. The claims development table is presented net of reinsurance.

		2010 & PRIOR US$M	2011 US$M	2012 US$M	2013 US$M	2014 US$M	2015 US$M	2016 US$M	2017 US$M	2018 US$M	2019 US$M	2020 US$M	TOTAL US$M
Net ultimate claims payments [1]													
(a)	Original estimate of net ultimate claims payments		2,209	1,964	1,731	1,892	976	1,322	2,148	419	311	445	
(b)	One year later		2,324	2,004	1,752	1,925	1,025	1,293	2,218	435	400		
	Two years later		2,364	1,971	1,816	1,992	948	1,429	2,267	385			
	Three years later		2,344	1,995	1,862	1,965	890	1,418	2,303				
	Four years later		2,363	1,982	1,841	1,729	887	1,465					
	Five years later		2,329	1,981	1,823	1,737	859						
	Six years later		2,348	1,917	1,845	1,740							
	Seven years later		2,294	1,956	1,853								
	Eight years later		2,325	1,960									
	Nine years later		2,322										
(c)	Current estimate of net ultimate claims payments		2,322	1,960	1,853	1,740	859	1,465	2,303	385	400	445	13,732
(d)	Cumulative net payments to date [1]		(2,272)	(1,921)	(1,816)	(1,745)	(855)	(1,294)	(1,798)	(432)	(213)	(76)	(12,422)
(e)	Net undiscounted central estimate at fixed rate of exchange [2]	64	50	39	37	(5)	4	171	505	(47)	187	369	1,374
(f)	Foreign exchange impact												15
	Provision for impairment												7
(g)	Net undiscounted central estimate at 31 Dec 2020	–	–	–	–	–	–	–	–	–	–	–	1,396
	Discount to present value												(28)
	Claims settlement costs												1
	Risk margin												209
(h)	Net outstanding claims liability at 31 Dec 2020 (note 2.3)												1,578
(i)	Movement in estimated net ultimate claims payments (note 2.4.1)	9	(3)	4	9	2	(28)	47	37	(50)	89	445	561

1 Includes prior year impact of novation to Blue Ocean and Lloyds commutation.

2 Excluding claims settlement costs.

How we account for the numbers

The estimate of net ultimate claims payments attributable to business acquired is generally included in the claims development table in the accident year in which the acquisition was made. This includes the acquisition of net outstanding claims liabilities via loss portfolio transfers.

The Company writes business in currencies other than the US dollar. The translation of ultimate claims estimates 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, amounts have been translated to the functional currencies of our segment ledgers at constant rates of exchange. All estimates of ultimate claims payments for the 10 most recent accident years reported in ledger currencies other than US dollars have been translated to US dollars using the 2020 average rate of exchange.

2.4.1 Reconciliation of claims development table to profit or loss

Overview

The table below reconciles the net increase or decrease in estimated net ultimate claims payments in the current financial year from the claims development table (item (i) in note 2.4) to the analysis of current and prior accident year central estimate development recognised in profit or loss (note 2.4.2).

	2020			2019		
	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M
Movement in estimated net ultimate claims payments [1]	**446**	**115**	**561**	311	153	464
Movement in claims settlement costs	**–**	**–**	**–**	–	–	–
Movement in discount	**–**	**43**	**43**	(7)	42	35
Foreign exchange	**(51)**	**37**	**(14)**	(2)	(5)	(7)
Other movements	**2**	**2**	**4**	–	8	8
Movement in net discounted central estimate (note 2.4.2)	**397**	**1975**	**594**	302	198	500

1 Excluding claims settlement costs

2.4.2 Net central estimate development

Overview

The table further analyses the current and prior accident year movement in the net discounted central estimate, separately identifying the gross and reinsurance components. Prior accident year claims are those claims that occurred in a previous year but for which a reassessment of the claims cost has impacted the result in the current period.

	2020			2019		
	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M	CURRENT ACCIDENT YEAR US$M	PRIOR ACCIDENT YEARS US$M	TOTAL US$M
Gross central estimate development						
Undiscounted	**1,297**	**346**	**1,643**	484	386	870
Discount	**(4)**	**119**	**115**	(11)	127	116
	1,293	**465**	**1,758**	473	513	986
Reinsurance and other recoveries						
Undiscounted	**(900)**	**(192)**	**(1,092)**	(175)	(230)	(405)
Discount	**4**	**(76)**	**(72)**	4	(85)	(81)
	(896)	**(268)**	**(1,164)**	(171)	(315)	(486)
Net central estimate development						
Undiscounted	**397**	**154**	**551**	309	156	465
Discount	**–**	**43**	**43**	(7)	42	35
Net discounted central estimate development (note 2.4.1)	**397**	**197**	**594**	302	198	500

2.5 Unearned premium and deferred insurance costs

Overview

Unearned premium

Gross written premium is earned in profit or loss in accordance with the pattern of incidence of risk of the related business. The unearned premium liability is that portion of gross written premium that the Company has not yet recognised in profit or loss as it represents insurance coverage to be provided by the Company after the balance sheet date.

Deferred insurance costs

Premium ceded to reinsurers by the Company in exchange for reinsurance protection is expensed in profit or loss in accordance with the reinsurance contract's expected pattern of incidence of risk. The deferred reinsurance premium asset is that portion of the reinsurance premium that the Company has not yet recognised in profit or loss as it represents reinsurance coverage to be received after the balance sheet date.

Acquisition costs are the costs associated with obtaining and recording insurance business. Acquisition costs are similarly capitalised and amortised, consistent with the earning of the related premium for that business. Commissions are a type of acquisition cost but are disclosed separately.

Summary of unearned premium and deferred insurance costs balances

	2020 US$M	2019 US$M
Unearned premium (a)	**328**	325
To be earned within 12 months	**328**	325
Unearned premium	**328**	325
Deferred reinsurance premium	**136**	117
Deferred net commission	**45**	60
Deferred insurance costs (b)	**181**	177
To be expensed within 12 months	**151**	166
To be expensed in greater than 12 months	**30**	11
Deferred insurance costs	**181**	177
Net premium liabilities (a) – (b)	**147**	148

Unearned premium movements

	2020 US$M	2019 US$M
At 1 January	**325**	355
Deferral of unearned premium on contracts written in the financial year	**235**	209
Earning of premium written in previous financial years	**(230)**	(238)
Foreign exchange	**(2)**	(1)
At 31 December	**328**	325

Deferred insurance costs movements

	DEFERRED REINSURANCE PREMIUM		DEFERRED NET COMMISSION	
	2020 US$M	2019 US$M	2020 US$M	2019 US$M
At 1 January	**117**	**66**	**60**	60
Costs deferred in financial year	**125**	**78**	**(4)**	(2)
Amortisation of costs deferred in previous financial years	**(104)**	**(32)**	**1**	7
Transfers to assets or liabilities held for sale / disposal	**(2)**	**–**	**(1)**	4
Commutations, novation, and other movements	–	**8**	**–**	–
Foreign exchange	**–**	**(3)**	**(11)**	(9)
At 31 December	**136**	**117**	**45**	60

How we account for the numbers

Unearned premium

Unearned premium is calculated based on the coverage period of the reinsurance contract and in accordance with the expected pattern of the incidence of risk, using either the daily pro-rate method or the 24ths method, adjusted where appropriate to reflect different risk patterns.

Deferred insurance costs

Deferred reinsurance premium is calculated based on the period of indemnity provided to the Company by the reinsurance contract and in accordance with the related pattern of the incidence of risk.

Acquisition costs are capitalised when they relate to new business or the renewal of existing business and are amortised on the same basis as the earning pattern for that business. At the balance sheet date, deferred acquisition costs represent the capitalised acquisition costs that relate to unearned premium and are carried forward to a subsequent accounting period in recognition of their future benefit. The carrying value of deferred acquisition costs is subject to impairment testing in the form of the liability adequacy test (note 2.5.1).

Due to the captive nature of the Company, there are generally no external costs incurred in the acquisition of business. The only costs relating to acquired business are those of the small underwriting function. As these costs are expensed through-out the year, in a manner that largely matches premium recognition, and are relatively consistent year on year, management consider it appropriate to expense these costs as incurred rather than deferring any portion.

2.5.1 Liability adequacy test

Overview

At each balance sheet date, the Company is required to assess net premium liabilities (being unearned premium less deferred insurance costs) to determine whether the amount provided is sufficient to pay future claims net of reinsurance recoveries.

If the present value of expected future net claims including a risk margin exceeds the net premium liabilities, adjusted for deferred reinsurance premium relating to future business not yet written, the net premium liability is deemed deficient. This deficiency is immediately recognised in profit or loss. In recognising the deficiency, an insurer must first write down any related intangible assets and then deferred acquisition costs before recognising an unexpired risk liability.

Expected present value of future cash flows for future claims including risk margin

	2020 US$M	2019 US$M
Undiscounted net central estimate	**122**	186
Discount to present value	**(2)**	(10)
	120	176
Risk margin at the 75th percentile of insurance liabilities	**12**	6
Expected present value of future cash flows for future claims including risk margin	**132**	183

The application of the liability adequacy test at 31 December 2020 did not identify a deficiency (2019 $nil).

How we account for the numbers

At each balance sheet date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future claims cash flows in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate. The assessment is carried out at an overall company level.

Critical accounting judgements and estimates

In assessing the adequacy of net premium liabilities, AASB 1023 *General Insurance Contracts* requires the inclusion of a risk margin but does not prescribe a minimum level of margin. Whilst there is established practice in the calculation of the probability of adequacy of the outstanding claims liability, no such guidance exists in respect of the level of risk margin to be used in determining the adequacy of net premium liabilities.

The Company has adopted a risk margin of 9.6% (2019 3.5%) for the purpose of the liability adequacy test to produce a 75% probability of adequacy in respect of total insurance liabilities. The 75% basis is a recognised industry benchmark in Australia, being the minimum probability of adequacy required for Australian licensed insurers by APRA. The Company's ultimate parent undertaking is domiciled in Australia.

2.6 Trade and other receivables

Overview

Trade and other receivables are principally amounts owed to the Company by policyholders or reinsurance counterparties. Unclosed premium receivables are estimated amounts due to the Company in relation to business for which the Company is on risk but where the policy is not billed to the counterparty at the balance sheet date. Funds withheld by cedants represent net balances due to the Company on certain contracts where the contract wording permits the reinsured to retain premium otherwise owed to the Company and use this to offset claims and other amounts owed to it, by the Company, in relation to the same contract, with a net balance being paid to the Company a number of years after that in which the reinsurance contract was originally underwritten.

	2020 US$M	2019 US$M
Trade debtors		
Premium receivable[1]	**85**	158
Reinsurance and other recoveries[2]	**299**	156
Unclosed premium	**168**	52
	552	366
Amounts due from related entities[3]	**541**	557
Investment receivables	**7**	11
Trade and other receivables	**1,100**	934
Receivable within 12 months	**1,072**	929
Receivable in greater than 12 months	**28**	5
Trade and other receivables	**1,100**	934

1 Net of a provision for impairment of $nil (2019 $nil).

2 Net of a provision for impairment of $7 million (2019 $2.7 million).

3 Included in amounts due from related entities are two loans totalling $530 million (2019 $483 million) to QBE Strategic Capital (Europe) Limited, on commercial terms. Both loans with QBE Strategic Capital (Europe) Limited have been rolled until 7 December 2021 with an all in interest rate of 0.920% to 11 June 2021 and 0.930% from 12 June 2021 to 7 December 2021.

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

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables. As at 31 December 2020, no receivables are pledged by the Company as collateral for liabilities. Information on the ageing and credit rating of these balances is included in note 4.3.

How we account for the numbers

Receivables are recognised at fair value and are subsequently measured at amortised cost less any impairment.

Receivables arising from general insurance contracts, which include premium receivable, reinsurance and other recoveries and unclosed premium, are impaired when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable.

The remainder of the Company's receivables are assessed for impairment based on both incurred and expected credit losses, the impacts of which are not material.

2.7 Trade and other payables

Overview

Trade payables primarily comprise amounts owed to reinsurance counterparties and cedants. Investment payables are amounts due to investment counterparties for settlement of transactions.

	2020 US$M	2019 US$M
Trade payables	**380**	297
Other payables and accrued expenses	**2**	2
Investment payables	**–**	139
Amounts due to related entities[1]	**176**	237
Trade and other payables	**558**	675
Payable within 12 months	**381**	497
Payable in greater than 12 months	**177**	178
Trade and other payables	**558**	675

1 Included in Amounts due to related entities is a loan of $175 million (2019 $175 million), plus accrued interest thereon of $1 million (2019 $3 million), issued on commercial terms from QBE Strategic Capital Company Pty Limited.

How we account for the numbers

Trade payables are recognised at their fair value.

3. INVESTMENT ACTIVITIES

Overview

Premiums collected from policyholders are invested to meet the Company's cash flow needs to pay claims and other expenses, as well as generating a return that contributes to the Company's profitability. A sound investment strategy is therefore integral to the success of the Company's operations.

The Company invests across a diversified range of instruments to achieve an appropriate balance between risk and return. Decisions on where to invest is dependent on expected returns, cash flow requirements of the Company, liquidity of the instrument, credit quality of the instrument and the Company's overall risk appetite. Further details on the management of risk associated with investment assets can be found in note 4.

The Company's investment assets are categorised as either backing policyholders' or shareholders' funds, with the former being investment assets which back insurance liabilities whilst the latter comprises all other investment assets.

3.1 Investment income

	2020 US$M	2019 US$M
Income on growth assets	**15**	37
Income on fixed interest securities, short-term money and cash[1]	**44**	107
Gain on other financial assets	**269**	92
Gross investment income [2]	**328**	236
Investment expenses	**(2)**	(2)
Net investment income	**326**	234
Foreign exchange movement	**(8)**	-
Other Expenses	**(5)**	(3)
Total investment income	**313**	231
Investment and other income – policyholders' funds	**291**	182
Investment expenses – policyholders' funds	**(1)**	(1)
Investment and other income – shareholders' funds	**24**	51
Investment expenses – shareholders' funds	**(1)**	(1)
Total investment income	**313**	231

1 Includes interest income of $7 million (2019 $12 million) on related party corporate bonds held within its investment portfolio until they were exited during the year.

2 Includes net fair value gains of $1 million (2019 $51 million), dividend income of $16 million (2019 $21 million), interest income of $42 million (2019 $70 million) and a gain related to other financial assets held at fair value through profit and loss of $269 million (2019 $92 million gain) as described in note 3.2.1.

How we account for the numbers

Interest income is recognised in the period in which it is earned. Dividends are recognised when the right to receive payment is established. Investment income includes realised and unrealised gains or losses on financial assets which are reported on a combined basis as fair value gains or losses on financial assets.

3.2 Investment assets

	2020 US$M	2019 US$M
Fixed income		
Short-term money	**101**	140
Government bonds	**180**	402
Corporate bonds	**882**	1,021
Infrastructure debt	**15**	22
	1,178	1,585
Growth assets		
Developed market equity	**–**	20
Emerging market equity	**–**	7
Emerging market debt	**–**	59
High yield debt	**–**	25
Unlisted property trusts	**44**	38
Infrastructure assets	**271**	268
Private equity	**65**	52
	380	469
Other financial assets	**384**	115
Total investments	**1,942**	2,169
Amounts maturing within 12 months	**625**	481
Amounts maturing in greater than 12 months	**1,317**	1,688
Total investments	**1,942**	2,169

How we account for the numbers

Investments are designated at fair value through profit or loss. They are initially recognised at the cost of acquisition excluding transaction costs and are subsequently remeasured to fair value at each reporting date. The fair value hierarchy and the Company's approach to measuring the fair value of each investment instrument is disclosed in note 3.2.1.

All purchases and sales of investments that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the Company commits to buy or sell the asset. Investments are derecognised when the right to receive future cash flows from the asset has expired or has been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Group Aggregate Risk Cover

In 2016, the Company entered into agreements with each QBE division, whereby the divisions reassigned their rights to recoveries under the external Group Aggregate Risk (GAR) reinsurance program, across underwriting years with effective dates 1 January 2011 through 2014, to the Company. In exchange for this reassignment of recoveries, the Company paid cash to each division, equivalent to the discounted central estimate of their share of the GAR recovery at the date of the rights reassignment.

The amount recognised as other financial assets represents the portion of the GAR asset that does not directly relate to the underwriting activities of the Company and henceforth any gain or loss on the asset (relating to divisional claims experience) is recognised in the statement of comprehensive income as investment and other income related to shareholder funds.

The asset is classified as a 'financial asset held at fair value through profit and loss' according to AASB 9.

Top, Wrap and Aggregate Cover and Group Risk XOL Clash Cover

In 2020, the Company assumed gross outstanding claims provisions from the divisions which contribute to the Top, Wrap and Aggregate Cover (TWA) and Group Risk XOL Clash Cover (Clash) recoveries. However, each of the divisions also retained losses under the Group internal covers attachment points which are also picked up by the TWA and Clash cover but recovered by the Company.

The TWA and Clash recovery assets have been split into the share that relates to the Company's claims and the portion that relates to the claims retained in the divisions. The Company's share of the recoveries are accounted for as a reinsurance asset. The divisional portions of the TWA and Clash recoveries are reported as a financial asset rather than a reinsurance asset. This is because the asset value is based on divisional claims, which have no impact on the Company's underwriting profit and loss or balance sheet.

The asset is classified as a 'financial asset held at fair value through profit and loss' according to AASB 9.

3.2.1 Fair value hierarchy

Overview

The Company's Board Risk and Capital Committee is responsible for the governance and oversight of the investment valuation process. The fair value of investments is determined in accordance with the Company's investment valuation policy. This Board committee relies on the advice and recommendation of the Management Investment Committee.

The investments of the Company are disclosed in the table below using a fair value hierarchy which reflects the significance of inputs into the determination of fair value as follows:

Level 1: Valuation is based on quoted prices in active markets for the same instruments.

Level 2: Valuation is based on quoted prices for identical instruments in markets which are not active, quoted prices for similar instruments, or valuation techniques for which all significant inputs are based on observable market data, for example, consensus pricing using broker quotes or valuation models with observable inputs.

Level 3: Valuation techniques are applied in which one or more significant inputs are not based on observable market data.

There were no movements between Level 1, Level 2 and Level 3 assets other than purchases and sales in the normal course of business.

	2020				2019			
	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M	LEVEL 1 US$M	LEVEL 2 US$M	LEVEL 3 US$M	TOTAL US$M
Fixed income								
Short-term money	**1**	**100**	**–**	**101**	140	–	–	140
Government bonds	**92**	**88**	**–**	**180**	316	86	–	402
Corporate bonds	**–**	**882**	**–**	**882**	–	1,021	–	1,021
Infrastructure debt	**–**	**–**	**15**	**15**	–	–	22	22
	93	**1,070**	**15**	**1,178**	456	1,107	22	1,585
Growth assets								
Developed market equity	**–**	**–**	**–**	**–**	20	–	–	20
Emerging market equity	**–**	**–**	**–**	**–**	7	–	–	7
Emerging market debt	**–**	**–**	**–**	**–**	59	–	–	59
High yield debt	**–**	**–**	**–**	**–**	25	–	–	25
Unlisted property trusts	**–**	**–**	**44**	**44**	–	38	–	38
Infrastructure assets	**–**	**–**	**271**	**271**	–	–	268	268
Private equity	**–**	**–**	**65**	**65**	–	–	52	52
	–	**–**	**380**	**380**	111	38	320	469
Other financial assets	**–**	**–**	**384**	**384**	–	–	115	115
Total investments	**93**	**1,070**	**779**	**1,942**	567	1,145	457	2,169

The Company's approach to measuring the fair value of investments is described below:

Short-term money

Term deposits are valued at par plus accrued interest and are classified as level 1 fair value instruments. Other short-term money (bank bills, certificates of deposit, treasury bills and other short-term instruments) is priced using interest rates and yield curves observable at commonly quoted intervals.

Government bonds and corporate bonds

Bonds which are traded in active markets and have quoted prices from external data providers are classified as level 1 fair value instruments. Bonds which are not traded in active markets are priced using broker quotes, using comparable prices for similar instruments or using pricing techniques set by local regulators or exchanges.

Infrastructure debt

Infrastructure debt prices are sourced from the investment manager who may use a combination of observable market prices or comparable market prices where available and other valuation techniques. When valuation techniques require the use of significant unobservable inputs, these assets have been classified as level 3.

Developed market equity

Listed equities traded in active markets are valued by reference to quoted bid prices. Unlisted equities are priced using the Company's share of the net assets of the entity.

Emerging market equity, emerging market debt, high yield debt, unlisted property trusts and infrastructure assets

These assets are valued using quoted bid prices in active markets or current unit prices as advised by the responsible entity, trustee or equivalent of the investment management scheme.

Private equity

These assets comprise limited partnerships and fund of funds vehicles. Fair value is based on the net asset value of the vehicle, and the responsibility for the valuation of the underlying securities lies with the external fund manager. In most cases, an independent administrator will be utilised by the external fund manager for pricing and valuation. When the most up to date information is not available at the balance date, management may consider a combination of other valuation techniques in the determination of fair value.

Other financial assets

The financial asset is not actively traded and therefore no external price or benchmark exists. It is valued using commonly accepted actuarial valuation techniques taking into consideration the value of the underlying inputs upon which the financial asset is based, and the expected timing of future cashflows relating to this asset.

Movements in level 3 investments

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

LEVEL 3	2020 US$M	2019 US$M
At 1 January	**457**	401
Purchases	**11**	28
Disposals	**(17)**	(73)
Reclassification into level 3	**44**	
Fair value movement recognised in profit or loss	**273**	105
Foreign exchange	**11**	(4)
At 31 December	**779**	457

3.2.2 Charges over investments and restrictions on use

Included in investments are amounts totalling $725 million (2019 $311 million) which are held in portfolio trust funds for the benefit of various QBE ceding affiliates. These funds can only be used to settle such recoverable amounts and amounts cannot be withdrawn from the funds without the permission of the respective QBE ceding affiliate.

4. RISK MANAGEMENT

Overview

The Company is in the business of managing risk. The Company's ability to satisfy policyholder risk management needs is central to what we do. The Company aims to generate wealth and maximise returns for its shareholder by pursuing opportunities that involve risk. Our people are responsible for ensuring that the Company's risks are managed and controlled on a day to day basis. The Company aims to use its ability to properly manage risk to provide more certainty and improved outcomes for all stakeholders.

The Company applies QBE's consistent and integrated approach to enterprise risk management (ERM). QBE's global risk management framework sets out the approach to managing key risks and meeting strategic objectives whilst taking into account the creation of value for our shareholder. QBE's risk management framework is articulated in the QBE Risk Management Strategy (RMS) and Reinsurance Management Strategy (ReMS), both of which are approved annually by the QBE Group's Board and lodged with APRA.

The framework consists of complementary elements that are embedded throughout the business management cycle and culture of the organisation. Key aspects include: risk appetite, governance, reporting, risk assessments, modelling and stress testing, management, and monitoring and risk culture.

Risk management is a continuous process and an integral part of robust business management. The Company's approach is to integrate risk management into the broader management processes of the organisation. Specifically, the management of risk must occur at each point in the business management cycle.

The Company's strategy for managing risk is to:

- achieve competitive advantage by better understanding the risk environments in which we operate;
- operate within our stated risk appetite and more effectively allocate capital and resources by assessing the balance of risk and reward; and
- avoid unwelcome surprises to the achievement of business objectives by reducing uncertainty and volatility through the identification and management of risks.

The framework is supported by a suite of risk policies that detail the Company's approach to the following key risk categories used by the Company to classify risk:

- Strategic risk (note 4.1)
- Insurance risk including underwriting and reserving (note 4.2)
- Credit risk (note 4.3)
- Market risk (note 4.4)
- Liquidity risk (note 4.5)
- Operational risk (note 4.6)
- Compliance risk (note 4.7)
- Group risk (note 4.8)

4.1 Strategic risk

Overview

Strategic risk is the current and prospective impact on earnings and/or capital as a result of strategic business decisions or responsiveness to external change. The Company classifies strategic risk into six subcategories, as follows:

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

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

Performance risk

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

The Company monitors performance risk by assessing changing levels of risk in the business plan, and taking action accordingly prior to signing-off the plan.

Capital risk

The Company's objective when managing capital is to maintain an optimal capital structure to generate an acceptable return on capital whilst meeting capital adequacy requirements, providing security for policyholders and continuing to provide returns to its shareholder.

Where appropriate, adjustments are made to capital levels in light of changes in economic conditions and risk characteristics of the Company. In order to maintain or adjust the capital structure, the Company has the option to adjust the amount of dividends paid to the shareholder, return capital or issue new shares.

The Company uses an economic capital model (ECM) to assess the level of capital required for the underwriting, claims estimation, credit, market, liquidity and operational risk to which it is exposed. Economic capital is determined as the level of capital that the Company needs to ensure that it can, with a pre-specified probability, satisfy its ultimate policyholder obligations in relation to all reinsurance contracts issued on or before the end of the business plan year. The ECM is used by management to inform decisions on capital strategy, risk appetites, business planning, reinsurance arrangements, and pricing.

As a Class 3B insurer, the Company is subject to the capital requirements of the Bermuda Monetary Authority (BMA). These requirements are designed to ensure sufficient capital is maintained in order to provide adequate protection for policyholders and maintain Solvency II equivalence. For the current period the Company met the minimum and surplus requirements as prescribed by the BMA. The Company also met minimum liquidity margins.

The Company believes that insurer financial strength ratings provided by the major rating agencies are an important factor in demonstrating the financial strength and claims paying ability. The Company is rated "A+/Stable" by Standard & Poor's and A+, Outlook Negative by Fitch Ratings as at 31 December 2020.

Management monitors and actively manages the Company's capital levels on an ongoing basis. Management has a particular focus on the level of eligible regulatory capital that exceeds the Bermuda Monetary Authority requirements. Having determined that the current risk appetite of the Company remains appropriate, the Board has a target level of regulatory capital as a percentage of the Bermuda Solvency Capital Requirement (BSCR). As at 31 December 2020, the capital coverage ratio was 168%.

The Company has dedicated staff responsible for understanding the regulatory capital requirements of the entity. These staff regularly interact with their global peers through-out QBE to assess the net capital impact of various transactions and reinsurances which the Company provides. The quality of the Company's assets (particularly investments and reinsurance recoveries) are continuously monitored to ensure any potential issues are identified and remedial action, where necessary, is taken to restore effective capital performance and levels.

Reputation risk

The Company assesses reputation risk through the quality of the relationships with key stakeholders, including senior stakeholders in QBE Group and the divisions, regulators, government, communities, employees, and third-party partners including suppliers. Each of these relationships is actively managed by the Company through functional teams, which include senior management.

ESG and emerging risk

QBE Group's ESG risk and emerging risk standards operationalise the Group's approach to managing ESG and emerging risks respectively, including climate change.

Biannual horizon scans are performed on ESG and emerging risks, including assessment of potential financial and reputational impacts to the Group. Risk treatment plans are developed for material risks, which include development of underwriting and investment policy, monitoring frameworks and stress and scenario analysis. ESG and emerging risks are regularly reported to the Group Executive Non-Financial Risk Committee and the Group Board Risk & Capital Committee. Any observations or required actions are fed back to the President via his membership of the QBE Group Underwriting Committee

Climate change is a material business risk for QBE Group, potentially impacting our business and customers in the medium to long term. The business has considered potential short-term scenarios that could affect our insurance business written to date and current investments, and confirmed no material impact on the amounts recognised or disclosed in the financial statements.

Risk culture

Risk culture forms part of the Company's risk management strategy and is a key component of the ERM framework, which outlines how risk culture applies to QBE's people and how it is operationalised across QBE.

QBE is committed to, and supports, a strong risk culture. It recognises the importance of risk awareness and culture as being instrumental in the effectiveness of the ERM framework.

4.2 Insurance risk

Overview

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations.

The Company classifies insurance risk into four subcategories, as follows:

- Underwriting/Pricing;
- Insurance concentrations;
- Reserving; and
- Reinsurance.

The Company's approach to managing insurance risk is underpinned by the Company's insurance risk appetite statement as set by the Board and is summarised below.

Underwriting/pricing risk

The Company manages underwriting/pricing risk by appropriately setting and adjusting underwriting strategy, risk selection and pricing practices throughout the underwriting cycle.

The Company's underwriting strategy aims to diversify and limit the aggregation of a single type of reinsurance risk accepted. The underwriting strategy is implemented through QBE's annual business planning process, supported by underwriting standard and delegated authorities. These authorities reflect the level of risk that the Company is prepared to take with respect to each permitted reinsurance class.

Pricing of risks is controlled by the use of in-house pricing models relevant to specific portfolios and the markets in which the Company operates and is supported by external benchmark pricing. Underwriters and actuaries maintain pricing and claims analysis for each portfolio, combined with a knowledge of current developments in the respective markets and classes of business.

One of the core objectives of the Company is to provide the QBE Group with stability in pricing and ease of access to external reinsurance at a more competitive cost, on an aggregate basis, than otherwise available in the local division markets. The Company's underwriting strategy is supportive and linked to the annual divisional business planning process. In addition, the Company responds to ad-hoc or bespoke reinsurance requirements of the various divisions of the QBE Group.

For catastrophe XoL programs, the Company makes use of both proprietary and in-house models to calculate a comprehensive view of loss costs. This exposure based approach is blended with an experience rated approach using an appropriate credibility weighting. For per risk XoL programs, a similar approach is used where industry loss curves are blended with an experience rated approach. For quota share programs, the historical results are analysed to determine whether the business plan loss ratio and commission rate, yield a sufficient profit margin to service the allocated capital.

Insurance concentration risk

The Company's exposure to concentrations of reinsurance risk is mitigated by maintaining a business portfolio that is diversified across countries and classes of business. Product diversification is pursued through a strategy of developing strong underwriting skills in a wide variety of classes of business and close partnership with the QBE operating divisions.

The table below demonstrates the diversity of the Company's operations.

GROSS EARNED PREMIUM	2020 US$M	2019 US$M
Property	601	**479**
Motor & motor casualty	37	**42**
Public/product liability	68	**65**
Workers' compensation	17	**16**
Marine, energy & aviation	136	**123**
Professional indemnity	57	**40**
Financial & credit	141	**129**
Accident & health	17	**21**
	1,074	**915**

Concentration risk includes the risks from natural or man-made events that have the potential to produce claims from multiple policyholders at the same time (e.g. natural catastrophes, industrial accidents, financial downturn, etc.). The Company currently uses a variety of methodologies to monitor aggregates and manage concentration/accumulation risk. These include the use of catastrophe models from third party vendors such as RMS and AIR, the Society of Lloyd's realistic disaster scenarios (RDS) and QBE Group aggregate methodology. The Company sets its risk appetite in accordance with prevailing requirements of the Bermuda Monetary Authority and generally acceptable market practices, in addition to considering the relevance, where applicable, of catastrophe risk according to the QBE Group's risk appetite and APRA (the QBE Group's regulator) insurance concentration risk charge (ICRC).

Reserving risk

Reserving risk is managed through the quarterly actuarial valuation of insurance liabilities. The valuation of the net central estimate is performed by qualified and experienced actuaries, with reference to historical data and reasoned expectations of future events. The central estimate of outstanding claims is subject to a comprehensive independent review at least annually.

4.3 Credit risk

Overview

Credit risk is the risk of financial loss where a customer, counterparty or issuer fails to meet their financial obligations to the Company in accordance with agreed terms. The Company's exposure to credit risk arises from financial transactions with securities issuers, debtors, brokers, policyholders, reinsurers and guarantors.

The Company's approach to managing credit risk is underpinned by the Company's credit risk appetite as set by the Board and summarised below.

Reinsurance credit risk

The Company's objective is to maximise placement of reinsurance with highly rated counterparties. Concentration of risk with reinsurance counterparties is monitored strictly and regularly by the Company's board and the QBE Group's Security Committee and is controlled by reference to the following protocols:

- treaty or facultative reinsurance is placed in accordance with the requirements of the QBE Group ReMS and QBE Group Security Committee guidelines;
- reinsurance arrangements are regularly reassessed to determine their effectiveness based on current exposures, historical claims and potential future losses based on the Company's inwards reinsurance concentrations; and
- exposure to reinsurance counterparties and the credit quality of those counterparties is actively monitored.

Credit risk exposures are calculated regularly and compared with authorised credit limits. In certain cases, the Company requires letters of credit or other collateral arrangements to be provided to guarantee the recoverability of the amount involved. The Company holds $487 million (2019: $911 million) in collateral to support reinsurance recoveries on outstanding claims. The credit rating analysis below includes the impact of such security arrangements. In some cases, further security has been obtained in the form of trust arrangements, reinsurer default protection and other potential offsets. This additional security has not been included in the credit rating analysis set out below.

The following table provides information about the quality of the Company's credit risk exposure in respect of reinsurance recoveries at the balance sheet date. The analysis classifies the assets according to Standard & Poor's (S&P) counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as speculative grade.

	CREDIT RATING						
	AAA US$M	AA US$M	A US$M	BBB US$M	SPECULATIVE GRADE US$M	NOT RATED [2] US$M	TOTAL US$M
As at 31 December 2020							
Reinsurance recoveries on outstanding claims [1]	**–**	**2,090**	**456**	**–**	**–**	**451**	**2,997**
Reinsurance recoveries on paid claims	**–**	**258**	**20**	**–**	**–**	**21**	**299**
As at 31 December 2019							
Reinsurance recoveries on outstanding claims [1]	–	2,031	95	–	–	331	2,457
Reinsurance recoveries on paid claims	–	136	8	–	–	12	156

1 Net of a provision for impairment of $7 million (2019 $2.7 million).

2 Not rated are fully collateralised by "A" grade investments

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

			PAST DUE BUT NOT IMPAIRED				
	YEAR	NEITHER PAST DUE NOR IMPAIRED US$M	0 TO 3 MONTHS US$M	4 TO 6 MONTHS US$M	7 MONTHS TO 1 YEAR US$M	GREATER THAN 1 YEAR US$M	TOTAL US$M
Reinsurance recoveries on paid claims	**2020**	**144**	**139**	**15**	**–**	**1**	**299**
	2019	143	4	2	8	0	156

Investment and treasury credit risk

The Company only transacts with investment counterparties within the limits outlined in the delegated authorities policy. Investment counterparty exposure limits are applied to individual counterparty exposures outside the QBE Group and to multiple exposures within a group of related companies in relation to investments, cash deposits and forward foreign exchange exposures. Counterparty exposure limit compliance is monitored daily.

The following table provides information regarding the Company's aggregate credit risk exposure at the balance sheet date in respect of the major classes of financial assets. Trade and other receivables except balances due from related entities are excluded from this analysis on the basis that they comprise smaller credit risk items which generally cannot be rated and are not individually material. The analysis classifies the assets according to S&P counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as speculative grade.

	CREDIT RATING				
	AAA US$M	AA US$M	A US$M	BBB US$M	TOTAL US$M
As at 31 December 2020					
Cash and cash equivalents	**–**	**–**	**297**	**–**	**297**
Interest-bearing investments	**85**	**448**	**451**	**194**	**1,178**
Derivative financial instruments	**–**	**–**	**–**	**33**	**33**
Amounts due from related entities	**–**	**–**	**541**	**–**	**541**
As at 31 December 2019					
Cash and cash equivalents	–	3	21	–	24
Interest-bearing investments	96	564	487	437	1,584
Derivative financial instruments	–	–	10	–	10
Amounts due from related entities	–	–	557	–	557

The carrying amount of the relevant asset classes in the balance sheet represents the maximum amount of credit exposure. The fair value of derivatives shown on the balance sheet represents the current risk exposure but not the maximum risk exposure that could arise in the future as a result of changing values.

Insurance and other credit risk

As an internal captive reinsurer of the QBE Group, the Company almost always transacts with related entities. The Company regularly reviews the collectability of receivables and the adequacy of associated provisions for impairment. Balances are monitored on the basis of uncollected debt and debt outstanding in excess of six months. Concentration risk is also monitored.

The following table provides information regarding the ageing of the Company's financial assets that are past due but not impaired.

		PAST DUE BUT NOT IMPAIRED				
	NEITHER PAST DUE NOR IMPAIRED US$M	0 TO 3 MONTHS US$M	4 TO 6 MONTHS US$M	7 MONTHS TO 1 YEAR US$M	GREATER THAN 1 YEAR US$M	TOTAL US$M
As at 31 December 2020						
Premium receivable	**33**	**10**	**8**	**7**	**27**	**85**
Unclosed premium	**168**	**–**	**–**	**–**	**–**	**168**
Amounts due from related entities	**541**	**–**	**–**	**–**	**–**	**541**
Investment receivables	**7**	**–**	**–**	**–**	**–**	**7**
As at 31 December 2019						
Premium receivable	56	23	27	47	5	158
Unclosed premium	52	–	–	–	–	52
Amounts due from related entities	557	–	–	–	–	557
Investment receivables	11	–	–	–	–	11

4.4 Market risk

Overview

Market risk is the risk of adverse impacts on earnings resulting from changes in market factors. Market factors include, but are not limited to, interest rates, credit spreads, foreign exchange rates and equity prices.

The Company's approach to managing market risk is underpinned by its market risk appetite, as informed by the QBE Group, as set by the Company's Board and is summarised below.

The Company's approach to managing investment market movements is underpinned by its investment strategy which outlines the Company's view of the markets and its corresponding investment approach.

Investment market risk is managed through the application of exposure and asset limits. These limits are based on the market risk appetite as determined by the Board and apply to:

- losses generated on the investment portfolio under market stress scenarios. The scenarios assume adverse movements in market factors and are designed to reflect a significant market stress event;
- sensitivities to changes in interest rate and credit spread risk, measured in terms of modified duration and spread duration; and
- total combined holdings in equity, investment property and other growth assets as a proportion of the Company's total investment portfolio.

Interest rate risk

The Company is exposed to interest rate risk through its holdings in interest-bearing assets. Financial instruments with a floating interest rate expose the Company to cash flow interest rate risk, whereas fixed interest rate instruments expose the Company to fair value interest rate risk.

The Company's risk management approach is to minimise interest rate risk by actively managing investment portfolios to achieve a balance between cash flow interest rate risk and fair value interest rate risk. The Company predominantly invests in high quality, liquid interest-bearing securities and cash, and may use derivative financial instruments to manage the interest rate risk of the fixed interest portfolio. The risk management processes over these derivative financial instruments include close senior management scrutiny, including appropriate board and other management reporting. Derivatives are used only for approved purposes and are subject to delegated authority levels provided to management. The level of derivative exposure is reviewed on an ongoing basis. Appropriate segregation of duties exists with respect to derivative use and compliance with policy, limits and other requirements is closely monitored.

The net central estimate of outstanding claims is discounted to present value by reference to risk-free interest rates. The Company is therefore exposed to potential underwriting result volatility as a result of interest rate movements. In practice, over the longer term, an increase or decrease in interest rates is normally offset by a corresponding increase or decrease in inflation. Details are provided in note 2.3.7. As at the balance sheet date, the average modified duration of cash and fixed interest securities was 1.64 years (2019 2.37 years).

All financial assets are measured at fair value through profit or loss. Movements in interest rates impact the fair value of interest-bearing financial assets and therefore impact reported profit after tax. The impact of a 0.5% increase or decrease in interest rates on interest-bearing financial assets owned by the Company at the balance sheet date is shown in the table below.

	SENSITIVITY %	PROFIT (LOSS) 2020 US$M	PROFIT (LOSS) 2019 US$M
Interest rate movement – interest-bearing financial assets	+0.5	**(12)**	(19)
	-0.5	**9**	19
Interest rate movement – collective investment schemes	+0.5	**–**	(3)
	-0.5	**–**	3

Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

The Company is exposed to equity price risk on its investment in equities and may use derivative financial instruments to manage this exposure. The risk management processes over these derivative financial instruments are the same as those explained above in respect of interest rate derivative financial instruments. Exposure is also managed by diversification across worldwide markets and currencies where possible.

All equities are measured at fair value through profit or loss. The impact of a 20% increase or decrease in the value of equity investments (including derivatives – refer to note 3.2.1) owned by the Company at the balance sheet date on profit after tax is shown in the table below.

	SENSITIVITY %	PROFIT (LOSS) 2020 US$M	PROFIT (LOSS) 2019 US$M
FTSE 100	+20	**–**	1
	-20	**–**	(1)
S & P 500	+20	**–**	2
	-20	**–**	(2)
Infrastructure assets	+20	**54**	54
	-20	**(54)**	(54)
CIS – Emerging Markets	+20	**–**	1
	-20	**–**	(1)
Private equity	+20	**13**	10
	-20	**(13)**	(10)

The Company is also exposed to price risk on its interest-bearing (fixed interest, emerging market and high yield debt) financial assets. All securities are measured at fair value through profit or loss.

Credit spread risk

Movements in credit spreads impact the value of corporate interest-bearing securities, emerging market debt and high yield debt and therefore impact reported profit after tax. This risk is managed by investing in high quality, liquid interest-bearing securities and by managing the credit spread duration of the corporate securities portfolio.

The impact of either a 0.5% increase or decrease in credit spreads on interest-bearing financial assets held by the Company at the balance sheet date on profit after tax is shown in the table below.

	SENSITIVITY %	PROFIT (LOSS) 2020 US$M	PROFIT (LOSS) 2019 US$M
Credit spread movement – corporate interest-bearing financial assets	+1	**(11)**	(11)
	-1	**8**	9
Credit spread movement – collective investment schemes	+1	**–**	(3)
	-1	**–**	–

The Company is also exposed to price risk on its investment in unlisted property trusts. All unlisted property trust investments are measured at fair value through profit or loss. The Company manages this risk by investing in high quality, diversified unlisted property funds. Movements in unit prices impact the value of unlisted property trusts and therefore impact reported profit after tax. The impact of a 10% increase or decrease in unit prices on unlisted property trust securities owned by the Company at the balance sheet date was $4.4 million (2019 $3.8 million).

Foreign exchange

The Company's approach to foreign exchange management is underpinned by the Company's foreign currency strategy. The Company's foreign exchange exposure generally arises as a result of either the translation of foreign currency amounts to the functional currency of operational segments (operational currency risk) or due to the translation of operating segments net assets to the presentation currency of the Company of US dollars (currency translation risk).

Operational currency risk

Operational currency risk is managed as follows:

- the Company manages the volatility arising from changes in foreign exchange rates by matching liabilities with assets of the same currency, thus ensuring that any exposures to foreign currencies are minimised; and
- forward foreign exchange contracts are used to protect residual currency positions. These forward foreign exchange contracts are accounted for in accordance with the derivatives accounting policy set out in note 5.5.

Foreign exchange gains or losses arising from operational foreign currency exposures are reported in profit or loss consistent with the gains or losses from the related forward foreign exchange contracts. The risk management process covering the use of forward foreign exchange contracts involves close senior management scrutiny. All forward foreign exchange contracts are subject to delegated authority levels provided to management and the levels of exposure are reviewed on an ongoing basis.

The analysis below demonstrates the impact on profit after income tax of a 10% strengthening or weakening of the major currencies against the functional currencies of the Company's operating segments. The sensitivity is measured with reference to the Company's residual (or unmatched) operational foreign currency exposures at the balance sheet date. Operational foreign exchange gains or losses are recognised in profit or loss in accordance with the procedure outlined in note1.2.4. The sensitivities provided demonstrate the impact of a change in one key variable in isolation whilst other assumptions remain unchanged.

The sensitivities shown in the table below are relevant only at the balance sheet date, as any unmatched exposures are actively monitored by management and the exposure subsequently matched.

	2020			2019		
	RESIDUAL EXPOSURE	SENSITIVITY	PROFIT (LOSS)	RESIDUAL EXPOSURE	SENSITIVITY	PROFIT (LOSS)
EXPOSURE CURRENCY	US$M	%	US$M	US$M	%	US$M
Australian dollar	**(324)**	**+10**	**(32)**	(101)	+10	(10)
		-10	**32**		-10	10
Great British pound	**(74)**	**+10**	**(7)**	1	+10	-
		-10	**7**		-10	-)
Euro	**(28)**	**+10**	**(3)**	22	+10	2
		-10	**3**		-10	(2)
New Zealand dollar	**(22)**	**+10**	**(2)**	1	+10	-
		-10	**(2)**		-10	–

Currency risk in relation to translation of net investment in foreign operations

The Company was exposed to currency risk in relation to the translation of operating segment functional currencies to the Company's presentation currency of US dollars.

The Company, in accordance with the QBE Group policy, does not ordinarily seek to use derivatives to mitigate currency translation risk on translation to its functional currency of United States dollars for the following reasons:

- currency translation gains and losses generally have no cash flow;
- currency translation gains and losses are accounted for in the foreign currency translation reserve (a component of equity) and therefore do not impact profit or loss unless 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 which would be associated with hedging these exposures.

During 2020 the Company transitioned to only US dollar operating segments, as a result there were nil balances in non US dollar operating segments as at the balance sheet date The analysis below demonstrates the impact on equity of a 10% strengthening or weakening against the US dollar of the major currencies to which the Company was exposed through its net asset value of operating segments.

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	2020			2019		
EXPOSURE CURRENCY	RESIDUAL EXPOSURE US$M	SENSITIVITY %	EQUITY INCREASE (DECREASE) US$M	RESIDUAL EXPOSURE US$M	SENSITIVITY %	EQUITY INCREASE (DECREASE) US$M
Australian dollar	–	**+10**	–	855	+10	86
		-10	–		-10	(86)
Sterling	–	**+10**	–	(126)	+10	(13)
		-10	–		-10	13

4.5 Liquidity risk

Overview

Liquidity risk is the risk of insufficient liquid assets to meet liabilities as they fall due or only being able to achieve the required level of liquidity at excessive cost. The Company's liquidity risk arises due to the nature of insurance activities where the timing and amount of cash outflows are uncertain.

The Company's approach to managing liquidity risk is underpinned by the liquidity risk appetite as set by the Board and is summarised below.

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

- cash flow targeting;
- maintaining a proportion of liabilities in liquid assets;
- cash flow forecasting; and
- stress testing and contingency planning.

Liquidity is managed across the Company using a number of cash flow forecasting and targeting tools and techniques. Cash flow forecasting involves actively managing operational cash flow requirements.

In addition to treasury cash held for working capital requirements, and in accordance with the Company's liquidity policy, a minimum percentage of investments and cash is held in liquid, short-term money market securities to ensure that there are sufficient liquid funds available to meet insurance and investment obligations. At 31 December 2020, the weighted average duration of cash and fixed interest securities was 1.64 years (2019 2.58 years).

At 31 December 2020 trade payables of $380 million (2019 $280 million) have a maturity of one year or less.

Investment payables of $nil (2019 $139 million) are a result of the timing of investment settlements and have maturity of less than one year.

The Company has amounts due to related entities of $176 million (2019 $237 million) of which $nil (2019 $59 million) is repayable in one year or less. The Company has no significant concentration of liquidity risk. The maturity profile of the Company's net discounted central estimate is analysed in note 2.3.6.

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

		INTEREST-BEARING FINANCIAL ASSETS MATURING IN						
		LESS THAN ONE YEAR	13 TO 24 MONTHS	25 TO 36 MONTHS	37 TO 48 MONTHS	49 TO 60 MONTHS	OVER 5 YEARS	TOTAL
As at 31 December 2020								
Fixed rate	US$M	**215**	**168**	**574**	**113**	**115**	**110**	**1,295**
Weighted average interest rate	%	**0.25**	**0.23**	**0.19**	**0.56**	**0.43**	**1.20**	**0.34**
Floating rate	US$M	**63**	**36**	**51**	**7**	**7**	**15**	**179**
Weighted average interest rate	%	**0.10**	**0.24**	**0.40**	**0.43**	**1.41**	**1.57**	**0.40**
As at 31 December 2019								
Fixed rate	US$M	199	124	152	333	82	435	1,325
Weighted average interest rate	%	1.64	1.67	1.46	1.83	1.95	2.50	1.97
Floating rate	US$M	190	20	32	25	5	11	283
Weighted average interest rate	%	1.43	1.43	1.41	1.38	1.61	1.97	0.84

4.6 Operational risk

Overview

Operational risk is the risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk can materialise in a number of forms including fraud perpetrated by employees or by external parties (e.g. claims fraud or cyber attacks), employment practices (losses arising from breaches of employment, health or safety laws, breach of employment contracts, payment of personal injury claims or diversity and discrimination events), improper business practices (failure to meet professional obligations or issues with the nature or design of an insurance product), disasters and other events, technology and infrastructure failures, or business and transaction processing failures.

The Company's approach to managing operational risk is underpinned by the Company's operational risk appetite as set by the Board and is summarized below.

The Company identifies and assesses operational risk through Risk and Control Assessment (RCA), top risks and emerging risks processes, stress and scenario testing, and Total Risk Assessment (TRA). The RCA process identifies and assesses the key risks to achieving business objectives and is conducted at the function unit level. The top risks process involves the identification and assessment of the key risks relating to the entity by its Executive management board. The emerging risks process identifies and assesses new risks, which are characterised by incomplete but developing knowledge or existing risks that develop in new or surprising ways. The stress and scenario testing process assesses the impact of severe but plausible scenarios against the company's control environment. The TRA process parameterizes the operational risk input to the capital model on an annual basis.

The Company manages operational risk through various systems, controls and processes, including effective segregation of duties, access controls, authorisations and reconciliation procedures, business continuity management, fraud management, information security and physical security. The Company monitors operational risk through control assurance, key risk indicators and internal loss events, issues and actions.

4.7 Compliance risk

Overview

Compliance risk is the risk of legal or regulatory penalties, financial loss or impacts and non-financial loss or impacts (including reputational damage) resulting from a breach of obligations. Obligations refers to those in legislation, regulation, industry codes and standards, internal polices and ethical and business standards.

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

The Company manages compliance risk across its governance, culture, stakeholder management, and strategy approach. People, systems and processes must be in place to manage compliance risk and ensure compliance with its obligations.

There are six components for managing compliance risk with defined responsibilities across the three lines of defence:

- Identify compliance obligations and risks;
- Embed compliance requirements into processes, systems and procedures;
- Communicate and train staff on compliance requirements;
- Monitor key obligations and compliance risks;
- Identify and rectify issues, incidents and breaches;
- Report on and assess the state of compliance.

Compliance management is subject to continuous improvement, recognising regulatory and legal change and, industry, customer and community expectations that may require improvements to compliance management and approach.

4.8 Group risk

Overview

Group risk is the risk arising specifically from being part of the wider QBE Group, including financial impact and loss of support from the parent company.

The Company's approach to managing Group risk is underpinned by the Group risk appetite as set by the Group Board and is summarised below.

Sources of Group risk may include:

- intercompany loans;
- contagion reputational risk;
- credit agency dependency;
- use of Group functions where there is a global operating model in place;
- use of QBE's internal asset management function;
- QBE Group initiatives or decisions with a material impact on the Company; and
- liquidity and central foreign exchange management.

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

5. CAPITAL STRUCTURE

Overview

The Company's objective in managing capital is to reduce the overall cost of capital whilst satisfying the capital adequacy requirements of its regulator, providing financial security for our policyholders and continuing to provide an adequate return to our shareholder.

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

5.1 Cash and cash equivalents

	NOTE	2020 US$M	2019 US$M
Cash at bank and on hand		**36**	24
Term deposits		**261**	-
		297	24

Restrictions on use

There are no restrictions on amounts included in cash and cash equivalents as at December 31, 2020.

How we account for the numbers

Cash and cash equivalents include cash at bank and on hand and deposits at call which are readily convertible to cash on hand and which are used for operational cash requirements. Amounts in cash and cash equivalents are the same as those included in the statement of cash flows.

The reconciliation of profit after income tax to cash flows from operating activities is included in note 7.3.

5.2 Equity and reserves

Overview

Ordinary shares in the Company rank after all creditors, have a par value of A$10.98 and entitle the holder to participate in dividends and the proceeds on winding up of the Company, in proportion to the number of shares held.

5.2.1 Share capital

	2020		2019	
	NUMBER OF SHARES MILLIONS	US$M	NUMBER OF SHARES MILLIONS	US$M
Authorised shares	**55**	**636**	55	636
Issued ordinary shares, fully paid at 1 January	**49**	**379**	49	380
Foreign exchange	**–**	**37**	–	(1)
Issued ordinary shares, fully paid at 31 December	**49**	**416**	49	379

5.2.2 Reserves

	2020	2019
	US$M	US$M
Share premium reserve		
At 1 January	**126**	126
Foreign exchange	**13**	–
At 31 December	**139**	126
Foreign currency translation reserve		
At 1 January	**(291)**	(246)
Foreign exchange	**(50)**	–
Movement in the year	**(47)**	(45)
At 31 December	**(388)**	(291)
Total reserves at 31 December	**(249)**	(165)

5.3 Dividends

Overview

The Company seeks to transfer excess capital above its target capital level to its parent entity. Excess capital is determined with reference to the capital strategy which determines the capital target as the aggregate of the regulatory capital requirement and a buffer above regulatory minimum capital. The buffer is expressed as a percentage of the regulatory minimum and is determined with reference to a probability of breaching regulatory minimum. As per the Insurance Act s31B, Class 3B insurers cannot, without BMA prior approval, pay out more than 25% of total statutory capital and surplus as determined in the prior year's filing. The policy does not prescribe the split of divided between interim and final, as this will be contingent on the capital available at each date.

	2020	2019
Dividend per share (US dollar)	–	5.08
Total dividend payout (US$ million)	–	250

5.4 Earnings per share

Overview

Earnings per share (EPS) is the amount of profit or loss after tax attributable to each share.

	2020 US CENTS	2019 US CENTS
Basic earnings per share	**250**	264

5.4.1 Earnings used in calculating earnings per share

	2020 US$M	2019 US$M
Net profit after income tax attributable to ordinary equity holders of the company used in calculating basic earnings per share	**123**	130

5.4.2 Ordinary shares used in calculating earnings per share

	2020 NUMBER OF SHARES	2019 NUMBER OF SHARES
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**49,183,062**	49,183,062

How we account for the numbers

Basic earnings per share

Basic earnings per share is calculated by dividing net profit after income tax attributable to members of the company by the weighted average number of ordinary shares outstanding at the year end.

5.5 Derivatives

Overview

Derivatives may be used as a tool to hedge the Company's foreign exchange exposures. The Company manages operational foreign exchange volatility by matching liabilities with assets of the same currency, as far as practicable. Forward foreign exchange contracts are used to hedge residual currency exposures, with both the foreign exchange and derivatives impact reported through profit or loss.

Refer to note 4.4 for additional information relating to the Company's approach to managing currency risk.

The Company's exposure to foreign exchange derivatives at the balance sheet date is set out in the table below:

	2020			2019		
	EXPOSURE US$M	FAIR VALUE ASSET US$M	FAIR VALUE LIABILITY US$M	EXPOSURE US$M	FAIR VALUE ASSET US$M	FAIR VALUE LIABILITY US$M
Forward foreign exchange contracts	**654**	**33**	**(91)**	699	10	(12)

How we account for the numbers

Derivatives are initially recognised at fair value, being the transaction price on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives which are not part of a hedging relationship are valued at fair value through profit or loss.

For derivatives traded in an active market, the fair value of derivatives presented as assets is determined by reference to published closing bid price quotations, and the fair value of derivatives presented as liabilities is determined by reference to published closing ask price quotations. For derivatives that are not traded, or which are traded in a market that is not sufficiently active, fair value is determined using generally accepted valuation techniques, including the use of forward exchange rates for the valuation of forward foreign exchange contracts.

6. TAX

Overview

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until March 31, 2035. At the present time no such taxes are levied in Bermuda.

The Company's approach to managing tax risk is disclosed in note 4.1.

6.1 Reconciliation of prima facie tax to income tax expense

	NOTE	2020 US$M	2019 US$M
Profit before income tax from continuing operations		**132**	141
Withholding tax on investment income		**1**	2
Creditable premium tax		**8**	9
Prima facie tax adjusted for non-temporary differences		**9**	11
Income tax expense		**9**	11
Analysed as follows:			
Current tax		**9**	11
		9	11

How we account for the numbers

Non-creditable premium taxes deducted by foreign jurisdictions are expensed when notified and included within underwriting deductions.

Creditable income taxes withheld by ceding affiliates or investment counterparties on behalf of foreign jurisdictional tax authorities are recognised when so withheld and included in income tax expense. No deferred tax assets or liabilities are currently recognised given the Company's exempt tax status.

7. OTHER

Overview

This section includes other information that must be disclosed to comply with the Australian Accounting Standards or the *Corporations Act 2001* of the Commonwealth of Australia.

7.1 Other accounting policies

7.1.1 New and amended standards adopted by the Company

The Company adopted the following new or revised accounting standards which became effective for the annual reporting period commencing on 1 January 2020.

TITLE	
Revised Conceptual Framework For Financial Reporting	
AASB 2018-6	*Definition of a Business*
AASB 2018-7	*Definition of Material*
AASB 2019-1	*References to the Conceptual Framework*
AASB 2019-3	*Interest Rate Benchmark Reform*
AASB 2019-5	*Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*

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

7.1.2 New accounting standards and amendments issued but not yet effective

TITLE		OPERATIVE DATE
AASB 2020-8	*Interest Rate Benchmark Reform – Phase 2*	1 January 2021
AASB 2014-10	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	1 January 2022
AASB 2020-1	*Classification of Liabilities as Current or Non-current*	1 January 2022
AASB 2020-3	*Annual Improvements 2018-2020 and Other Amendments*	1 January 2022
AASB 2020-4	*Covid-19 Related Rent Concessions*	1 January 2022
AASB 17	*Insurance Contracts*	1 January 2023

The Australian Accounting Standards and amendments detailed in the table above are not mandatory for the Company until the operative dates stated; however, early adoption is often permitted.

The Company plans to adopt the standards and amendments detailed above in the reporting periods beginning on their respective operative dates. An initial assessment of the financial impact of the standards and amendments has been undertaken and they are not expected to have a material impact on the Company's financial statements, except where noted below.

AASB 17 *Insurance Contracts*

AASB 17, a new accounting standard for insurance contracts, was adopted by the Australian Accounting Standards Board in July 2017. The IASB subsequently issued amendments to IFRS 17 in June 2020 to address feedback and implementation issues raised by stakeholders. The amendments were adopted by the AASB in July 2020 and include the deferral of the mandatory effective date to reporting periods on or after 1 January 2023 (previously 1 January 2020).

The standard will be applicable to general, life and health insurance business and introduces a new 'general model' for recognition and measurement of insurance contracts. It also permits application of a simplified model (which is similar to the current basis on which general insurance is brought to account under AASB 1023) if the liability for remaining coverage under the simplified model would not materially differ from the general model.

QBE Group has completed a global impact assessment and additional analysis on key areas of interpretation and has determined that the simplified approach is expected to apply to more than 95% of QBE Group's business, based on the existing business mix. This analysis also identified requirements of AASB 17 where the technical interpretation remains unclear. Given the recent significant amendments to the standard and the broad scope, complexity and lack of general consensus on the interpretation of key components of the standard, the impact of AASB 17 on the Company's financial statements is still being determined; however, significant disclosure changes and some impact on reported profit or loss are expected. We continue to monitor market developments in order to assess the impact of changes and evolving interpretations on the Company and to prepare our financial reporting systems for the required changes.

7.2 Contingent liabilities

Overview

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered to be less than probable but more likely than remote. If the expected settlement of the liability becomes probable, a provision is recognised.

In the normal course of business, the Company is exposed to contingent liabilities in relation to claims litigation and regulatory examination arising out of its insurance and reinsurance activities. The Company may also be exposed to the possibility of contingent liabilities in relation to non-insurance litigation and compliance matters, which may result in legal or regulatory penalties and financial or non-financial losses and other impacts. Provisions are made for obligations that are probable and quantifiable. There are no amounts otherwise not provided for in the financial statements. The Company has no contingent liabilities to disclose. There are no individually significant amounts not provided for and such transactions are not considered likely to have a material impact on the net assets of the Company.

7.3 Reconciliation of profit after income tax to cash flows from operating activities

Overview

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

	2020 US$M	2019 US$M
Profit after income tax	**123**	129
Adjustments for:		
Net foreign exchange losses	**8**	5
Other gains on financial assets	**(380)**	(166)
Balance sheet movements:		
Increase / (decrease) in net outstanding claims	**270**	(188)
Increase / (decrease) in unearned premium	**5**	(29)
(Increase) in deferred insurance costs	**(21)**	(59)
(Increase) / decrease in trade debtors	**(212)**	440
Decrease in other operating assets	**4**	–
Decrease in net amounts receivable from related entities	**4**	12
Increase in trade payables	**25**	36
Increase in intangibles	**1**	1
Net cash flows from operating activities	**(173)**	181

7.4 Related parties

Overview

AASB 124 *Related Party Disclosures* requires disclosure of related party transactions. The majority of all inwards reinsurance business assumed is from related entities, with only an immaterial amount of third-party business being written during the year. All outwards reinsurance business is placed with third parties. In addition, the Company has entered into a number of outsourced service agreements with related entities.

All material information required to be disclosed under AASB 124: Related Party Disclosures has been included in the financial statements, as follows:

	Reference
Interest received or receivable from related entities	Note 3.1
Amounts due from related entities	Note 2.6
Amounts due to related entities	Note 2.7

The Company holds related party corporate bonds to the value of $nil million (2019 $243 million) within its investment portfolio (note 3.2) and has accrued interest in respect of those bonds of $nil million (2019 $2 million) within investment receivables (note 2.6).

The Company has entered into a number of outsourced service agreements with related entities. Details of related entities, the services provided, and the fees charged are as follows:

Related entity	Services provided	2020 $000	2019 $000
QBE Group Services Pty Ltd	Investment management services	**1,974**	1,520
QBE Group Services Pty Ltd	QBE Group head office services and license fee	**1,368**	331
QBE Americas Inc.	System and infrastructure support	**191**	1,671
QBE Group Shared Services Limited	Reinsurance technical services, financial reporting, claims administration support	**799**	684
QBE Blue Ocean Re Limited	Intercompany balance with parent company	**7,595**	1
		11,927	4,207

7.5 Remuneration of auditors

Overview

The Company may engage the external auditor for non-audit services other than excluded services, subject to the general principle that fees for non-audit services should not exceed 50% of all fees paid to the external auditor in any one financial year. The Board believes some non-audit services are appropriate given the external auditor's knowledge of the Company.

Consistent with prior periods, the external auditor cannot provide the excluded services of preparing accounting records or financial reports or acting in a management capacity.

	NOTE	2020 US$000	2019 US$000
Audit and assurance services		**231**	306

7.6 Presentation of comparative information

Certain comparative amounts have been reclassified to ensure presentation is consistent with current year presentation. The reclassification had no impact on overall profit or net asset position previously reported.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 10 to 53 are in accordance with the *Corporations Act 2001* of the Commonwealth of Australia, including:

(i) complying with accounting standards, the *Corporations Regulations 2001* of the Commonwealth of Australia and other mandatory professional reporting requirements applicable under Australian Accounting Standards; and

(ii) giving a true and fair view of the Company's financial position as at 31 December 2020 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1.2.1 confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Signed in HAMILTON, Bermuda this 28th day of April 2021, in accordance with a resolution of the directors.

J. Fiore **Director**	R. Stone **Director**

Independent auditor's report

To the Board of Directors and Shareholder of Equator Reinsurances Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Equator Reinsurances Limited (the Company) as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with the Australian equivalent of International Financial Reporting Standards (otherwise known as Australian Accounting Standards).

What we have audited

The Company's financial statements comprise:

- the statement of comprehensive income for the year ended December 31, 2020;
- the balance sheet as at December 31, 2020;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

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Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

Hamilton, Bermuda

April 28, 2021