



# 2021

## Annual Report

**QBE BLUE OCEAN RE LIMITED**

# Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2021

The directors of QBE Blue Ocean Re Limited (the "Company") and the entities it controlled for the year present their report on the financial statements for the year ended 31 December 2021.

## 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  
N. Jones  
A. Sodergren  
R. Stone

J. Brown was a director until 28 April 2021.

J. Fiore was a director until 13 October 2021.

I. Singh was appointed to the Board on 28 April 2021.

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### David (Dave) Duclos

Chairman, Independent non-executive director

Dave was appointed non-executive director and Board Chairman of the Company as of April 19, 2018 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).

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### 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.

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### Robert (Rob) Stone

Managing Director

Rob was appointed as Managing Director of QBE Blue Ocean Re Limited and Equator Reinsurances Limited in October 2021 having previously held the role of Chief Financial Officer from 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) and a member of Chartered Professional Accountants of Bermuda (CPA). Prior to joining QBE, Rob spent 12 years within professional services. Rob chairs the Investment and Capital, Underwriting and Finance Management Committees, and also chairs the QBE Group Security Committee.

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### Michael (Mike) Angelina

Independent non-executive director

Mike was appointed as an independent non-executive director of the Company in May 2018 and is Chair of the Risk and Capital Committee and a member of the Audit Committee. He is an insurance professional, with over 35 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.

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### Inder Singh

Non-independent non-executive director  
Group Chief Financial Officer, QBE Insurance Group

Inder was appointed as a non-independent non-executive director of the Company in April 2021. Inder joined QBE in 2015 and was appointed Group Chief Financial Officer in 2018. His previous roles at QBE include Chief Financial Officer for Australia & New Zealand Operations and Group Head of Corporate Development and Financial Planning & Analysis. Inder has more than 20 years' experience in financial services spanning property and casualty insurance, life insurance and banking. He started his career at Arthur Andersen before working in investment banking in Sydney and London with Deutsche Bank and UBS. Prior to joining QBE, he was Group M&A Director at Aviva plc in London where he led a number of transformational transactions.

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### Neil Jones

Non-independent non-executive director  
QBE Group Head of Ceded Reinsurance

Neil was appointed as a non-independent non-executive director of the Company in February 2018 and is a member of the Company's Sanctions Committee. He is also Chair of the QBE Group Technical Underwriting Committee and Deputy Chair of the Group Security Committee. Neil has over 29 years' experience in the reinsurance industry, 27 of them with the QBE Group, initially

# Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2021

within the International Division and moving into a Group RI purchasing role in 2011. Neil was appointed QBE Group Head of Ceded Reinsurance in October 2021 and has responsibility for all external treaty reinsurance contracts purchased by QBE.

## 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.

## Consolidated financial results highlights

	2021 US\$M	2020 US\$M
Gross written premium	2,972	2,382
Gross earned premium revenue	2,853	2,338
Net earned premium	1,923	1,522
Net claims expense	(1,537)	(1,547)
Net commission	(345)	(356)
Underwriting and other expenses	(16)	(14)
Underwriting result	25	(395)
Net investment income on policyholders' funds	136	349
Insurance profit (loss)	161	(46)
Net investment income on shareholders' funds	13	19
Financing and other costs	(25)	(27)
Profit (loss) before income tax	149	(54)
Income tax expense	(38)	(9)
Net profit (loss) after income tax	111	(63)

## About the Company

The Company is a company limited by shares, incorporated on 8 February 2018 and domiciled in Bermuda. The parent entity is QBE Investments (North America), Inc. and the ultimate parent is QBE Insurance Group Limited. The parent entity is incorporated and domiciled in the United States of America with its registered office at 55 Water Street, New York, New York, U.S.A. The ultimate parent is incorporated and domiciled in Australia with its registered office at Level 18, 388 George Street, Sydney 2000, NSW Australia.

The Company has two wholly owned subsidiaries, being Equator Reinsurances Limited (Equator Re) and QBE Reinsurance Services (Bermuda) Limited (QRSB). QRSB was incorporated on 15 February 2018 and acquired by the Company on that date. Equator Re was acquired by the Company on 31 March 2018 from QBE Insurance Holdings Pty Limited.

The Company is a wholly owned internal reinsurer for the QBE Group. Based in Bermuda, the Company provides reinsurance protections to the QBE Group's operations in North America and through its subsidiary Equator Re provides reinsurance protections to the QBE Group's operations in other jurisdictions around the world. The Company aims to assist in management of QBE Group's capital and net exposure to large individual risk and catastrophe claims.



# Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2021

## Result

Net profit after tax for the year ended 31 December 2021 was \$111 million.

The underwriting result reflects the impact of significant natural catastrophe losses in the year, along with prior accident year reserve strengthening, particularly in relation to US legacy business.

Included within net investment income are reinsurance recoveries on gross claims retained within QBE Group's operating divisions of \$118 million (2020 \$313 million).

The Company, being a wholly owned insurance subsidiary of a US tax resident, has elected to be treated as if it were a US tax resident. The income tax expense for the Company also includes withholding taxes imposed on outwards reinsurance contracts in certain jurisdictions, which by nature must be accounted for as income taxes.

## Dividends

Dividends of \$nil were paid during 2021 (2020 \$nil).

## Shareholders' funds

Shareholders' funds were \$1,425 million at 31 December 2021 (2020 \$1,139 million). The increase is due to the issuance of share capital in 2021 of \$175 million (2020 298 million), bringing total issued share capital to \$1,344 million (2020 \$1,169 million) and net profit after tax for the year of \$111 million (net loss \$110 million).

## Presentation currency

The presentation currency of these financial statements is US dollar.

The functional currency of the Company and its wholly owned subsidiaries are US dollar.

## Outstanding claims liability

The net central estimate of outstanding claims is determined by the Chief Actuary, 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 Chief Actuary 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 2021 and 31 December 2020 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.

# Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 other than the items noted below.

Given the evolving and uncertain impact of COVID-19, we anticipate that there are likely to be changes in market conditions (including potential court decisions) in the future and the impact of these changes will be accounted for in future reporting periods as they arise. Further details is referenced note 1.2.3 of the financial statements.

On 21 February 2022, the Full Court of the Federal Court in Australia released a judgement on the appeals in the second test case in relation to the potential exposure to insurers on business interruption losses through the COVID-19 pandemic. Certain insureds have sought leave of appeal to the High Court, but the decision on whether permission will be granted or not is outstanding. As at 27 April 2022, the Company is maintaining the booked position as recorded in the balance sheet of these financial statements. The assumption is that the level of uncertainty has materially not changed since 31 December 2021. There is a wider range of potential outcomes with the maximum impact to the Company estimated as a 6% impact on the regulatory capital surplus.

The Company is deeply saddened and concerned by the events unfolding in Ukraine. While the situation is dynamic, any insured losses associated with the conflict are not expected to have a material impact to the Company on a net basis.

## 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 seven directors including two 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 \$300,000 (2020 \$300,000) during the financial year 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.

# Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 performed certain other services in addition to its statutory duties.

The Board has considered the position and is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are also satisfied that the provision of non-audit services by the auditor, as set out in note 7.5 to the financial statements, did not compromise the auditor independence requirements of the *Corporations Act 2001*.

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 8.

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.

# Directors' report

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 27th day of April 2022 in accordance with a resolution of the directors.



D. Duclos  
Director



R. Stone  
Director



## Auditor's Independence Declaration

As lead auditor for the audit of QBE Blue Ocean Re Limited for the year ended 31 December 2021, 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.

A handwritten signature in black ink, appearing to read "Colm Homan".

Colm Homan  
Partner  
PricewaterhouseCoopers Ltd.  
Hamilton, Bermuda  
April 27, 2022



# Consolidated Financial Report contents

## Consolidated Financial statements

Consolidated statement of comprehensive income	9
Consolidated balance sheet	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12

## Notes to the consolidated financial statements

<b>1. Overview</b>	
1.1 About the Company	13
1.2 About this report	14
<b>2. Underwriting activities</b>	
2.1 Revenue	16
2.2 Net claims expense	17
2.3 Net outstanding claims liability	17
2.4 Claims development – net undiscounted central estimate	23
2.5 Unearned premium and deferred insurance costs	26
2.6 Trade and other receivables	28
2.7 Trade and other payables	29
<b>3. Investment activities</b>	
3.1 Investment income	30
3.2 Investment assets	31
<b>4. Risk management</b>	
4.1 Strategic risk	35
4.2 Insurance risk	36
4.3 Credit risk	37
4.4 Market risk	39
4.5 Liquidity risk	41
4.6 Operational risk	42
4.7 Compliance risk	43
4.8 Group risk	43
<b>5. Capital structure</b>	
5.1 Cash and cash equivalents	44
5.2 Equity and reserves	45
5.3 Dividends	46
5.4 Earnings per share	46
5.5 Derivatives	47
<b>6. Tax</b>	
6.1 Reconciliation of prima facie tax to income tax expense (credit)	48
6.2 Deferred income tax	49
<b>7. Other</b>	
7.1 Other accounting policies	51
7.2 Contingent liabilities	53
7.3 Reconciliation of profit after income tax to cash flows from operating activities	54
7.4 Related parties	55
7.5 Remuneration of auditors	56
7.6 Presentation of comparative information	56

<b>Directors' declaration</b>	<b>57</b>
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This Financial Report includes the consolidated financial statements for QBE Blue Ocean Re Limited (the Company) and its controlled entities (the Group)

All amounts in this Financial Report are presented in US dollars unless otherwise stated.

QBE Blue Ocean Re Limited 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 Investments (North America), Inc. and the ultimate parent is QBE Insurance Group Limited (the QBE Group). The parent entity is incorporated and domiciled in the United States of America with its registered office at 55 Water Street, New York, New York, U.S.A. The ultimate parent is incorporated and domiciled in Australia with its registered office at Level 18, George Street, 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 27 April 2022. The directors have the power to amend and reissue the financial statements.

# Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTE	2021 US\$M	2020 US\$M
Gross written premium		2,972	2,382
Unearned premium movement		(119)	(44)
Gross earned premium revenue	2.1	2,853	2,338
Outward reinsurance premium		(972)	(833)
Deferred reinsurance premium movement		42	17
Outward reinsurance premium expense		(930)	(816)
Net earned premium (a)		1,923	1,522
Gross claims expense	2.2	(2,186)	(2,940)
Reinsurance and other recoveries revenue	2.2	649	1,393
Net claims expense (b)	2.2	(1,537)	(1,547)
Gross commission expense		(409)	(409)
Reinsurance commission revenue	2.1	64	53
Net commission (c)		(345)	(356)
Underwriting and other expenses (d)		(16)	(14)
<b>Underwriting result (a)+(b)+(c)+(d)</b>		<b>25</b>	<b>(395)</b>
Investment and other income – policyholders' funds	3.1	137	351
Investment expenses – policyholders' funds	3.1	(1)	(2)
<b>Insurance profit (loss)</b>		<b>161</b>	<b>(46)</b>
Investment and other income – shareholders' funds	3.1	14	20
Investment expenses – shareholders' funds	3.1	(1)	(1)
Financing and other costs		(25)	(27)
Profit (loss) before income tax		149	(54)
Income tax expense	6.1	(38)	(9)
Profit (loss) after income tax		111	(63)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Net movement in foreign currency translation reserve	5.2.2	–	(47)
Total comprehensive profit (loss) after income tax		111	(110)
<b>Profit (loss) after income tax attributable to:</b>			
Ordinary equity holders of the company		111	(63)
<b>Total comprehensive income (loss) after income tax attributable to:</b>			
Ordinary equity holders of the company		111	(110)
<b>EARNINGS (LOSS) PER SHARE FOR PROFIT AFTER INCOME TAX ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>			
	NOTE	2021 US CENTS	2020 US CENTS
Basic earnings (loss) per share	5.4	9	(6)

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

# Consolidated balance sheet

AS AT 31 DECEMBER 2021

	NOTE	2021 US\$M	2020 US\$M
<b>Assets</b>			
Cash and cash equivalents	5.1	303	310
Investments	3.2	3,318	3,106
Derivative financial instruments	5.5	16	33
Trade and other receivables	2.6	1,763	1,626
Net deferred insurance costs	2.5	397	332
Reinsurance and other recoveries on outstanding claims	2.3	3,084	3,507
Right-of-use assets		1	1
Property, plant and equipment		1	2
Deferred tax assets	6.2	65	55
Intangible assets		–	1
<b>Total assets</b>		<b>8,948</b>	<b>8,973</b>
<b>Liabilities</b>			
Derivative financial instruments	5.5	22	91
Trade and other payables	2.7	925	756
Current tax liabilities		4	5
Unearned premium	2.5	862	741
Outstanding claims	2.3	5,709	6,240
Lease liabilities		1	1
<b>Total liabilities</b>		<b>7,523</b>	<b>7,834</b>
<b>Net assets</b>		<b>1,425</b>	<b>1,139</b>
<b>Equity</b>			
Contributed equity	5.2.1	1,344	1,169
Reserves	5.2.2	(190)	(190)
Retained profits		271	160
<b>Total equity</b>		<b>1,425</b>	<b>1,139</b>

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

# Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2021

	CONTRIBUTED EQUITY US\$M	RESERVES US\$M	RETAINED PROFITS US\$M	SHARE- HOLDERS' FUNDS US\$M	TOTAL EQUITY US\$M
<b>2021</b>					
As at 1 January	1,169	(190)	160	1,139	1,139
Profit after income tax	–	–	111	111	111
Other comprehensive income	–	–	–	–	–
Total comprehensive income	–	–	111	111	111
<b>Transactions with owners in their capacity as owners</b>					
Shares issued during the period	175	–	–	175	175
As at 31 December	1,344	(190)	271	1,425	1,425

	CONTRIBUTED EQUITY US\$M	RESERVES US\$M	RETAINED PROFITS US\$M	SHARE- HOLDERS' FUNDS US\$M	TOTAL EQUITY US\$M
<b>2020</b>					
As at 1 January	871	(143)	223	951	951
Loss after income tax	–	–	(63)	(63)	(63)
Other comprehensive loss	–	(47)	–	(47)	(47)
Total comprehensive loss	–	(47)	(63)	(110)	(110)
<b>Transactions with owners in their capacity as owners</b>					
Shares issued during the period	298	–	–	298	298
As at 31 December	1,169	(190)	160	1,139	1,139

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

# Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTE	2021 US\$M	2020 US\$M
<b>Operating activities</b>			
Premium received		3,217	2,172
Reinsurance and other recoveries received		527	534
Outward reinsurance paid		(280)	(794)
Claims paid		(2,645)	(1,614)
Acquisition and other underwriting costs paid		(583)	(459)
Interest received		60	58
Dividends received		26	16
Finance costs paid		(48)	(15)
Right-of-use assets		(25)	–
Net cash flows from operating activities	7.3	249	(102)
<b>Investing activities</b>			
Proceeds on sale of growth assets		120	116
Payments for foreign transactions		65	(197)
Proceeds on sale of interest bearing financial assets		(365)	97
Net cash flows from investing activities		(180)	16
<b>Financing activities</b>			
Proceeds from issue of shares		175	298
Payments to related entity		(175)	(17)
Net cash flows from financing activities		–	281
Net movement in cash and cash equivalents		69	195
Cash and cash equivalents at the beginning of the year		310	38
Effect of exchange rate changes		(76)	77
Cash and cash equivalents at the end of the year	5.1	303	310

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



# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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, with operations in all the major insurance markets. Formed in Australia in 1886, QBE employs more than 11,000 people and carries on insurance activities in 27 countries, with operations in Australia, Europe, North America, Asia and the Pacific.

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

#### About our history and activities

The Company is a company limited by shares, incorporated on 8 February 2018 and domiciled in Bermuda. The parent entity is QBE Investments (North America), Inc. and the ultimate parent is QBE Insurance Group Limited.

The Company has two wholly owned subsidiaries, being Equator Reinsurances Limited (Equator Re) and QBE Reinsurance Services (Bermuda) Limited. QBE Reinsurance Services (Bermuda) Limited was incorporated on 15 February 2018 and acquired by the Company on that date. Equator Reinsurances Limited was acquired by the Company on 31 March 2018 from QBE Insurance Holdings Pty Limited.

The Company is a wholly owned internal reinsurer for 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 QBE Group and is designed to support the management of aggregate exposures to any one large individual risk or catastrophe claim and to optimise the levels of capital held within the 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.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 1.2 About this report

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This Financial Report includes the consolidated financial statements of QBE Blue Ocean Re Limited (the Company) and its controlled entities (the Group).

The Financial Report includes the four primary statements, namely the consolidated statement of comprehensive income (which comprises profit or loss and other comprehensive income), consolidated balance sheet, consolidated statement of changes in equity and consolidated statement of cash flows as well as associated notes as required by Australian Accounting Standards, subject to materiality and commercial confidentiality. 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).

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 in assessing the impact of the resulting uncertainty on the consolidated financial statements.

While the critical accounting judgements and estimates do not change, the impact of COVID-19 resulted in the application of further judgement within those identified areas. Given the continued uncertainty related to the potential impact of COVID-19, there may be changes in market conditions (including legal judgements) 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 impacted by COVID-19 at the balance sheet date 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 2021. 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.
- The scale of exposure to business interruption losses in Australia: On 21 February 2022, the Full Court of the Federal Court in Australia released a judgement on the appeals in the second test case in relation to the potential exposure to insurers on business interruption losses through the COVID-19 pandemic. Certain insureds have sought leave of appeal to the High Court, but the decision on whether permission will be granted or not is outstanding. As at [ ] April 2022, the Company is maintaining the booked position as recorded in the balance sheet of these financial statements. The assumption is that the level of uncertainty has materially not changed since 31 December 2021. There is a wider range of potential outcomes with the maximum impact to the Company estimated as a 6% impact on the regulatory capital surplus.
- 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 uncertainties similar to those discussed above. Future claims assumptions used in the liability adequacy test have been prepared on a basis that remains consistent with the COVID-19 assumptions informing the assessment of the net discounted central estimate, albeit the future risk associated with COVID-19 is somewhat reduced compared with the prior reporting period.

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 translated 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

Until 31 August 2020, a wholly owned subsidiary of the Company accounted for transactions in three separate currency ledgers, each reflecting a major operating currency of one of the QBE Group's operating divisions and the underlying nature of premium and risks ceded to the subsidiary 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 were translated at average rates of exchange; and
- balance sheet items were translated at the closing balance sheet date rates of exchange.

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

Effective 31 August 2021, 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 prior 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:

	2021		2020	
	PROFIT OR LOSS	BALANCE SHEET	PROFIT OR LOSS	BALANCE SHEET
A\$/US\$	0.751	0.727	0.688	0.771
£/US\$	1.375	1.353	1.283	1.368

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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. 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	2021 US\$M	2020 US\$M
<b>Gross earned premium revenue</b>			
Reinsurance business earned		<b>2,853</b>	2,338
<b>Other revenue</b>			
Reinsurance and other recoveries revenue	2.2	<b>649</b>	1,393
Reinsurance commission revenue		<b>64</b>	53
		<b>3,566</b>	3,784

### How we account for the numbers

#### Premium revenue

Premium written comprises inwards reinsurance amounts charged to the reinsured, excluding taxes collected on behalf of third 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.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 2.2 Net claims expense

### Overview

The largest expense for the Company and its subsidiaries is net claims expense, which is the difference between the net outstanding claims liability (as described in note 2.3 below) 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	2021 US\$M	2020 US\$M
Gross claims and related expenses		2,186	2,940
Reinsurance and other recoveries revenue		649	1,393
Net claims expense		1,537	1,547
<b>Analysed as follows:</b>			
Movement in net discounted central estimate	2.4.2	1,518	1,551
Movement in risk margin	2.3.3	19	(4)
Net claims expense		1,537	1,547

## 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	2021 US\$M	2020 US\$M
Gross discounted central estimate	2.3.1	5,373	5,926
Risk margin	2.3.3	336	314
Gross outstanding claims liability		5,709	6,240
Reinsurance and other recoveries on outstanding claims	2.3.2	(3,084)	(3,507)
Net outstanding claims liability		2,625	2,733



# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

	NOTE	2021			2020		
		GROSS US\$M	REINSURANCE US\$M	NET US\$M	GROSS US\$M	REINSURANCE US\$M	NET US\$M
At 1 January		6,240	(3,507)	2,733	4,840	(2,753)	2,087
Claims expense – current accident year	2.4.2	1,407	(421)	986	2,346	(1,097)	1,249
Claims expense – prior accident year	2.4.2	760	(228)	532	598	(296)	302
Movement in risk margin		19	–	19	(4)	–	(4)
Incurred claims recognised in profit or loss	2.2	2,186	(649)	1,537	2,940	(1,393)	1,547
Claims payments		(2,645)	1,036	(1,609)	(1,614)	672	(942)
Foreign exchange		(72)	36	(36)	74	(33)	41
At 31 December		5,709	(3,084)	2,625	6,240	(3,507)	2,733

## 2.3.1 Gross discounted central estimate

	NOTE	2021 US\$M	2020 US\$M
Gross undiscounted central estimate excluding claims settlement costs <sup>1</sup>		5,551	6,017
Claims settlement costs		1	1
Gross undiscounted central estimate		5,552	6,018
Discount to present value		(179)	(92)
Gross discounted central estimate	2.3	5,373	5,926
Payable within 12 months		1,929	2,056
Payable in greater than 12 months		3,444	3,870
Gross discounted central estimate	2.3	5,373	5,926

<sup>1</sup> At 31 December 2021 the Company had issued, in its own name and through QBE Group, letters of totalling \$1,599 million (2020 \$1,440 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 Chief Actuary, 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

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

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	2021 US\$M	2020 US\$M
Reinsurance and other recoveries on outstanding claims – undiscounted <sup>1</sup>		3,164	3,541
Discount to present value		(80)	(34)
Reinsurance and other recoveries on outstanding claims	2.3	3,084	3,507
Receivable within 12 months		1,133	1,360
Receivable in greater than 12 months		1,951	2,147
Reinsurance and other recoveries on outstanding claims	2.3	3,084	3,507

<sup>1</sup> Net of a provision for impairment of \$16.6 million (2020 \$7.5 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.

		2021	2020
Risk margin	US\$M	336	314
Risk margin as a percentage of the net discounted central estimate	%	14.7	13.0
Probability of adequacy <sup>1</sup>	%	90.3	88.8

<sup>1</sup> The approach to determine the probability of adequacy of the outstanding claims liabilities is consistent with previous years.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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.

	2021 %	2020 %
North America	(0.75) - 1.34	(0.75) - 0.90
International	(0.53) - 1.57	(0.70) - 0.69
Australia Pacific	0.08 - 2.63	(0.14) - 2.63
Latin America	1.19 - 1.19	0.39 - 0.39
All Segments	(0.53) - 1.60	(0.70) - 0.98

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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.

	2021 YEARS						2020 YEARS					
	US\$	£	A\$	€	OTHER	TOTAL	US\$	£	A\$	€	OTHER	TOTAL
North America	4.0	–	–	–	–	4.0	4.5	–	–	–	–	4.5
International	2.6	2.5	3.9	1.7	1.8	2.4	2.7	1.8	3.4	2.0	2.2	4.1
Australia Pacific	2.8	–	2.0	–	2.0	2.3	2.1	–	1.9	–	2.2	1.3
Latin America	1.7	–	–	–	–	1.7	2.3	–	–	–	–	2.3
All Segments	2.9	2.5	2.3	1.7	1.9	3.8	2.9	1.8	2.0	2.0	2.2	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.

	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
<b>2021</b>							
North America	565	336	237	164	119	330	1,751
International	68	84	50	28	22	87	339
Australia Pacific	160	45	13	(3)	(3)	(15)	197
Latin America	–	–	1	1	–	–	2
All Segments	793	465	301	190	138	402	2,289

	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
<b>2020</b>							
North America	430	260	200	127	78	281	1,376
International	141	101	157	123	91	188	801
Australia Pacific	133	66	29	29	5	3	265
Latin America	(8)	(6)	(3)	(1)	(1)	(4)	(23)
All Segments	696	421	383	278	173	468	2,419

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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) <sup>1</sup>	
		2021 US\$M	2020 US\$M
Net discounted central estimate	+5	(90)	(96)
	-5	90	96
Risk margin	+5	(13)	(12)
	-5	13	12
Inflation rate	+5	(305)	(394)
	-5	176	229
Discount rate	+5	176	229
	-5	(305)	(394)
Coefficient of variation	+1	(18)	(19)
	-1	18	19
Probability of adequacy	+1	(13)	(12)
	-1	12	12
Weighted average term to settlement	+10	6	4
	-10	(6)	(4)

<sup>1</sup> 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.



# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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.

	2011 & PRIOR 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	2021 US\$M	TOTAL US\$M
<b>Net ultimate claims payments <sup>1</sup></b>												
(a) Original estimate of net ultimate claims payments		–	–	–	–	–	–	–	980	1,309	1,010	3,299
(b) One year later		–	–	–	–	–	–	1,211	1,142	1,541		3,894
Two years later		–	–	–	–	–	2,294	1,172	1,303			4,769
Three years later		–	–	–	–	1,433	2,340	1,194				4,967
Four years later		–	–	–	874	1,470	2,410					4,754
Five years later		–	–	1,740	846	1,510						4,096
Six years later		–	1,834	1,742	852							4,428
Seven years later		1,966	1,842	1,735								5,543
Eight years later		1,970	1,847									3,817
Nine years later		1,969										1,969
(c) Current estimate of net ultimate claims payments		1,969	1,847	1,735	852	1,510	2,410	1,194	1,303	1,541	1,010	15,371
(d) Cumulative net payments to date		(1,909)	(1,817)	(1,736)	(973)	(1,392)	(2,199)	(1,189)	(889)	(734)	(256)	(13,094)
(e) Net undiscounted central estimate at fixed rate of exchange	91	60	30	(1)	(121)	118	211	5	414	807	754	2,368
(f) Foreign exchange impact												2
Transfers to held for sale/disposals												–
Provision for impairment												17
(g) Net undiscounted central estimate at 31 Dec 2021												2,387
Discount to present value												(99)
Claims settlement costs												1
Risk margin												336
(h) Net outstanding claims liability at 31 Dec 2021 (note 2.3)												2,625
(i) Movement in estimated net ultimate claims payments (note 2.4.1)	4	(1)	5	(7)	6	40	70	22	161	232	1,010	1,542

<sup>1</sup> Excludes claims settlement costs. On 31 December 2021, the Company entered into a retrospective reinsurance arrangement assuming \$280m of net outstanding claims liabilities in return for a premium received. These claims liabilities have been attributed to their respective accident year.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 2021 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).

	2021			2020		
	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 <sup>1</sup>	1,010	532	1,542	1,309	199	1,508
Movement in discount	(27)	(14)	(41)	(11)	65	54
Foreign exchange	2	6	8	(51)	36	(15)
Other movements	1	8	9	2	2	4
Movement in net discounted central estimate (note 2.4.2)	986	532	1,518	1,249	302	1,551

1 Excluding claims settlement costs

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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.

	2021			2020		
	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
<b>Gross central estimate development</b>						
Undiscounted	1,443	811	2,254	2,363	442	2,805
Discount	(36)	(51)	(87)	(17)	156	139
	1,407	760	2,167	2,346	598	2,944
<b>Reinsurance and other recoveries</b>						
Undiscounted	(430)	(265)	(695)	(1,103)	(205)	(1,308)
Discount	9	37	46	7	(91)	(85)
	(421)	(228)	(649)	(1,097)	(296)	(1,393)
<b>Net central estimate development</b>						
Undiscounted	1,013	546	1,559	1,260	237	1,497
Discount	(27)	(14)	(41)	(11)	65	54
Net discounted central estimate development (note 2.4.1)	986	532	1,518	1,249	302	1,551

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 business written. 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.

Summary of unearned premium and deferred insurance costs balances

	2021 US\$M	2020 US\$M
Unearned premium (a)	862	741
To be earned within 12 months	819	656
To be earned in greater than 12 months	43	85
Unearned premium	862	741
Deferred reinsurance premium	234	191
Deferred net commission	163	141
Deferred insurance costs (b)	397	332
To be expensed within 12 months	338	284
To be expensed in greater than 12 months	59	48
Deferred insurance costs	397	332
Net premium liabilities (a) – (b)	465	409

Unearned premium movements

	2021 US\$M	2020 US\$M
At 1 January	741	698
Deferral of unearned premium on contracts written in the financial year	775	637
Earning of premium written in previous financial years	(656)	(592)
Foreign exchange	2	(2)
At 31 December	862	741

Deferred insurance costs movements

	DEFERRED REINSURANCE PREMIUM		DEFERRED NET COMMISSION	
	2021 US\$M	2020 US\$M	2021 US\$M	2020 US\$M
At 1 January	191	174	141	150
Costs deferred in financial year	245	175	132	110
Amortisation of costs deferred in previous financial years	(202)	(158)	(111)	(119)
Foreign exchange	–	–	1	–
At 31 December	234	191	163	141

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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-rata 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

	2021 US\$M	2020 US\$M
Undiscounted net central estimate	474	354
Discount to present value	(17)	(6)
	457	348
Risk margin at the 75th percentile of insurance liabilities	34	34
Expected present value of future cash flows for future claims including risk margin	491	382

The application of the liability adequacy test did not identify a deficiency at 31 December 2021 (2020 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.



# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 7.5% (2020 9.6%) 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.

	2021 US\$M	2020 US\$M
<b>Trade debtors</b>		
Premium receivable	583	480
Reinsurance and other recoveries <sup>1</sup>	430	293
Unclosed premium	75	210
	1,088	983
Amounts due from related entities <sup>2</sup>	601	631
Other receivables	74	12
Trade and other receivables	1,763	1,626
Receivable within 12 months	1,757	1,601
Receivable in greater than 12 months	6	25
Trade and other receivables	1,763	1,626

1 Net of a provision for impairment of \$16.6 million (2020 \$7.5 million)

2 Included in amounts due from related entities are three loans totalling \$600 million (2020 \$630 million) to QBE Strategic Capital (Europe) Limited, on commercial terms. All three loans with QBE Strategic Capital (Europe) Limited have been rolled until 29 April 2022 with an all in interest rate of 1.05% (2 loans totaling \$500 million) and 1.18% (\$100 million loan).

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 2021, 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.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 2.7 Trade and other payables

### Overview

Trade payables primarily comprise amounts owed to reinsurance counterparties and cedants. Treasury and investment payables are amounts due to counterparties in settlement of treasury and investment transactions.

	2021 US\$M	2020 US\$M
Trade payables	913	576
Other payables and accrued expenses	11	4
Amounts due to related entities <sup>1</sup>	1	176
Trade and other payables	925	756
Payable within 12 months	918	579
Payable in greater than 12 months	7	177
Trade and other payables	925	756

<sup>1</sup> Included in Amounts due to related entities as at 31 December 2020 was a loan of \$175 million, plus accrued interest thereon of \$1 million, issued on commercial terms to QBE Strategic Capital Company Pty Limited. The loan was settled in full in 2021.

### How we account for the numbers

Trade payables are recognised at their fair value.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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

	2021 US\$M	2020 US\$M
(Loss) income on fixed interest securities, short-term money and cash <sup>1</sup>	(6)	81
Income (loss) on growth assets	39	(11)
Gain on other financial assets	118	313
Gross investment income	151	383
Investment expenses	(2)	(3)
Net investment income	149	380
Foreign exchange loss	–	(8)
Other expenses	–	(4)
Total investment income	149	368
Investment and other income – policyholders' funds	137	351
Investment expenses – policyholders' funds	(1)	(2)
Investment and other income – shareholders' funds	14	20
Investment expenses – shareholders' funds	(1)	(1)
Total investment income	149	368

<sup>1</sup> Interest income for 2020 includes \$7 million on related party corporate bonds held within its investment portfolio until they were exited during 2020.

### 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.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 3.2 Investment assets

	2021 US\$M	2020 US\$M
<b>Fixed income</b>		
Short-term money	413	291
Government bonds	621	245
Corporate bonds	1,528	1,747
Infrastructure debt	–	15
	<b>2,562</b>	<b>2,298</b>
<b>Growth assets</b>		
Unlisted property trusts	52	44
Infrastructure assets	157	271
Private equity	–	65
	<b>209</b>	<b>380</b>
<b>Other financial assets</b>	<b>547</b>	<b>428</b>
<b>Total investments</b>	<b>3,318</b>	<b>3,106</b>
Amounts maturing within 12 months	1,285	990
Amounts maturing in greater than 12 months	2,033	2,116
<b>Total investments</b>	<b>3,318</b>	<b>3,106</b>

### 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 timeframe 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, Equator Re 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 accident years with effective dates 1 January 2011 through 2014, to Equator Re. In exchange for this reassignment of recoveries, Equator Re 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 Equator Re 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.

#### 2020 and 2021 QBE Group Reinsurance Covers

In 2020 and 2021, the Company assumed gross outstanding claims provisions from the divisions which contribute to recoveries on certain QBE Group reinsurance treaties. In addition, each of the divisions' has applicable retained losses that contribute to recoveries on these QBE Group reinsurance treaties. All the recoveries are recovered by the Company.

The recoveries 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 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.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 reviews the advice and recommendation of the Management Investment and Capital 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.

	2021				2020			
	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
<b>Fixed income</b>								
Short-term money	4	409	–	413	1	290	–	291
Government bonds	389	232	–	621	123	122	–	245
Corporate bonds	–	1,528	–	1,528	–	1,747	–	1,747
Infrastructure debt	–	–	–	–	–	–	15	15
	393	2,169	–	2,562	124	2,159	15	2,298
<b>Growth assets</b>								
Unlisted property trusts	–	–	52	52	–	–	44	44
Infrastructure assets	–	–	157	157	–	–	271	271
Private equity	–	–	–	–	–	–	65	65
	–	–	209	209	–	–	380	380
Other financial assets	–	–	547	547	–	–	428	428
Total investments	393	2,169	756	3,318	124	2,159	823	3,106

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

#### Short-term money

Cash managed as part of the investment portfolio is categorised as a level 1 fair value measurement. Term deposits are valued at par; 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

Government bonds, corporate bonds and high yield debt are valued based on quoted process sourced from external data providers. The fair value categorisation of these assets is based on the observability of the inputs as outlined in the Overview section above.

#### Infrastructure debt

Infrastructure debt is priced by external data providers where quoted prices are available or by the external funds manager who may use a combination of observable market prices or comparable 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.

#### Unlisted property trusts and infrastructure assets

These assets are valued using current unit process as advised by the responsible entity, trustee or equivalent of the investment management scheme. As the valuation techniques require the use of significant unobservable inputs, these assets have been categorised as level 3.

#### 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 sheet 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

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

actuarial valuation techniques taking into consideration the value of the underlying assets 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.

	2021	2020
LEVEL 3	US\$M	US\$M
At 1 January	823	458
Purchases	2	11
Disposals	(181)	(17)
Reclassification into level 3	–	44
Fair value movement recognised in profit or loss	113	317
Foreign exchange	(1)	10
At 31 December	756	823

### 3.2.2 Charges over investments and restrictions on use

Included in investments are amounts totalling \$1,797 million (2020 \$1,576 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.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 4. RISK MANAGEMENT

### Overview

The Company is in the business of managing risk. The Company's ability to satisfy policyholder 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 identified, managed and controlled on a day-to-day basis. The Company aims to understand and manage its risk in order to provide increased certainty and improved outcomes for all stakeholders.

The Company employs 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 effectively and delivering strategic objectives whilst taking into account the creation of value for shareholders. QBE's risk management framework is articulated in QBE Group Risk Management Strategy (RMS) and Reinsurance Management Strategy (ReMS), both of which are approved annually by the QBE Group Board and lodged with APRA.

The ERM 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 identification and measurement, modelling and stress testing, risk systems, 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 appetites and effectively allocate capital and resources by assessing the balance of risk and reward;
- 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 (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)

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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. Performance risk is monitored throughout the year against committed business plans.

### 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.

QBE Blue Ocean Re Limited is an Affiliated Class 3A insurer. Equator Reinsurances Limited is a Class 3B insurer. BMA considers the company on a consolidated basis as a Class 3B insurer - subject to certain capital requirements. 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 (2020 "A+/Stable") and A+, Outlook Stable by Fitch Ratings (2020 A+, Outlook Negative) as at 31 December 2021.

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 of the Bermuda Solvency Capital Requirement (BSCR). As at 31 December 2021, the capital coverage ratio was 150% (2020 159%).

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.



# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 Risk Committee and the Group Board Risk & Capital 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

A sound risk culture underpins the Company's risk management strategy and is a key component of the ERM framework.

QBE Group 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; and
- Reserving.

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 standards 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. 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

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

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.

	2021 US\$M	2020 US\$M
<b>GROSS EARNED PREMIUM</b>		
Property	1,404	1,206
Motor & motor casualty	61	66
Agriculture	7	22
Public/product liability	522	435
Workers' compensation	88	126
Marine, energy & aviation	185	144
Professional indemnity	375	132
Financial & credit	154	165
Accident & health	35	42
Other	22	-
	<b>2,853</b>	<b>2,338</b>

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 net 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 and can include both the inability or unwillingness to pay, as well as loss due to credit deterioration from rating downgrades. 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. There is \$627 million (2020 \$627 million) held on behalf of the Company in the form of LOCs 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.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

	CREDIT RATING			TOTAL US\$M
	AA US\$M	A US\$M	NOT RATED <sup>2</sup> US\$M	
<b>As at 31 December 2021</b>				
Reinsurance recoveries on outstanding claims <sup>1</sup>	2,182	518	384	3,084
Reinsurance recoveries on paid claims	377	42	11	430
<b>As at 31 December 2020</b>				
Reinsurance recoveries on outstanding claims <sup>1</sup>	2,611	471	425	3,507
Reinsurance recoveries on paid claims	260	21	12	293

<sup>1</sup> Net of a provision for impairment of \$16.6 million (2020 \$7.5 million).

<sup>2</sup> 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.

	YEAR	NEITHER PAST DUE NOR IMPAIRED US\$M	PAST DUE BUT NOT IMPAIRED				TOTAL 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	
Reinsurance recoveries on paid claims	2021	171	250	3	4	2	430
	2020	126	143	24	–	–	293

## 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				TOTAL US\$M
	AAA US\$M	AA US\$M	A US\$M	BBB US\$M	
<b>As at 31 December 2021</b>					
Cash and cash equivalents	–	–	300	3	303
Interest-bearing investments	328	1,074	873	287	2,562
Derivative financial instruments	–	–	16	–	16
Amounts due from related entities	–	–	601	–	601
<b>As at 31 December 2020</b>					
Cash and cash equivalents	–	–	308	2	310
Interest-bearing investments	156	823	973	346	2,298
Derivative financial instruments	–	–	33	–	33
Amounts due from related entities	–	–	631	–	631

The carrying amount of the relevant asset classes on the balance sheet represents the maximum amount of credit exposure at the balance sheet date. 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 the 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.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

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

	NEITHER PAST DUE NOR IMPAIRED US\$M	PAST DUE BUT NOT IMPAIRED				TOTAL 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	
<b>As at 31 December 2021</b>						
Premium receivable	551	23	–	7	2	583
Other trade debtors	75	–	–	–	–	75
Amounts due from related entities	601	–	–	–	–	601
Investment receivables	74	–	–	–	–	74
<b>As at 31 December 2020</b>						
Premium receivable	425	13	10	8	24	480
Other trade debtors	210	–	–	–	–	210
Amounts due from related entities	631	–	–	–	–	631
Investment receivables	12	–	–	–	–	12

## 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 and set by the Company's Board which 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

### 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 weighted average modified duration of cash and fixed interest securities was 2.33 years (2020 1.84 years).

All investments are financial assets 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.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

	SENSITIVITY %	PROFIT (LOSS)	
		2021 US\$M	2020 US\$M
Interest rate movement – interest-bearing financial assets	+0.5	(33)	(24)
	-0.5	33	19

## Equity 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 international 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)	
		2021 US\$M	2020 US\$M
Infrastructure assets	+20	31	54
	-20	(31)	(54)
Private equity	+20	–	13
	-20	–	(13)

The Company is also exposed to price risk on its interest-bearing (fixed interest 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 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)	
		2021 US\$M	2020 US\$M
Credit spread movement – corporate interest-bearing financial assets	+0.5	(17)	(24)
	-0.5	12	15

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 \$5.2 million (2020 \$4.4 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 the translation of foreign currency amounts to the functional currency of the Company (operational currency 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.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

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 note 1.2.4. 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.

EXPOSURE CURRENCY	2021			2020		
	RESIDUAL EXPOSURE	SENSITIVITY	PROFIT (LOSS)	RESIDUAL EXPOSURE	SENSITIVITY	PROFIT (LOSS)
	US\$M	%	US\$M	US\$M	%	US\$M
Australian dollar	84	+10 -10	8 (8)	(324)	+10 -10	(32) 32
Great British pound	14	+10 -10	1 (1)	(74)	+10 -10	(7) 7
Euro	(6)	+10 -10	(1) 1	(28)	+10 -10	(3) 3
New Zealand dollar	–	+10 -10	– –	(22)	+10 -10	(2) 2

## 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 access 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 minimum level of liquid assets relative to the Company's liabilities;
- 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 2021, the weighted average duration of cash and fixed interest securities was 2.33 years (2020 1.84 years).

At 31 December 2021 trade payables of \$918 million (2020 \$579 million) have a maturity of one year or less.

The Company has amounts due to related entities of \$1 million (2020 \$176 million) of which \$1 million (2020 \$nil 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.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

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
<b>As at 31 December 2021</b>								
Fixed rate	US\$M	709	680	253	355	85	456	2,538
Weighted average interest rate	%	0.37	0.57	1.05	1.26	1.76	1.89	0.94
Floating rate	US\$M	94	108	71	25	18	12	328
Weighted average interest rate	%	0.10	0.35	0.40	0.70	0.60	1.29	0.36
<b>As at 31 December 2020</b>								
Fixed rate	US\$M	528	285	816	263	303	203	2,398
Weighted average interest rate	%	0.22	0.23	0.25	0.54	0.49	1.22	0.38
Floating rate	US\$M	76	37	59	12	8	18	210
Weighted average interest rate	%	0.09	0.24	0.50	0.46	1.28	1.54	0.42

## 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 (e.g. failure to meet professional obligations or issues with the nature or design of an insurance product), business disruption and system failures or business and transaction processing failures.

The Company and the Group manages operational risk through setting policy, minimum standards, and process and system controls, including effective segregation of duties, access controls, authorisations and reconciliation processes, business continuity management, fraud management, information security and physical security.

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, assesses and manages operational risk through the:

- risk and control self-assessment process, which identifies and assesses top risks to achieving business objectives and is conducted at the functional unit level;
- top risks and emerging risks processes, which 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;
- operational risk appetite statement, which sets out the nature and level of risk that the Board is willing to take in pursuit of the Company's objectives. The operational risk appetite statement is measured through an assessment of the control environment, key risk indicators, issues and incidents;
- stress and scenario testing, which assesses the impact of severe but plausible scenarios against the Company's control environment; and
- total risk assessment, which process parameterizes the operational risk input to the capital model on an annual basis.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 4.7 Compliance risk

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### 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 policies 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.

## 4.8 Group risk

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### 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 statements 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.



# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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	2021 US\$M	2020 US\$M
Cash at bank and on hand		60	49
Term deposits		243	261
		303	310

### Restrictions on use

There are no restrictions on amounts included in cash and cash equivalents as at 31 December 2021.

### 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.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 5.2 Equity and reserves

### Overview

Ordinary shares in the Company rank after all creditors, have a par value of \$1.00 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.

Preference shares outstanding at the balance sheet date were issued in 2020, details of which are set out in note 5.2.1. The preference shares together with ordinary shares, are presented as contributed equity in the consolidated balance sheet.

### 5.2.1 Contributed equity

	2021 US\$M	2020 US\$M
Issued ordinary shares, fully paid	1,274	1,099
Issued preference shares, fully paid	70	70
Contributed equity	1,344	1,169

### Ordinary share capital

	2021		2020	
	NUMBER OF SHARES MILLIONS	US\$M	NUMBER OF SHARES MILLIONS	US\$M
Authorised shares	1,500		1,351	
Issued ordinary shares, fully paid at 1 January	1,252	1,099	1,024	871
Shares issued during the year	175	175	228	228
Issued ordinary shares, fully paid at 31 December	1,427	1,274	1,252	1,099

On 27 October 2021, the Company issued 175,000,000 additional common shares to its parent, QBE Investments (North America), Inc., at \$1 per share. During 2020 the Company issued 228,000,000 additional common shares to its parent, at \$1 per share. The shares were issued on 25 March 2020 (50,000,000 shares), 29 June 2020 (75,000,000 shares) and 23 December 2020 (103,000,000 shares).

### Preference share capital

	2021		2020	
	NUMBER OF SHARES MILLIONS	US\$M	NUMBER OF SHARES MILLIONS	US\$M
Issued preference shares, fully paid at 1 January	70	70	–	–
Shares issued during the year	–	–	70	70
Issued preference shares, fully paid at 31 December	70	70	70	70

On 13 March 2020, the Company issued 70,000,000 Class A Non-Cumulative Redeemable Preferred Shares to its parent, QBE Investments (North America), Inc., at \$1 per share with a 7% annual dividend, non-redeemable for 10 years. Dividends are payable only if declared by the Board and are non-cumulative. Accordingly, if the Board does not declare a dividend on the Class A Preferred shares in respect of any reporting period, such dividend will not be payable and the Company will have no obligation to pay a dividend for that period or at any future time. The holders of the Class A Preferred Shares shall not have any right or option to call for the redemption of the shares.

### 5.2.2 Reserves

	2021 US\$M	2020 US\$M
<b>Foreign currency translation reserve</b>		
At 1 January	(190)	(143)
Movement in the year	–	(47)
At 31 December	(190)	(190)

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 5.3 Dividends

### Overview

The Company's dividend policy is to transfer excess capital above its target capital level to the 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 3A and 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 dividend between interim and final, as this will be contingent on the capital available at each date.

	2021	2020
Dividend per share (US dollar)	–	–
Total dividend payout (US\$M)	–	–

## 5.4 Earnings per share

### Overview

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

	2021 US CENTS	2020 US CENTS
Basic earnings (loss) per share	9	(6)

### 5.4.1 Earnings (loss) used in calculating earnings per share

	2021 US\$M	2020 US\$M
Net profit (loss) after income tax attributable to ordinary equity holders of the company used in calculating basic earnings (loss) per share	111	(63)

### 5.4.2 Ordinary shares used in calculating earnings per share

	2021 NUMBER OF SHARES	2020 NUMBER OF SHARES
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,283,063,384	1,102,663,384

### How we account for the numbers

#### Basic earnings (loss) per share

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

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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:

	2021			2020		
	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	824	16	(22)	654	33	(91)

### 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.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 6. TAX

### Overview

Income tax expense is the accounting tax charge for the period and is calculated as the tax payable on the current period taxable income based on the applicable income tax rates for each jurisdiction, adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses. The relationship between accounting profit and income tax expense is provided in the reconciliation of prima facie tax to income tax expense (note 6.1). Income tax expense does not equate to the amount of tax actually paid to tax authorities, as it is based upon the accrual accounting concept.

Accounting income and expenses do not always have the same recognition pattern as taxable income and expenses, creating a timing difference as to when a tax expense or benefit can be recognised. These differences usually reverse over time but until they do, a deferred tax asset or liability is recognised on the balance sheet. Note 6.2 details the composition and movements in deferred tax balances.

### Bermuda

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 31 March 2035. At the present time no such taxes are levied in Bermuda.

### United States

The Company made an irrevocable election under Section 953(d) of the United States Internal Revenue Code of 1986, as amended, to be taxed as a U.S. domestic insurance company for U.S. federal income tax purposes with effect from 1 April 2018. This election was approved by the United States Internal Revenue Service on 7 February 2020. As a result of this "domestic election", the Company is subject to U.S. federal taxation on its world-wide income as if it were a U.S. corporation.

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 (credit)

	NOTE	2021 US\$M	2020 US\$M
Profit (loss) before income tax		149	(54)
Prima facie tax expense (income) at 21%		31	(11)
Tax effect of non-temporary differences:			
Other income		(2)	–
Creditable premium tax		11	8
Prima facie tax adjusted for non-temporary differences		40	(3)
Under provision in prior years		(2)	12
Income tax expense		38	9
Analysed as follows:			
Current tax		47	(3)
Deferred tax		(9)	12
		38	9

### How we account for the numbers

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to tax authorities.

Current tax assets and tax liabilities are offset where the Company has a legally enforceable right to offset and intends to either settle on a net basis or to realise the assets and settle the liability simultaneously. Current and deferred tax is

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

recognised in profit or loss.

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.

## 6.2 Deferred income tax

	NOTE	2021 US\$M	2020 US\$M
Deferred tax assets	6.2.1	108	88
Deferred tax liabilities	6.2.2	43	33
Net deferred tax assets		65	55

### 6.2.1 Deferred tax assets

	NOTE	2021 US\$M	2020 US\$M
<b>Amounts recognised in profit and loss</b>			
Provision for impairment		–	2
Insurance provisions		104	84
Tax losses recognised		1	2
Other -financial assets-related		3	–
	6.2	108	88
<b>Deferred tax assets before set-off</b>			
Set-off of deferred tax liabilities	6.2.2	(43)	(33)
		65	55

#### Movements:

	NOTE	2021 US\$M	2020 US\$M
At 1 January		88	68
Amounts recognised in profit or loss		20	20
At 31 December		108	88

### 6.2.2 Deferred tax liabilities

	NOTE	2021 US\$M	2020 US\$M
<b>Amounts recognised in profit and loss</b>			
Insurance provisions		43	28
Financial assets – fair value movements		–	2
Financial liabilities - related		–	3
	6.2	43	33
<b>Deferred tax liabilities before set-off</b>			
Set-off of deferred tax assets	6.2.1	(43)	(33)
		–	–

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## Movements:

	NOTE	2021 US\$M	2020 US\$M
At 1 January		33	1
Amounts recognised in profit or loss		10	32
At 31 December		43	33

## How we account for the numbers

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 amending accounting standards from 1 January 2021:

TITLE	
AASB 2020-4	<i>Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions</i>
AASB 2020-8	<i>Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2</i>

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

In March 2021, the IFRS Interpretations Committee (IFRIC) issued an agenda decision on *Configuration or Customisation Costs in a Cloud Computing Arrangement*. The IFRIC decision is consistent with the Company's accounting policies and did not materially impact the Company's financial statements.

#### 7.1.2 New accounting standards and amendments issued but not yet effective

TITLE		OPERATIVE DATE
AASB 2014-10	<i>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	1 January 2022
AASB 2020-3	<i>Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments</i>	1 January 2022
AASB 2020-1	<i>Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current</i>	1 January 2023
AASB 2021-2	<i>Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates</i>	1 January 2023
AASB 2021-5	<i>Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023
AASB 17	<i>Insurance Contracts</i>	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 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 (AASB) in July 2017. In June 2020, the IASB issued *Amendments to IFRS 17* which deferred the effective date 1 January 2021 to 1 January 2023 and made significant amendments to the standard in response to feedback from, and implementation issues raised by, stakeholders. These amendments were adopted by the AASB in July 2020.

Measurement of insurance contracts

##### Measurement models

The standard introduces a new 'general model' for the recognition and measurement of insurance contracts. The liability for remaining coverage (which represents insurance coverage to be provided after the balance sheet date) under the general model is measured as the sum of:

- the present value of expected future cash flows and a risk adjustment (collectively referred to as the 'fulfilment cash flows'); and
- a contractual service margin, being the unearned profit, which is recognised as insurance revenue in profit or loss over the coverage period of the contracts. The contractual service margin is earned based on a pattern of coverage units which may not be the same as the pattern of incidence of risk used to earn gross written premium under AASB 1023 *General Insurance Contracts* (AASB 1023).

AASB 17 permits the use of a simplified approach (which is similar to the current basis on which general insurance is brought to



# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

account under AASB 1023) if the liability for remaining coverage under the simplified approach is not expected to materially differ from that under the general model, or if the coverage period of the contracts is less than one year. QBE has developed a model and methodology for assessing eligibility of contracts with coverage periods of greater than one year to apply the simplified approach. Our preliminary assessment, which involves detailed modelling under a range of scenarios as well as a qualitative assessment of contract features, has determined that the simplified approach is expected to apply to more than 98% of the Group's business based on gross written premium.

For groups of contracts that apply the simplified approach and have a coverage period of one year or less, AASB 17 provides an option to recognise any insurance acquisition costs as expenses when incurred. QBE does not plan to apply this option and expects to amortise acquisition costs over the coverage period of the related insurance contracts, consistent with current accounting under AASB 1023.

## *Onerous contracts*

AASB 17 requires the identification of 'groups' of onerous contracts which are expected to be determined at a more granular level of aggregation than the level at which the liability adequacy test is performed under AASB 1023. Contracts that are measured using the simplified approach are assumed not to be onerous unless facts and circumstances indicate otherwise. QBE has developed a framework for identifying relevant facts and circumstances that may be indicators of possible onerous contracts which includes consideration of management information provided to the Group Executive Committee for planning and performance management purposes.

If such facts and circumstances that may be indicators of possible onerous contracts exist, the onerous contract losses are measured based on an estimation of fulfilment cash flows and are recognised in profit or loss. Models for measuring potential onerous contract losses are currently being developed, tested and approved. Onerous contract losses must be measured on a gross basis (excluding the effect of reinsurance), with the impact on equity and profit or loss mitigated by the deduction of related income on reinsurance recoveries to the extent that the onerous contracts are covered by reinsurance. The financial impact is still being determined but the application of the onerous contracts requirements could result in a decrease in opening equity on adoption of AASB 17.

## *Risk adjustment*

The measurement of insurance contract liabilities will include a risk adjustment which replaces the risk margin under AASB 1023. The risk margin under AASB 1023 reflects the inherent uncertainty in the net discounted central estimate, whereas the risk adjustment is defined as the compensation required for bearing the uncertainty that arises from non-financial risk. Similar to the risk margin, the risk adjustment includes the benefit of diversification. AASB 17 requires the disclosure of the confidence level that corresponds to the risk adjustment used in the measurement of insurance contract liabilities. The application of the AASB 17 requirements is one of substantial judgement and QBE is currently defining the methodology for determining the risk adjustment and, in doing so, is giving consideration to evolving industry interpretation. Given QBE's ongoing work on this complex component of the standard, the financial impact cannot be reasonably estimated at the balance sheet date.

## *Discount rates*

AASB 1023 requires the net central estimate of outstanding claims to be discounted using risk-free rates as described in note 2.3.4. AASB 17 requires estimates of future cash flows to be discounted to reflect the time value of money and financial risks related to those cash flows but does not prescribe a methodology for determining the discount rates used. QBE expects to apply a 'bottom-up approach' which uses risk-free rates adjusted to reflect the illiquidity characteristics of the insurance contracts, which could result in higher discount rates relative to current requirements. The methodology and impact of reflecting illiquidity within discount rates is currently being determined.

## *Foreign exchange*

Insurance contract assets and liabilities that are denominated in foreign currency are treated as monetary items under AASB 17. This differs from current industry practice in respect of unearned premium and deferred insurance costs which are treated as non-monetary items. The financial impact of this change will be known once the other measurement impacts of AASB 17 have been determined and will be impacted by the exchange rates at the balance sheet date. QBE will reassess its operational and translational currency exposures, as well as related risk management strategies, once the impacts are reasonably estimable.

## *Interim reporting*

AASB 17 provides an option to change the treatment of accounting estimates made in interim financial statements when applying AASB 17 in the subsequent annual financial statements (i.e. a 'year-to-date basis'). QBE expects to apply this option and will measure accounting estimates on a year-to-date basis which is consistent with current practice.

## *Presentation and disclosure*

The standard introduces significant changes to the presentation and disclosure of insurance line items in the financial statements, introducing new balance sheet and income statement line items and increased disclosure requirements compared with existing reporting requirements.

Existing insurance and reinsurance contract line items on the balance sheet (including unearned premium, deferred insurance costs, gross outstanding claims and reinsurance and other recoveries on outstanding claims) will be replaced with insurance contract assets and liabilities, and reinsurance contract assets and liabilities. Insurance contract liabilities under AASB 17 will include all cash flows that directly relate to the fulfilment of insurance contracts (direct and inward reinsurance), including acquisition, claims settlement, policy administration and maintenance costs. It also includes other costs such as direct overheads which are currently recognised in 'Trade and other payables' on the balance sheet.

## *Transition*

AASB 17 will be applied retrospectively to all of QBE's insurance contracts on adoption except to the extent that it is impracticable to do so, in which case either a modified retrospective or fair value approach may be applied. QBE expects to apply a modified retrospective approach to certain contracts acquired in the past (e.g. as part of a business combination) that, at the time of acquisition, were considered past expiry and were in their claims settlement period. For these contracts, the related liabilities are

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

expected to be classified as liabilities for incurred claims, on the basis that it would be impracticable to treat these liabilities as related to unexpired coverage. QBE Group is currently performing an assessment to conclude on the expected transition approach to be applied for the remainder of the business.

## Financial impact

The requirements of AASB 17 are complex and the expectations noted above are subject to change as the implementation progresses and as QBE Group continues to analyse the impacts of the standard and recent amendments. Market developments also continue to be monitored in order to assess the impact of evolving interpretations and other changes. The financial impact of adopting AASB 17 cannot be reasonably estimated at the date of this report. QBE Group intends to disclose the potential financial impact of adopting AASB 17 once it is practical to provide a reliable estimate.

## Implementation progress

QBE Group has performed an impact assessment which identified the key areas of expected impact. Group-wide accounting guidance and application methodologies are being developed, and a global implementation team has been mobilised to progress the detailed design and implementation of required changes to financial reporting systems.

In addition to concluding on methodology decisions in relation to the areas of judgement described above, the implementation team is currently focused on the development and testing of actuarial models as well as the implementation of changes to finance systems and reporting processes. Complementing these changes, QBE Group's transition approach also includes the development and delivery of training to the global finance teams and relevant stakeholders on the new requirements and their practical application.

## 7.2 Contingent liabilities

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### 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.

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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.

	2021	2020
	US\$M	US\$M
Profit (loss) after income tax	111	(63)
Adjustments for:		
Net foreign exchange profits	–	8
Other gains on financial assets	(54)	(415)
Balance sheet movements:		
Increase in net outstanding claims	(70)	720
Increase in unearned premium	119	44
Increase in deferred insurance costs	(64)	(37)
Increase in trade debtors	(264)	(323)
(Increase) / decrease in other operating assets	(11)	4
Decrease in net amounts receivable from related entities	–	2
Increase / (decrease) in trade payables	492	(52)
(Decrease) / increase in other payables and provisions	(10)	9
Increase in intangibles	–	1
Net cash flows from operating activities	249	(102)

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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 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	2021 \$000	2020 \$000
QBE Group Services Pty Ltd	Investment management services	2,312	2,769
QBE Group Services Pty Ltd	QBE Group head office services and license fee	2,000	1,368
QBE Americas Inc.	System and infrastructure support	2,370	191
QBE Group Shared Services Limited	Reinsurance technical services, financial reporting, claims administration support	1,306	1,443
		7,988	5,771

# Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 DECEMBER 2021

## 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.

	2021 \$000	2020 \$000
Audit and assurance services	487	446
Other services	7	4
	494	450

## 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 9 to 56 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 2021 and of its performance for the financial year ended on that date; and

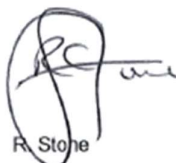
(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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 27th day of April 2022, in accordance with a resolution of the directors.



D. Duclos  
Director



R. Stone  
Director



## Independent auditor's report

To the Board of Directors and Shareholder of QBE Blue Ocean Re Limited

### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of QBE Blue Ocean Re Limited (the Company) and its subsidiaries (together 'the Group') as at December 31, 2021, and their consolidated financial performance and their consolidated 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 Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended December 31, 2021;
- the consolidated balance sheet as at December 31, 2021;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### 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 consolidated 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 Group 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 consolidated 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 consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated 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 consolidated 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 consolidated 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.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

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### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

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*PricewaterhouseCoopers Ltd.*

**Chartered Professional Accountants**

**Hamilton, Bermuda**

**April 27, 2022**