

**QBE Insurance Group Limited**

ABN 28 008 485 014

# Corporate Governance Statement



**QBE**

# Corporate governance statement

QBE places importance on robust corporate governance and being a good corporate citizen. The Group has a vision and six ONE QBE values that recognise its customers, people, shareholders and the community. QBE believes that a culture that rewards transparency, integrity and performance will promote its long-term sustainability and the ongoing success of its business.

This corporate governance statement aims to disclose in summary form as clearly and objectively as possible QBE's corporate governance standards and practices so that they can be readily understood by our shareholders, policyholders and other stakeholders. QBE also continues to focus on other equally important issues such as the strength of its outstanding claims provision and the quality of its reinsurance protections.

This corporate governance statement relates to the 2014 financial year, and accompanies QBE's 2014 Annual Report. This corporate governance statement is dated 4 March 2015.

The ASX Corporate Governance Council (ASX CGC) has issued eight principles and, as part of them, made 30 recommendations. Each principle is discussed below:

## ASX CGC principle 1: lay solid foundations for management and oversight

### Board functions

In accordance with its charter, the Board:

- oversees corporate governance;
- selects and supervises the Group Chief Executive Officer;
- provides direction to management;
- approves the strategies and major policies of the Group;
- monitors performance against plan;
- considers regulatory compliance;
- monitors people-related strategies (including people development and succession planning); and
- reviews information technology and other resources.

Strategic issues are reviewed at least annually by the Board. To help the Board maintain its understanding of the business and to effectively assess management, directors have regular presentations by the divisional chief executive officers and other senior managers of the various divisions on relevant topics, including budgets, three year business plans and operating performance. The Board receives updated forecasts during the year. The non-executive directors also have contact with senior employees at numerous times and in various forums during the year. Visits by non-executive directors to the Group's offices in key locations are encouraged. The Board meets regularly in Australia and, due to QBE's substantial overseas operations, usually spends time in the UK and the US each year. The Board visited the Group's operations in London in June and in New York in September.

Delegations from the Board also met in Hong Kong in August and Buenos Aires in September to meet with and receive presentations from local management.

Each formal Board meeting normally considers reports from the Group Chief Executive Officer and the Group Chief Financial Officer, together with other relevant reports. The Board regularly meets in the absence of management. The Chairman and Group Chief Executive Officer in particular, and Board members in general, have substantial contact outside Board and Committee meetings. Details of directors' attendance at Board and Committee meetings are outlined in the table of meeting attendance set out in the directors' report on page 68 of the 2014 Annual Report.

The Board delegates responsibility to the Group Chief Executive Officer for management of the business on a day to day basis.

### Committees

The Board is supported by several committees which meet regularly to consider audit, risk management, investments, remuneration and other matters. The main Committees of the Board are the Audit, Investment, Remuneration and Risk and Capital Committees. Each Committee operates under a written charter approved by the Board. Any non-executive director may attend a Committee meeting. The Committees have free and unfettered access to QBE's senior managers during their meetings and may consult external advisers at QBE's cost, including requiring their attendance at Committee meetings.

Committee membership is reviewed regularly. The composition of each Committee and any changes made to the composition during 2014 are set out on pages 6 to 11 of this corporate governance statement.

A report on each Committee's last meeting is provided to the next Board meeting.

### Group governance framework

The Board approved a new framework in 2013, which continued to evolve during 2014. The framework includes, in particular:

- revised roles for the boards of divisional holding companies and divisional insurers;
- divisions having committees similar to the Group Board; and
- revamped executive committees at Group and divisional levels.

Certain parts of the framework have been implemented in terms of divisional insurer boards and their committees. New non-executive directors have been appointed. Each divisional insurer board for Australia and New Zealand, Asia Pacific, Europe and North America is now chaired by an independent non-executive director and includes at least another two independent non-executive directors.

The composition of a divisional insurer board includes non-executive directors and divisional executives, who meet at least four times a year.

The linkages between the Board, divisional holding company directors and divisional insurer directors have been increased by having greater liaison between division holding boards and the Board. The Board also meets separately with local non-executive directors at least once a year. These changes followed a review of governance at Group and divisional levels.

### Company Secretary

The Company Secretary acts as secretary to the Board and all of the Committees and is accountable to the Board via the Chairman. The Company Secretary's responsibilities include communication with regulatory bodies and the Australian Securities Exchange (ASX), all statutory and other filings, assisting with good information flows within the Board and its Committees and between non-executive directors and senior management, as well as facilitating induction and professional development as required. The Company Secretary may also provide guidance to directors in respect of legal and regulatory responsibilities.

All directors have direct access to the Company Secretary.

### Management's responsibilities

Management's responsibilities are to:

- develop a draft strategy, make recommendations to the Board and implement the Board approved strategy subject to market conditions;

- prepare annual budgets and three year business plans;
- carry on day-to-day operations within the Board approved annual budget and three year business plans subject to market conditions;
- design and maintain internal controls;
- set up and keep under review an effective risk management and compliance management system, and monitor and manage all material risks consistent with the strategic objectives, risk appetite statements and policies approved by the Board;
- inform the Board of material matters, and keep the Board and market fully informed about material continuous disclosure; and
- ensure succession plans exist for all Senior Management<sup>1</sup> positions other than the Group Chief Executive Officer.

<sup>1</sup> Senior Management, for the purposes of this corporate governance statement means the Group Chief Executive Officer, members of the Group Executive Committee and other executives who are direct reports of the Group Chief Executive Officer.

### Delegated authorities

QBE has operated under an extensive written system of delegated authorities for many years. In particular, a written delegated authority with specified limits is approved by the Board each year to enable the Group Chief Executive Officer to conduct the Group's business in accordance with detailed budgets and business plans. This authority deals with topics such as underwriting, reinsurance protection, claims, investments, acquisitions and expenses. The Group Chief Executive Officer delegates his authority to management throughout the Group on a selective basis taking into account expertise and past performance. Compliance with delegated authorities is closely monitored by management and adjusted as required for actual performance, market conditions and other factors. Management and the Group's internal audit teams review compliance with delegated authorities and any breach can lead to disciplinary procedures, including dismissal in serious cases.

### Measuring performance of Senior Management

The Remuneration Committee receives information on the performance of the Senior Management.

In 2014, QBE introduced a balanced scorecard of individual key performance indicators (KPIs) to ensure that a broader view of performance and specific strategic priorities are considered when assessing performance and incentive outcomes. All Senior Management have 20% of their Short Term Incentive outcome determined with reference to individual KPIs (40% for the former Group Chief Financial Officer, Neil Drabsch, reflecting the specific priorities set for him following his agreement to defer his retirement by 12 months).

The scorecard is aligned to QBE's business plans and measures objectives which support the elements of QBE's value creation model.

The table on page 84 of the 2014 Annual Report sets out a summary of the key objectives and outcomes for the Group Chief Executive Officer for 2014. The Group Chief Executive Officer's scorecard was formulated initially through a discussion between the Group Chief Executive Officer and the Chairman and was approved by the Board. The scorecard for the rest of Senior Management (which is consistent with and supports the scorecard for the Group Chief Executive Officer) was approved by the Remuneration Committee.

The 2014 objectives for Senior Management were used to measure Senior Management's performance for the 2014 year. These performance evaluations occurred in February 2015.

In addition, the Board continually monitors the performance of the Senior Management through regular contact and reporting.

## ASX CGC principle 2: structure the Board to add value

### Board of directors

Directors are selected to achieve a broad range of skills, experience and expertise complementary to the Group's insurance activities. Details of individual directors, including the period of office serving on the Board, are included on pages 62 to 63 of the 2014 Annual Report and can also be found on the QBE website at [www.qbe.com](http://www.qbe.com). At the date of this corporate governance statement, the Board comprised nine directors, being an independent non-executive Chairman, the Group Chief Executive Officer, the Group Chief Financial Officer and six other independent non-executive directors.

There were several changes to the composition of the Board during the year. Ms BJ Hutchinson AM retired as Chairman on 31 March 2014 and was succeeded by Deputy Chairman, Mr WM Becker. With Mr Becker's succession to Chairman, Mr DM Boyle was appointed Deputy Chairman. Sir Brian Pomeroy was appointed as an independent non-executive director on 1 June 2014. On 1 October 2014, Ms JE Skinner and Mr SC Fitzgerald were also appointed as independent non-executive directors, and Group Chief Financial Officer, Mr PC Regan, was appointed as an executive director. On 31 December 2014, independent non-executive directors Ms IF Hudson and Mr DM Boyle retired, at which time Mr JM Green was appointed Deputy Chairman. The appointments and retirements were a continuing part of the planned Board succession process undertaken over the past two years.

The roles of Chairman and Group Chief Executive Officer are not exercised by the same individual. All non-executive directors serving for all or part of the year were considered independent, applying the "independence" definition of the ASX CGC, at all times. When applying this definition, the Board has determined that a non-executive director's relationship with QBE as a professional adviser, consultant, supplier, customer or otherwise is not material unless amounts paid under that relationship exceed 0.1% of QBE's revenue. None of the non-executive directors provide services to QBE other than in their capacity as a non-executive director and they do not have a business relationship with any other director on the Board or otherwise with QBE.

The period for which a director has served on a board is not part of the ASX CGC's independence definition. Nevertheless, as a general guide, the Board has agreed that a non-executive director's term should be approximately 10 years. The Board considers that a mandatory limit on tenure would deprive the Group of valuable and relevant corporate experience in the complex world of international general insurance and reinsurance. Ms BJ Hutchinson AM was a non-executive director from September 1997, and Chairman from July 2010, until her retirement in 2014. QBE's other directors believed that Ms Hutchinson continued to exercise independent judgment and, through her QBE experience, made an important contribution. They also believed that her experience gained from directorships in other businesses provided an advantage to QBE.

QBE's constitution provides that no director, except the Group Chief Executive Officer, shall hold office for a continuous period in excess of three years or past the third AGM following a director's appointment, whichever is the longer, without submission for re-election. Under QBE's constitution, there is no maximum fixed term or retirement age for non-executive directors, however, as noted above, the Board has agreed that a non-executive director's term should be approximately 10 years.

Directors are required to advise the Board on an ongoing basis of any interest they have that they believe could conflict with QBE's interests. If a potential conflict does arise, either the director concerned may choose not to, or the Board may decide that he or she should not, receive documents or take part in board discussions whilst the matter is being considered.

## Corporate governance statement CONTINUED

The Board ensures it has the information it requires to be effective including, where necessary, independent professional advice. A non-executive director may seek such advice at the company's cost with the consent of the Chairman. All directors would receive a copy of such advice. Non-executive directors may attend relevant external training courses at QBE's cost with the consent of the Chairman.

### Performance evaluation of the Board and Directors

The Chairman oversees the performance of the Board, its Committees and each director. The Board regularly reviews its performance. Recommendations for either improvement or increased focus are agreed and then implemented.

At the end of 2013, an external consultant was engaged to conduct a Board review. The Board considered in detail the feedback arising from that review in April 2014. After several changes to the composition of the Board, including the succession of Mr WM Becker as the new Chairman, the Board undertook another external review around August 2014. Among other things, this review involved questionnaires being completed by each director and by Senior Management, as well as interviews being conducted by the external consultant with those people. The review covered the performance of the Board, the Audit, Investment, Remuneration and Risk and Capital Committees, the Chairman and other individual directors.

The result of that review was reported to the Chairman and discussed in detail by the Board in September 2014. Each non-executive director also received specified feedback arising from the review via the Chairman and the external consultant.

The Board is currently considering the most appropriate process for Board, Committee and director review going forward.

### Board selection process

The Board believes that its composition, including selection, appointment, renewal and retirement of members, is of such importance that it is the role of the Board as a whole to review. As a result, all non-executive directors are members of the Nomination Committee. Meetings of the Nomination Committee are conducted as part of every Board meeting. Details regarding directors' attendance at Board meetings (and therefore Nomination Committee meetings) are set out on page 68 of the 2014 Annual Report.

The Board adopted revised non-executive director nomination, performance evaluation and tenure guidelines in September 2014.

The Board believes that orderly succession and renewal contributes to strong corporate governance and is achieved by careful planning and continual review. As an ongoing evaluation, the Board regularly discusses its make up in relation to the mix of skills, diversity and geographic location of directors to meet the needs of the Company. In 2014, this resulted in the appointment of Mr SC Fitzgerald, Sir Brian Pomeroy and Ms JE Skinner as non-executive directors and Mr PC Regan as an executive director to the Board.

The Board has a skills matrix covering the competencies and experience of each member. When the need for a new director is identified, the required experience and competencies of the new director are defined in the context of this matrix and any gaps that may exist. Among other attributes, the Board looks for financial literacy, experience in insurance and investment, a proven track record in creating shareholder value, utmost integrity, a commitment to corporate governance, a strategic mind-set, a preparedness to constructively question and challenge and an independence of mind. Generally a list of potential candidates is identified based on the skills required and other issues such as geographic location and diversity criteria. External consultants may be employed where necessary to search for prospective board members. Candidates are assessed against the required skills and on their qualifications, backgrounds and personal qualities. In addition, candidates must have the required time to commit to the position.

In accordance with QBE's current constitution, the number of directors shall not be more than the number as determined by the current directors. A new Constitution is proposed to be adopted at the 2015 Annual General Meeting, to provide that the maximum number of Directors on the Board shall be no more than 12.

### ASX CGC principle 3: promote ethical and responsible decision making

#### Insurance and other regulation

General insurance and, to a lesser extent, reinsurance are heavily regulated industries. In addition to accounting, legal, tax and other professional teams, QBE has personnel who focus on regulatory matters. Regulators in Australia include the Australian Securities and Investments Commission (ASIC), the Australian Competition and Consumer Commission, Australian Prudential Regulation Authority (APRA), the Australian Privacy Commissioner and relevant state authorities for compulsory third party motor insurance and workers' compensation insurance. These regulatory bodies enforce laws which deal with a range of issues, including capital requirements and consumer protection. Similar local laws and regulations apply to the Group's operations outside Australia. Similarly, QBE has an ongoing relationship with various regulators in overseas jurisdictions, such as the Prudential Regulation Authority in the United Kingdom.

#### Group guidelines

The Group has adopted a revised code of business ethics and conduct for employees and non-executive directors, involving both legal obligations and the reasonable expectations of stakeholders. This code requires that business be carried out in an open and honest manner with our customers, shareholders, employees, regulatory bodies, outside suppliers, intermediaries and the community at large. The code also deals with confidentiality, conflicts of interest and related matters.

Divisions may develop codes of conduct based on the Group code above, with some differences to allow for the requirements of the particular countries in which the division operates.

There are other policies covering anti-discrimination, employment, harassment, QBE values and behaviours, health and safety, privacy, whistle-blowing and many other business practices. These policies, like the code of business ethics and conduct, are underpinned by the Group's vision and values statements. The vision and values statements form part of the induction information given to new employees.

QBE in Australia follows the general insurance code of practice, a self-regulated code developed by the Insurance Council of Australia (ICA) relating to the provision of products and services to customers of the general insurance industry in Australia. A revised code was adopted by the ICA in February 2014, and commenced on 1 July 2014.

QBE in Australia is a member of the Financial Ombudsman Service, an ASIC approved external dispute resolution body which deals with general insurance disputes between consumers and insurers.

Similar insurance practice rules apply to the Group in certain other countries outside Australia.

The following documents are available either in the corporate governance area of QBE's website (at <http://www.group.qbe.com/corporate-governance/background-documents>) or on request from a company secretary:

- Board Charter;
- Audit Committee Charter;
- Investment Committee Charter;
- Remuneration Committee Charter;
- Risk and Capital Committee Charter;
- Nomination Committee Charter;
- Non-executive Directors' Nomination, Performance Evaluation and Tenure Guidelines;

- Trading Policy for dealing in securities of QBE Insurance Group Limited or other entities by Directors and Senior Group Executives (as that term is defined in the policy);
- Group Code of Business Ethics and Conduct;
- Workforce Diversity Policy;
- Continuous Disclosure Guidelines;
- Shareholder Communication Guidelines; and
- Constitution of QBE Insurance Group Limited.

#### Diversity and inclusion

QBE is committed to creating an inclusive organisation that respectfully embraces all employees irrespective of gender, age, ability, sexual orientation, religion, nationality or background. It aims to create a workplace that is fair, equitable, diverse and inclusive in order to attract, retain and develop the best people globally.

The Board and the Group Executive work collaboratively to set specific objectives related to workforce diversity and inclusion and these objectives and principles are documented in the QBE Workforce Diversity Policy (which is, as mentioned above, available in the corporate governance area of QBE's website at <http://www.group.qbe.com/corporate-governance/background-documents>).

With offices in 38 countries, the Group has a unique opportunity to leverage a broad range of skills and experience from across its network. These skills are harnessed through the global mobility program that encourages the Group's employees to seek roles with QBE in overseas offices to broaden their skills and exposure to other cultures and ways of working.

As a key driver of innovation, productivity, engagement and collaboration, QBE has made significant progress during 2014 in embedding the principles of workplace diversity at all levels of the organisation. It has assessed and reported progress through updates to the Remuneration Committee of the Board and to the Group Diversity & Inclusion Council in 2014.

Through the application of the Workforce Diversity Policy, the Group has put in place a range of sustainable strategic and tactical initiatives that promote awareness and proactive management practices regarding workplace diversity and inclusion.

In addition to the application of the policy, the principles of workplace diversity and inclusion – with a particular emphasis on gender diversity – have been embedded in the systems and processes of the Group, as detailed in the table below.

COMMITMENT	ACHIEVEMENTS IN 2014
<b>Reasonable participation of women in senior leadership roles</b>	<ul style="list-style-type: none"> <li>• Annual reporting to the Remuneration Committee of the Board on progress against gender representation at senior leadership levels.</li> <li>• Monitoring of progress against gender targets set in 2010, 25% representation of women in senior leadership positions in Group Head Office, 20% in Divisions.</li> <li>• New diversity metrics created and disseminated for analysis, discussion and review within each Division against a range of criteria including gender, age and flexibility.</li> <li>• This information has been designed to educate senior leaders on overall representation, trends relating to turnover and reasons for leaving, hiring and promoting of women and men across levels within each Division.</li> </ul>
<b>Participation of women in accelerated talent programs that provide development focused on attainment of leadership roles</b>	<ul style="list-style-type: none"> <li>• <b>Participation of female talent in our Global Leadership Academy:</b> QBE continues to monitor male:female attendance in its Global Leadership Academy Programmes. Of the 1,291 employees who have participated, 40% were female.</li> <li>• <b>Top female talent initiative:</b> In 2014, QBE conducted a global analysis of top female talent across the business to understand their career aspirations, motivations and perceived barriers to and enablers of progression. Information and key themes from this review were shared with the Group Executive. Executives have been encouraged to meet with, sponsor and actively follow key women within their Divisions and regularly report back on progress. Talent partners are also providing ongoing monitoring of this population.</li> <li>• <b>Career development reviews:</b> QBE has a dedicated Centre of Excellence for Talent that provides high touch one to one career support for key female talent and regular monitoring of progress against development plans.</li> <li>• <b>Crucible roles:</b> In 2014, QBE committed to a more targeted approach to accelerated development of key talent through crucible role interventions. This dedicated focus has seen targeted opportunities for several of QBE's key female talent across the globe to accelerate their development.</li> </ul>
<b>Regular monitoring and management of pay equity between women and men within job families in each region</b>	<ul style="list-style-type: none"> <li>• Under the direction of the Group Diversity &amp; Inclusion Council, an initial global pay equity analysis was undertaken which provided a baseline for identifying and monitoring trends on pay equity by Division based on data from 2013 performance year and remuneration structures.</li> <li>• Key observations from the analysis were discussed with the Global Diversity &amp; Inclusion Council and it was agreed that further analysis will be conducted using the outcomes of the 2014 performance review process.</li> </ul>
<b>Improved awareness of options for flexible working arrangements and family support programs available in each region</b>	<ul style="list-style-type: none"> <li>• Across Divisions globally, a variety of enabling initiatives undertaken to mobilise flexibility in the workplace: online guides, face to face training and internal promotion of telecommuting and flex time/part-time roles.</li> <li>• In QBE's Australian &amp; New Zealand Division, programs have been introduced targeting mature age employees looking to retain their employment, supported the development of future talent through their engagement in knowledge transfer programs, in addition to providing education regarding options for transition into retirement using flexible work.</li> </ul>
<b>Availability of employee education specific to the benefits of work force diversity and manager education, focusing on work force diversity management, including role redesign to encourage flexible working arrangements</b>	<p>Ongoing marketing and education to increase awareness regarding diversity &amp; inclusion was implemented across Divisions globally through a variety of means:</p> <ul style="list-style-type: none"> <li>• Diversity management workshops for new leaders – including unconscious bias sessions</li> <li>• D&amp;I e-learning modules</li> <li>• D&amp;I newsletters</li> <li>• Variety of Employee Resource Groups</li> <li>• Local D&amp;I Councils</li> </ul>

## Corporate governance statement CONTINUED

In 2014, under the direction of the newly formed Group Diversity & Inclusion Council, QBE focussed on three key objectives:

- embedding diversity into the Group's key processes;
- developing QBE's leaders and broader workforce to embrace Diversity & Inclusion in all of its forms; and
- taking a visible and strong stand on Diversity & Inclusion, both internally and externally.

The following actions were taken:

- development of a global QBE business case for Diversity & Inclusion anchored into the QBE business goals - supporting the delivery of QBE's promises to employees, customers and a workplace that instils QBE's values of ONE QBE;
- introduction of new Diversity & Inclusion related questions into the Group's annual global staff survey;
- embedding of 'Inclusive Leadership' behaviours as key learning / skill areas in the Global Leadership Academy programs, Leadership Essentials Competency model and 360° Insights tool; and
- introduction of new D&I related performance management objectives for people leaders in 2015, including how QBE sources, recruits and manages diverse talent and drives higher engagement and retention.

At the end of 2014, the Group Chief Executive Officer elevated and integrated the Diversity & Inclusion discussion as a standing agenda item at the Group Executive meetings, replacing the original Group Diversity & Inclusion Council. This change was made so that all inclusion objectives are aligned, with Group Executive members actively taking ownership of Diversity & Inclusion in their respective Divisions and Group functions. This model will be replicated in each Division, where the Group Executives, together with their direct reports, will look to decide focus areas, priorities and initiatives as they finalise their locally relevant and globally aligned Diversity & Inclusion Action Plans.

For 2015, QBE will continue to develop the infrastructure and governance required to ensure effective measurement and accountability - completing the global consolidated Diversity & Inclusion plans, monitoring execution and creating leverage opportunities across Divisions and sharing successful and effective practices. The results of this monitoring and measurement will be reported to the Group Executive and the Remuneration Committee of the Board.

### Gender diversity measures

In 2010, specific targets were set to ensure gender diversity across the Group. These targets of 25% of all senior head office roles and 20% of all senior roles within the Divisions to be held by women have now been met.

A summary of women's roles at QBE is provided below:

DIVERSITY OBJECTIVE	31 DEC 2014	31 DEC 2013	31 DEC 2012
Women in workforce	56%	56%	56%
Group Board positions	29%	38%	38%
Group Executive positions	11%	11%	11%
Senior executive positions (Group head office)	28%	23%	24%
Senior executive positions (Divisions)	20%	19%	19%

The focus on gender diversity will continue as a matter of priority across the Group. The Workforce Diversity policy will be revisited by the Group Executive Committee to identify revised targets, ensuring continued progress for achieving gender balanced leadership teams in 2016.

### ASX CGC principle 4: safeguard integrity in financial reporting

#### Audit Committee

The membership of the Audit Committee may only comprise non-executive directors. This Committee normally meets four times a year. The Chairman must be a non-executive director who is not the Chairman of the Board. The current members are Sir Brian Pomeroy (Chairman), Mr WM Becker, Ms MMY Leung and Ms JE Skinner (Deputy Chair). Their qualifications are set out pages 62 and 63 of the 2014 Annual Report.

There were several changes to the composition of the Audit Committee during the year. Sir Brian Pomeroy was appointed to the Audit Committee on 1 June 2014 as Deputy Chair. On 1 October 2014, he took over the role of Chairman of the Audit Committee from Mr DM Boyle. Mr WM Becker also joined the Audit Committee on 1 April 2014, and Ms JE Skinner on 1 October 2014. Ms BJ Hutchinson AM retired from the Audit Committee upon her retirement from the Board on 31 March 2014, as did Mr DM Boyle upon his retirement from the Board on 31 December 2014. Ms IF Hudson retired from the Audit Committee on 31 March 2014.

Details regarding directors' attendance at meetings of the Audit Committee are set out on page 68 of the 2014 Annual Report.

The role of the Audit Committee is to oversee the integrity of QBE's financial reporting process. This includes review of:

- financial reporting to APRA, ASIC, the ASX and shareholders;
- financial reporting risks;
- the Group's accounting policies, practices and disclosures; and
- the scope and outcome of external and internal audits.

This Committee's scope includes reviewing the financial statements (including items such as the outstanding claims provision and reinsurance recoveries), internal controls, financial reporting, tax compliance and significant changes in accounting policies.

Other non-executive directors normally attend Audit Committee meetings which consider the 30 June and 31 December financial reports. Meetings of this Committee usually include, by invitation, the Group Chief Executive Officer, the Group Chief Financial Officer, the Group Chief Actuary, the Group Chief Risk Officer, the Group Head of Internal Audit and the external auditor. As appropriate, other relevant managers also attend.

The Audit Committee has free and unfettered access to the external auditor. The external auditor, the Group Head of Internal Audit and the Group Chief Actuary have free and unfettered access to the Audit Committee.

#### External auditor independence

QBE firmly believes that the external auditor must be, and must be seen to be, independent. The external auditor confirms its independence in relation to the 30 June and 31 December financial reports and the Audit Committee confirms this by separate enquiry. The Audit Committee has contact with the external auditor in the absence of management in relation to the 30 June and 31 December financial reports and otherwise as required. The external auditor normally confers with the Audit Committee in the absence of management as part of each Committee meeting.

QBE has issued an internal guideline on external auditor independence. Under this guideline, the external auditor is not allowed to provide the excluded services of preparing accounting records, financial reports or asset or liability valuations. Furthermore, it cannot act in a management capacity, as a custodian of assets or as share registrar.

The Board believes some non-audit services are appropriate given the external auditor's knowledge of the Group. QBE 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. External tax services are generally provided by an accounting firm other than the external auditor.

The external auditor has been QBE's auditor for many years. As a diverse international group, QBE requires the services of one of a limited number of international accounting firms to act as auditor. The Audit Committee approves the audit plan each year and receives regular information on the external auditor's fees. QBE also considers the terms of engagement of the external auditor every few years, the last occasion concluding in February 2015. The *Corporations Act 2001*, Australian professional auditing standards and the external auditor's own policy deal with rotation and require rotation of the lead engagement partner after five years. In accordance with such policy, the lead engagement partner of the external auditor was rotated in 2014 after having been last rotated in 2009.

To the extent that, in the future, the Audit Committee thought it appropriate to consider changing the firm undertaking QBE's external audit, it would conduct an appropriate process to receive competitive tenders.

#### Actuarial review

It is a longstanding practice of the directors to ensure that the Group's insurance liabilities are assessed by actuaries. The Group's outstanding claims provision is reviewed by experienced internal actuarial staff. Actuarial staff are involved in forming an independent view, separate from management, of the central estimate and the probability of adequacy of the outstanding claims provision and premium liabilities, premium rates and related matters. Approximately 94% of QBE's central estimate is also reviewed by external actuaries. External actuaries are generally from organisations which are not associated with the external auditor.

#### Internal audit

A global internal audit function is critical to the risk management process. QBE's internal audit function reports to the Group Chief Financial Officer and the Audit Committee on the monitoring of the Group's worldwide operations. Internal audit provides independent assurance that the design and operation of the controls across the Group are effective. The internal audit function operates under a written charter from the Audit Committee. Other governance documents include a reporting protocol, internal audit manual, internal audit issue rating system, internal audit opinion levels and internal audit timetables. A risk-based internal audit approach is used so that higher risk activities are reviewed more frequently. The Group's internal audit teams work together with the external auditor to provide a wide audit scope.

#### Investment Committee

The membership of the Investment Committee may only comprise non-executive directors. This Committee normally meets four times a year. The Chairman must be a non-executive director who is not the Chairman of the Board. The current members are Mr SC Fitzgerald (Chairman), Mr WM Becker, Mr JA Graf (Deputy Chair) and Mr JM Green. Their qualifications are set out pages 62 and 63 of the 2014 Annual Report. Meetings of the Investment Committee usually include, by invitation, the Group Chief Executive Officer, the Group Chief Investment Officer and the Group Chief Financial Officer. As appropriate, other relevant managers also attend.

There were several changes to the composition of the Investment Committee during the year. Mr JA Graf was replaced as Chairman of the Investment Committee by Mr SC Fitzgerald when Mr SC Fitzgerald joined the Investment Committee on 1 October 2014. Ms BJ Hutchinson AM retired from the Investment Committee upon her retirement from the Board on 31 March 2014. Mr WM Becker joined the Investment Committee on 1 April 2014. Mr JM Green retired from the Investment Committee on 30 September 2014 but rejoined on 1 January 2015.

Details regarding directors' attendance at meetings of the Investment Committee are set out on page 68 of the 2014 Annual Report.

The role of the Investment Committee is to oversee QBE's investment activities. This includes review of:

- investment strategy;
- investment risk management; and
- investment exposures across asset classes and counterparties.

The Investment Committee's scope includes review of economic and investment conditions as they relate to QBE and overseeing investment performance, including the performance of any defined benefit superannuation funds sponsored by QBE.

### ASX CGC principle 5: make timely and balanced disclosure

#### Continuous disclosure

ASX Listing Rule 3.1 requires QBE to inform the ASX immediately once QBE is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of QBE's shares. Procedures are in place to ensure that items which potentially require announcement to the ASX are promptly notified to Group head office for assessment and released as required. Depending upon content, either the Board or the Group Chief Executive Officer is responsible for authorising market releases. All market releases are posted to the Group's website.

QBE takes the spirit of its continuous disclosure obligations seriously and issues market releases during the year to satisfy those obligations. A list of the ASX announcements made since 1 January 2014 is set out on QBE's website at <http://www.group.qbe.com/investor-centre/asx-announcements>.

### ASX CGC principle 6: respect the rights of shareholders

#### Communication with shareholders

The *Corporations Act 2001* no longer requires QBE to distribute an annual report to all shareholders except to those who elect to receive it. QBE also produces a half year report which is sent to all shareholders who elect to receive it. Both reports are available on the QBE website. The website also contains historical and other details on the Group. Shareholders can discuss their shareholding with either the shareholder services department or the share registrar, both located in Sydney.

The AGM is held in Sydney each year, usually in April. In 2015, it will be held on 2 April. Shareholders are encouraged to attend the AGM in person or by proxy. All resolutions in the notice of meeting have explanatory notes. During the AGM, shareholders may ask questions of either the Chairman or the external auditor.

#### Communications with analysts, investors, media, rating agencies and others

The Group Chief Executive Officer, Group Chief Financial Officer, Group Chief Risk Officer, Group General Counsel and Company Secretary, Global Head of Investor Relations, divisional chief executives and divisional finance officers generally deal with analysts, investors, media, rating agencies and others, taking account of regulatory guidelines including those issued by the ASX on continuous disclosure. The presentations on the 30 June and 31 December results and other major presentations are sent to the ASX before the presentations commence and are available promptly on the Group's website. The 30 June and 31 December presentations are also webcast live and subsequently archived on the Group's website.

QBE has adopted Shareholder Communication Guidelines, available on the corporate governance section of the QBE website at <http://www.group.qbe.com/corporate-governance/background-documents>.

## Corporate governance statement CONTINUED

### ASX CGC principle 7: recognise and manage risk

#### Risk and Capital Committee

The membership of the Risk and Capital Committee may only comprise non-executive directors. This Committee normally meets four times a year. The Chairman must be a non-executive director who is not the Chairman of the Board. The current members are Mr JM Green (Chairman), Mr WM Becker, Mr JA Graf (Deputy Chair), Mr SC Fitzgerald and Sir Brian Pomeroy. Their qualifications are set out pages 62 and 63 of the 2014 Annual Report. Meetings of the Risk and Capital Committee usually include, by invitation, the Group Chief Executive Officer, the Group Chief Financial Officer and Group Chief Risk Officer. As appropriate, other relevant managers also attend.

There were several changes to the composition of the Risk and Capital Committee during the year. Ms BJ Hutchinson AM retired from the Risk and Capital Committee upon her retirement from the Board on 31 March 2014. Sir Brian Pomeroy joined the Risk and Capital Committee on 1 April 2014, and Mr SC Fitzgerald joined on 1 October 2014. Ms MMY Leung retired from the Risk and Capital Committee on 31 March 2014. Ms JE Skinner was a member of the Risk and Capital Committee from 1 October 2014 to 31 December 2014. Mr JA Graf retired from the Risk and Capital Committee on 30 September 2014 but rejoined on 1 January 2015.

Details regarding directors' attendance at meetings of the Risk and Capital Committee are set out on page 68 of the 2014 Annual Report.

The role of the Risk and Capital Committee is to oversee the design and implementation of QBE's risk management framework together with the Group's capital requirements.

The Risk and Capital Committee's scope includes reviewing:

- the process of risk identification, its assessment and management actions as a consequence;
- material risks, including emerging risks;
- QBE's internal capital adequacy assessment process, including its economic capital model as well as its stress and scenario testing; and
- rating agency and regulatory criteria on capital.

#### Risk management

QBE is in the business of managing risk. The Board and management are fully committed to ensuring that disciplined approach to managing risk delivers global best practice and that the Group's risk management processes and systems are robust and independent. QBE's risk framework supports its businesses across all divisions and provides a sound foundation for reducing uncertainty and volatility in business performance.

QBE's approach to managing risk is based on the following key principles:

- QBE's businesses operate across many different regions and product sectors, allowing it to benefit from diversification and global leverage;
- a strong, open, leader-led culture of active risk management across all levels of the organisation;
- risk-based decision-making delivered by experienced people with excellent underwriting skills;
- a high-performing and motivated risk team, operating as a globally integrated group;
- clear accountabilities at all levels, supported by clear delegated authorities and rewarded by appropriate incentive and performance measures; and
- optimising risk/return decisions through transparency and relevant and insightful supporting information.

At the heart of QBE's approach to managing risk is its risk appetite. Set by the Board, QBE's risk appetite establishes the parameters across all its key risk categories within which risk exposures must be maintained. QBE monitors its exposures

against appetite on an ongoing basis and uses them to inform forward looking strategic and tactical decisions. During 2014, QBE revised and extended its risk appetite statements with quantitative and qualitative statements across all major risk types (refer to the table on page 61 of the 2014 Annual Report).

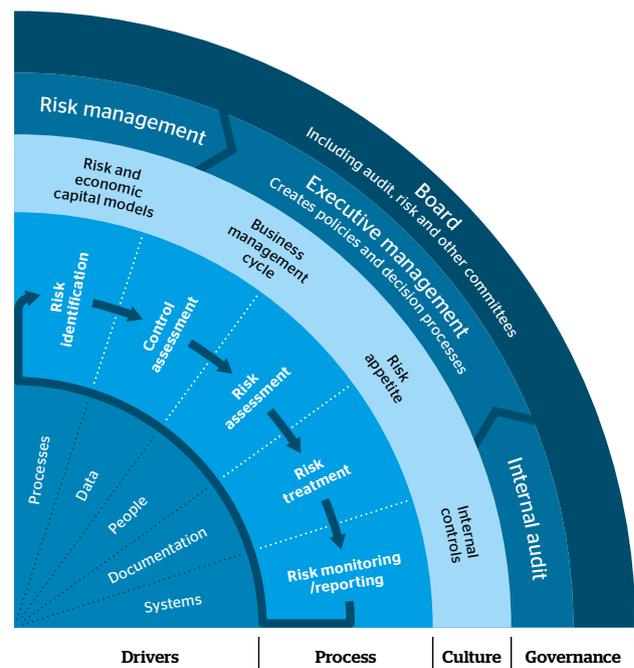
The Board monitors the Group's performance and, as such, plays a significant role in ensuring that an effective risk management strategy is established and maintained. The Risk and Capital Committee meets at least quarterly to review performance against appetite and capital plans, and takes a central role in overseeing that risks are being actively and appropriately managed according to the Board's stated risk appetite, strategy and business plan.

The risk framework has been designed to support improved, risk-aware decision making by QBE people. It provides the basis for identifying, assessing, monitoring and managing the Group's risks. Reporting requirements of the framework promote transparency and increased awareness and understanding of risks. Responsibilities across all three lines of defence have been set out and these ensure that QBE is coordinated in managing its risks and that accountabilities are clear for its staff, as follows.

- any risk-taking business unit forms the first line of defence – they manage and own risk and comply with risk frameworks;
- risk management and compliance functions form the second line of defence – they own and monitor the application of risk management frameworks and measure and report on risk performance and compliance; and
- the third line of defence is formed by Internal and External Audit – they provide independent assurance to the Board and its various audit and risk committees over controls and risk management practices.

Additionally QBE now has in place risk management objectives for all levels of staff across all divisions and these have been built into the performance appraisal and management system.

#### Risk management framework elements



During 2014, Mr JC Brown was appointed Group Chief Risk Officer. He commissioned external consultants to undertake a review of the risk function. This has resulted in a strengthening of the team and several internal initiatives to provide a greater awareness and understanding of the risk function and QBE's overall risks as they may apply to individual business units. An example of those initiatives is the "My Risk" program.

## Capital and risk

A wide range of tools are utilised by QBE in the risk and capital management processes including:

- QBE's Economic Capital Model – its internal model, developed to measure overall exposure to risk as well as exposure to each of the Group's main categories of risk, provides a quantitative base for QBE to understand, monitor and manage its exposures, make better business decisions, assess economic capital requirements and measure performance on a risk-adjusted basis;
- scenario analysis – based on the analysis of severe but plausible (though improbable) events or circumstances, this analysis enables management to understand the potential impact of these events if they were to occur, inform the appropriate risk management approach including the design of controls, formulate contingency plans and assess the adequacy of resources (including capital) to absorb unexpected losses arising from these events;
- stress testing – similarly to scenario analysis, QBE's stress tests, including reverse stress tests, are a means by which the company can consider its exposure to risks under extreme circumstances and the potential financial and non-financial impacts of these events so that QBE can ensure it has sufficient capital to withstand the event. Business plans also undergo extensive stress tests so that plausible impacts can be considered and mitigation can be put in place to support the achievement of planned profitability under stressed circumstances;
- analysis of regulatory and rating agency capital models – QBE conducts financial modelling analysis of the implications of the various regulatory capital and rating agency capital environments to understand the impact of strategic decisions on the regulatory and rating agency views of the risk profile and capital requirements; and
- a number of bespoke risk assessment tools, including stress test scenarios applied to evaluate business plans and support QBE's capital plan.

These tools support the assessment of risk and the allocation of capital to the risks to which the Group is exposed.

QBE's Internal Capital Adequacy Assessment Process (ICAAP), supported by QBE's Economic Capital Model, considers a broad range of these tools. This process is integrated across a large number of business processes including the allocation of capital to operating entities for planning and performance monitoring purposes. This approach ensures that the risk taken by QBE is commensurate with required returns and it is an integral component of QBE's incentive schemes. Other key uses of the ICAAP and the tools which support it include management of the capital held by QBE, monitoring of risk profile against appetite, analysis of alternative reinsurance options and regulatory and rating agency submissions.

As a result of these processes, and in line with the broader strategic direction of QBE, several actions were initiated during 2014 to reduce the risk profile of the group including: reinsurance of the claims reserves relating to the European medical malpractice business, sale of non-core assets, institutional and private capital raising and debt restructure and the plan for a partial IPO of the Australian lenders' mortgage insurance business. This comprehensive risk and capital management approach resulted in improvements to regulatory and rating agency capital metrics, a reduction in gearing, conversion of intangibles to tangible capital and an overall strengthening of the balance sheet.

### Key risks and mitigants

The table on page 61 of the 2014 Annual Report provides some examples of the types of key risks QBE faces, drivers of these risks and mitigation approaches. Broadly speaking these risks relate to:

- strategic and business risk – the current and prospective impact on earnings and/or capital arising from strategic business decisions, and responsiveness to external change;

- insurance risk – the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations. This includes underwriting, catastrophe claims concentration and claims estimation risks;
- credit risk – the risk of default by borrowers and transactional counterparties as well as the loss of value of assets due to deterioration in credit quality;
- market risk – the risk of variation in the value of investments due to movement in market factors;
- liquidity risk – the risk of insufficient liquid assets being available to meet liabilities as they fall due to policyholders and creditors; and
- operational risk – the risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risk.

### Stress and scenario testing

Over the course of 2014, QBE has undertaken business plan stress and sensitivity testing, incorporating scenario analysis to more fully understand the risks inherent within business plans. This has allowed QBE to consider the various risk exposures it faces and what additional mitigation or remediation it can put in place to counter-balance these exposures.

Scenario analysis is also used across all QBE's key risk categories to consider extreme but plausible events and the company's ability to respond to them. Through completing stress tests in many forms across QBE's business, management and the Board are better informed as to the nature and extent of QBE's risk profile under a range of environments. QBE is also able to better prepare itself for these scenarios and ensure that it is not taking on more risk than is acceptable to the Board, as set out in QBE's risk appetite statements.

Additionally, QBE has adopted sophisticated modelling which is used to estimate losses, manage catastrophe exposure and assist in making decisions regarding catastrophe risk management and coverage. This capability is critical to manage exposure to potential losses – to QBE, its customers and investors – from possible catastrophic events, such as powerful earthquakes and major cyclones and typhoons.

The results generated from this tool coupled with our highly-skilled catastrophe modelling team informs post-event response planning such as local staffing levels, reporting and turnaround times as well as the opportunity to undertake a comprehensive post-event incident response review and reassess future risks. These catastrophe models are explained in more detail on page 54 of the 2014 Annual Report.

### Globally Integrated Enterprise Risk Management (ERM) framework

QBE's One ERM framework has been further embedded across all divisions during 2014 and incorporates all of QBE's key risk management processes, including risk and control assessments; key risk indicators and reporting; issue and loss capture; scenario analysis; risk appetite and governance. QBE's operating model in delivering the One ERM framework is now in place across the various global risk teams, creating better sharing of information and risk knowledge.

The Group Risk team has been strengthened in 2014 by appointing specialised risk personnel and developing QBE's risk capabilities.

### Policies

QBE has policies in place in relation to the Group's key risks, which are summarised below:

#### Strategic Risk Policy

QBE manages strategic risk through a number of processes including: strategy setting and business plan stress testing, capital planning and monitoring, acquisition filtering and assessment, the Tax Risk Management Framework and investment strategy.

## Corporate governance statement CONTINUED

### Insurance Risk Policy

QBE manages insurance risk through a number of processes including underwriting strategy and delegated authorities, pricing models, portfolio and product diversification, catastrophe modelling, liabilities estimation and independent review, provisioning and latent claims monitoring and reinsurance.

### Credit Risk Policy

QBE manages credit risk through a number of processes including reinsurance and investment strategy, evaluation and approval of counterparties, counterparty limits and concentration management and counterparty monitoring.

### Market Risk Policy

QBE manages market risk through a number of processes including investment strategy and supporting investment limits and foreign exchange strategy and foreign exchange limits.

### Liquidity Risk Policy

QBE manages liquidity risk through a number of processes including maintaining a proportion of liabilities in liquid assets, cashflow targeting, cashflow forecasting, stress testing and contingency planning.

### Operational Risk Policy

QBE identifies and assesses operational risk through Risk and Control Assessment and scenario analysis. QBE manages operational risk through various systems, controls and processes, including business continuity management, information security, physical security, reconciliation and segregation of duties. QBE monitors operational risk through control assurance, key risk indicators and internal loss events and issues and actions.

### Group Risk Policy

Group risk by its nature may arise from other risk categories. The Group Risk Policy outlines potential sources of group risk, and provides guidance on how these sources of group risk should be assessed and managed.

### Environmental risk management

QBE is a corporation involved in an industry that seeks to play a role, in conjunction with governments, individuals and organisations, in managing and reducing environmental risk. In an initiative to collaborate with the United Nations Environment Program, QBE, together with a number of other major international insurers, is a signatory to a statement of environmental commitment by the insurance industry.

Measurement of the Group's environmental impact to date has focused on two key carbon emission metrics, being business air travel and electricity usage. Based on these key metrics, the Group's estimated carbon emissions (CO<sub>2</sub>e) for 2014 were:

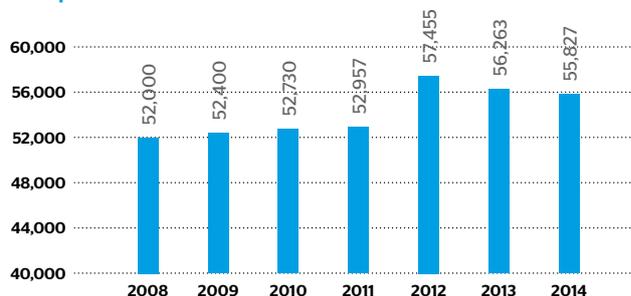
	TWELVE MONTHS TO DEC 2014 TONNES	TWELVE MONTHS TO DEC 2013 TONNES	REDUCTION OF
Scope 1	1,019	1,019	0%
Scope 2	33,517	33,639	0.36%
Scope 3	21,291	21,606	1.46%
Total	55,827	56,263	0.77%

### Carbon Emissions by scope

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



### Group carbon emissions (CO<sub>2</sub>e) (tonnes)



QBE is a participant in the annual Carbon Disclosure Project (CDP) survey. The CDP is an independent, not-for-profit organisation which acts as an intermediary between shareholders and corporations on all climate change related issues, providing climate change data from the world's largest corporations to the global market place.

QBE's response to the latest CDP questionnaire, CDP2013, was published in October 2013, and is available on our website in the investor information section.

### CEO/CFO certificates

The Group Chief Executive Officer and Group Chief Financial Officer have provided the Board with an assurance that the declaration provided in accordance with section 295A of the *Corporations Act 2001* relating to the 2014 financial year is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

### ASX CGC principle 8: remunerate fairly and responsibly

#### Remuneration Committee

The membership of the Remuneration Committee may only comprise non-executive directors. This Committee normally meets four times a year. The Chairman must be a non-executive director who is not the Chairman of the Board. The current members are Mr JA Graf (Chairman), Mr WM Becker, Mr JM Green, Ms MMY Leung (Deputy Chair) and Ms JE Skinner, and their qualifications are set out pages 62 and 63 of the 2014 Annual Report. Meetings of the Remuneration Committee usually include, by invitation, the Group Chief Executive Officer and the Group Executive Officer, People and Communications. As appropriate, other relevant managers also attend.

There were several changes to the composition of the Remuneration Committee during the year. Mr JA Graf joined the Remuneration Committee on 1 October 2014, succeeding Ms IF Hudson as Chairman of the Remuneration Committee. Ms IF Hudson retired from the Remuneration Committee upon her retirement from the Board on 31 December 2014. On 1 April 2014, Ms MMY Leung and Mr WM Becker both joined the Remuneration Committee, in the case of Ms MMY Leung as Deputy Chair. Ms BJ Hutchinson AM retired from the Remuneration Committee upon her retirement from the Board on 31 March 2014. Mr DM Boyle retired from the Remuneration Committee on 30 September 2014. Ms JE Skinner joined the Remuneration Committee on 1 January 2015.

Details regarding directors' attendance at meetings of the Remuneration Committee are set out on page 68 of the 2014 Annual Report.

QBE's governance of remuneration focuses on aligning the remuneration and reward strategy and frameworks with robust risk management practices and strong governance principles.

The role of the Remuneration Committee is to oversee QBE's major remuneration practices. This includes recommendations to the Group Board on:

- the employment arrangements of the Group Chief Executive Officer and any executives reporting to him;
- the remuneration of any other persons or categories of persons covered by the QBE Group remuneration policy; and
- non-executive director remuneration.

The Remuneration Committee, in particular, assesses the appropriateness of remuneration frameworks and practices in order to fairly and responsibly reward the Group Chief Executive Officer and other members of Senior Management. The Remuneration Committee ensures rewards are commensurate with performance and that remuneration levels are competitive in the various markets in which QBE operates. The Remuneration Committee has access to detailed external research from independent consultants.

The Remuneration Committee recognises that the key to achieving sustained performance is to motivate and retain quality employees and align executive reward with the creation of shareholder value. The Remuneration Committee has the discretion to reduce deferred equity awards (including to zero) to the Senior Management where financial results subsequently deteriorate.

QBE has operations and staff in 38 countries with differing laws and customs. QBE's remuneration policy therefore reflects the fact that QBE is a global organisation, whilst also taking into account local remuneration levels and practices.

#### **Details of remuneration**

Details of remuneration of executives and non-executive directors, such as employee entitlements under the Employee Share and Option Plan, deferred equity awards and superannuation are included in the remuneration report on pages 70 to 98 of the 2014 Annual Report and in notes 27 and 28 to the financial statements (set out on page 155 of the 2014 Annual Report).

Other than meeting statutory superannuation requirements, QBE does not have in place any retirement benefit schemes for non-executive directors.

#### **Share trading policy**

QBE has in place a Trading Policy for dealing in securities of QBE and other entities by directors and Senior Group Executives (as that term is defined in the policy). This policy operates in addition to the insider trading provisions of the *Corporations Act 2001*. The policy is currently being reviewed to ensure it is consistent with best practice. In particular, the policy states that Directors and Senior Group Executives should:

- never actively trade the company's securities;
- not hedge unvested entitlements as well as not hedge vested entitlements counting towards an executive's minimum shareholding requirement; and
- notify any intended transaction to nominated people within the Group, including notification of any hedging.

The policy identifies set periods during which directors or Senior Group Executives may buy or sell QBE's securities, being one to 30 days after each of the release of QBE's half year results, the release of QBE's annual report and the date of the AGM, and also one day after the issue of any prospectus until the closing date. The policy also allows for trading after exceptional circumstances. Any QBE share dealings by directors are promptly notified to the ASX.

**QBE Insurance Group Limited**

Level 27, 8 Chifley Square, Sydney NSW 2000 Australia

telephone +61 2 9375 4444

[www.qbe.com](http://www.qbe.com)