Independent auditor's report

TO THE MEMBERS OF QBE INSURANCE GROUP LIMITED

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of QBE Insurance Group Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2023 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 31 December 2023
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the financial statements, including material accounting policy information and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- In conjunction with component auditors, we conducted an audit of the most financially significant components of the Group, being the Australia Pacific, International and North America divisions. In addition, we performed specific risk focused audit procedures in relation to the captive reinsurer, Equator Re, and other head office entities, where appropriate, as well as audit procedures over the consolidation process.
- We determined the level of direction and supervision we needed to have over the audit work performed by component auditors to be satisfied that sufficient audit evidence had been obtained for the purposes of our opinion.
- We kept in regular communication with component auditors throughout the year with conference calls and written instructions.
- We also ensured that our team, including the component auditors across the Group, possessed the appropriate competence and capabilities needed for the audit of a complex global insurer. This included industry expertise as well as specialists and experts in accounting technical, information technology, actuarial, tax and valuations.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Board Audit Committee.

Key audit matter	How our audit addressed the key audit matter
Transition to AASB 17 *Insurance Contracts* (Refer to note 8.1.1) On 1 January 2023, the Group transitioned to reporting under the new accounting standard AASB 17 *Insurance Contracts* which replaced AASB 1023 *General Insurance Contracts*. The Group has evaluated the requirements of AASB 17 and exercised judgement to develop accounting policies and determine appropriate methodologies in order to comply with AASB 17. In particular, the determination of the measurement models (general model or premium allocation approach) to apply under the standard, the determination of risk adjustment and onerous contract methodologies, and the determination of the discount rate (adjusted for an illiquidity premium to reflect the liquidity characteristics of insurance contracts), were deemed to be significant to the overall impact of transition. The new standard has also had a significant impact on the disclosures in the financial statements.	Our procedures included: • Assessing the significant judgements used by the Group to determine the relevant accounting policies against the requirements of AASB 17. This included judgements used to determine the measurement models adopted, risk adjustment, onerous contracts and discount rates used. • Evaluating the appropriateness of the Group's premium allocation approach eligibility analysis for insurance and reinsurance contracts with coverage periods greater than one year, including testing the relevant supporting data, the significant assumptions used and scenarios applied, and testing the accuracy of models used. • Evaluating the application of the general model for specific insurance and reinsurance contracts. This included assessing the underlying significant assumptions used to derive the fulfilment cash flows and related contractual service margin, where applicable, as well as the related revenue recognition. • Evaluating the appropriateness of the methodology used to determine the risk adjustment, including assessing the underlying discounted cash flow model and significant assumptions.

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Key audit matter	How our audit addressed the key audit matter
Due to the significance of the changes introduced by the standard, we considered the transition to the new standard to be a key audit matter.	• Evaluating the onerous contract methodology used to identify any groups of onerous contracts on transition. Where onerous contracts were identified, we assessed the appropriateness of the significant assumptions and recalculated the relevant loss recovery components. • Assessing the updated discounting methodology, including the determination of the illiquidity premium against the requirements of the standard and comparing to external market data where available. • Testing the supporting calculations related to the material transition adjustments at 1 January 2022, with the standard applied retrospectively. We also assessed the reasonableness of the new and restated disclosures in the financial report against the requirements of AASB 17.
Valuation of insurance contract liabilities (Refer to note 2.2)	
As at 31 December 2023, the Group held US$27,567 million of insurance contract liabilities of which there are two components. The first component relates to the liability for remaining coverage which comprises fulfilment cash flows related to future services to be provided under groups of insurance contracts. Where the general model is adopted, this balance is also inclusive of a risk adjustment, contractual service margin and discounting. The second component relates to the liability for incurred claims and comprises fulfilment cash flows related to past services provided under groups of insurance contracts which have not yet been paid, including claims that have been incurred but not yet reported (IBNR) and claims incurred but not enough reported (IBNER). This balance is also inclusive of a risk adjustment and discounting. We considered the valuation of insurance contract liabilities to be a key audit matter due to the significant judgement required by the Group in estimating future cash flows, and in particular IBNR and IBNER. These estimates are inherently uncertain and can be further impacted by a number of factors such as 'long-tail' classes and natural catastrophe events occurring close to year end where data is limited and as a result require greater reliance on expert judgement. The risk adjustment is also a key area of judgement given it is intended to reflect the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows associated with insurance contracts that arise from non-financial risks.	Together with PwC actuarial experts, our procedures included: • Developing an understanding of the control activities relevant to our audit over the Group's process for determining insurance contract liabilities, and for certain control activities, assessing whether they were appropriately designed and operating effectively on a sample basis, throughout the year ended 31 December 2023. • Developing point estimates for selected groups of contracts, focusing on groups of contracts which are material and have heightened uncertainty. • Testing specific groups of contracts including those most impacted by the higher inflationary environment, Covid-19, war conflict, natural catastrophes and other large losses by developing an understanding and assessing the methodology and assumptions used by the Group and, where available, comparing to historical experience of the Group, current industry trends and benchmarks, and other publicly available information. • Performing risk-based testing procedures on the remaining groups of contracts, where there have been material movements and related assumption changes. • Evaluating the appropriateness and reliability of significant data used to estimate future cash flows associated with groups of contracts, including agreeing a sample of claims to underlying information. • Testing the onerous contract assessments, including evaluating the significant assumptions against relevant supporting information. • Testing the discount rate applied through evaluating yield curves, claims payment patterns and the adopted illiquidity premium. This included comparing the rates applied to external market data and the payment patterns to historical information. • Evaluating the relevant underlying calculations used to derive the risk adjustment, including the significant assumptions. We also assessed the reasonableness of the related disclosures in the financial report against the requirements of Australian Accounting Standards.

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Key audit matter	How our audit addressed the key audit matter
Valuation of reinsurance contract assets (Refer to note 2.2) As at 31 December 2023, the Group held US$8,034 million of reinsurance contract assets. We considered the valuation of reinsurance contract assets to be a key audit matter due to the significant judgement applied by the Group in valuing the associated insurance contract liabilities that have been reinsured, the complexity of the application and coverage of divisional and Group-wide reinsurance programmes, and the risk of non-performance by the reinsurers. The Group has also executed a significant loss portfolio transfer (LPT) during the year. This has required the use of judgement in the accounting for the contract and significant assumptions used.	Our procedures included: • Developing an understanding of the control activities relevant to our audit over the Group's process for determining reinsurance contract assets, and for certain control activities, assessing whether they were appropriately designed and operating effectively on a sample basis, throughout the year ended 31 December 2023. • Evaluating a sample of reinsurance recoveries held by divisions and the Group against underlying contracts to assess the existence of cover and appropriateness of their recognition. • Assessing the risk of non-performance of reinsurers by considering the payment history and credit worthiness for a sample of reinsurance recoveries. • Assessing the accounting adopted for the LPT, including evaluating the underlying claims data used to recognise the related recoveries. We also assessed the reasonableness of the related disclosures in the financial report against the requirements of Australian Accounting Standards.

Carrying value of goodwill
(Refer to note 7.2)
 	
As at 31 December 2023, the Group held US$1,596 million of goodwill.
 	
An impairment assessment is performed annually by the Group, or more frequently if events or circumstances indicate that the carrying value of goodwill may be impaired.
 	
Potential impairment is identified by comparing the value-in-use of the cash-generating unit (CGU) to its carrying value, including goodwill. The value-in-use for each of the CGUs is estimated by the Group using a discounted cash flow model which includes significant judgements and assumptions relating to cash flow projections, investment returns, terminal growth rates and discount rates.
 	
We considered the carrying value of goodwill a key audit matter due to the inherent estimation uncertainty and subjectivity in judgements in a number of the assumptions.
	Our procedures included:
	• Evaluating the determination and composition of the CGUs to which goodwill is allocated in the context of the Group's operations and reporting processes.
	• Evaluating the appropriateness of the value-in-use methodology adopted against the requirements of Australian Accounting Standards.
	• Developing an understanding of the process by which the cash flow projections were developed and comparing the cash flows included in the impairment assessment with the three year business plan presented to the Board.
	• Evaluating the appropriateness of significant assumptions used to derive the cash flow projections by comparing to external market and industry data where available, and current and past performance of the CGUs.
	• Together with PwC valuation experts, we:
	  – Assessed the consistency of the terminal growth rates and investment returns with available external information.
	  – Reperformed the calculation of the discount rates applied to cash flow projections, comparing key inputs (including risk-free rates, market premiums and unlevered betas) to industry and other benchmarks.
	• Testing the mathematical accuracy of the models which were used to determine the value-in-use of the CGUs.
	
	We also assessed the reasonableness of the related disclosures in the financial report against the requirements of Australian Accounting Standards.

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Key audit matter	How our audit addressed the key audit matter
Recoverability of deferred tax assets in the North American tax group (Refer to note 6.2) The Group held US$420 million of net deferred tax assets at 31 December 2023 comprised of carry forward tax losses and deductible temporary differences related to the North American tax group. The Group performs a recoverability assessment at each balance date in order to evaluate the expected utilisation of the deferred tax assets. The assessment is dependent upon the future profitability of the entities within the North American tax group, as well as the period over which tax losses will be available for recovery. We considered the recoverability of the deferred tax assets in the North American tax group a key audit matter due to the inherent estimation uncertainty and subjectivity in judgements in a number of assumptions, including taxable income projections, investment returns, and terminal growth rates.	Our procedures included: • Evaluating the appropriateness of the recoverability assessment against the requirements of Australian Accounting Standards, and in particular the "convincing other evidence" test under AASB 112 *Income Taxes*. • Evaluating the appropriateness of significant assumptions used to derive the taxable income projections, by comparing with external market and industry data where available, and current and past performance of the entities within the North American tax group. • Testing the mathematical accuracy of the models which were used to determine the recoverability of the deferred tax assets. We also assessed the reasonableness of the related disclosures in the financial report against the requirements of Australian Accounting Standards.
Valuation of level 3 investments (Refer to note 3.2) The Group held US$28,670 million of investments at 31 December 2023, of which US$1,828 million were classified as level 3 in accordance with AASB 13 *Fair Value Measurement*. The Group exercises judgement in valuing level 3 investments as there are significant unobservable inputs as a result of market illiquidity and/or instrument complexity. The level 3 investments held at fair value largely consist of infrastructure assets and unlisted property trusts. We considered the valuation of level 3 investments a key audit matter due to the extent of judgement involved in determining the fair value of investments as a result of significant unobservable market inputs.	Our procedures included: • Developing an understanding of the control activities relevant to our audit over the Group's process for measuring level 3 investments at fair value, and for certain control activities, assessing whether they were appropriately designed and were operating effectively on a sample basis, throughout the year ended 31 December 2023. • Evaluating the appropriateness of the valuation methodologies used against the requirements of Australian Accounting Standards. • For a sample of infrastructure assets and unlisted property trusts, where the Group determines the fair value with reference to external information, we: – Compared the price used by the Group to the 31 December 2023 price quoted by the fund manager. – Evaluated the reliability and accuracy of relevant past fund manager statements by reference to the most recent audited financial statements of the relevant funds. – Inspected the most recent reports provided by the fund manager setting out the controls in place at the fund manager, including consideration of the assurance reports on the design and operating effectiveness of those controls, where available. We also assessed the reasonableness of the related disclosures in the financial report against the requirements of Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter
Operation of IT systems and controls	
The Group's operations and financial reporting processes are heavily dependent on information technology (IT) systems for the processing and recording of a significant volume of transactions. A fundamental component of these IT systems is ensuring that risks in relation to inappropriate user access management, unauthorised program changes and IT operating protocols are managed. Due to this, we considered the operation of financial reporting IT systems and relevant controls to be a key audit matter.	For material financial statement balances, we developed an understanding of the business processes, IT systems used to generate and support those balances and associated IT application controls and IT dependencies in manual controls. Our procedures included evaluating the design and testing the operating effectiveness, where relevant, of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. This involved assessing, where relevant to the audit: • Change management: the processes and controls used to develop, test and authorise changes to the functionality and configurations within systems. • System development: the project disciplines which ensure that significant developments or implementation are appropriately tested before implementation and that data is converted and transferred completely and accurately. • Security: the access controls designed to enforce segregation of duties, govern the use of generic and privileged accounts or ensure that data is only changed through authorised means. • IT operations: the controls over operations are used to ensure that any issues that arise are managed separately. Within the scope of our audit where technology services are provided by a third party, we considered assurance reports from the third party's auditor on the design and operating effectiveness of controls. We also carried out tests, on a sample basis, of IT application controls and IT dependencies in manual controls that were key to our audit testing in order to assess the accuracy of certain system calculations, the generation of certain reports and the operation of certain system enforced access controls. Where we identified design or operating effectiveness matters relating to IT systems or application controls relevant to our audit, we performed alternative or additional audit procedures. This included considering mitigating controls in order to respond to the impact on our overall audit approach.

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Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2023, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon through our opinion on the financial report. We have issued a separate opinion on the remuneration report.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 31 December 2023.

In our opinion, the remuneration report of QBE Insurance Group Limited for the year ended 31 December 2023 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

V. Papageorgiou

Voula Papageorgiou
Partner

Sydney
16 February 2024