

# Corporate governance

The introduction and following sections are located in the Corporate Governance statement in the 2013 Annual Report.

## Introduction

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.

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.

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.

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 topics, including budgets, three year business plans and operating performance. The Board receives updated forecasts during the year. They 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 and Brussels in June and in New York and Irvine, California in October.

The Board also met in Manila in May to review the new Group Shared Services Centre. Each 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. 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. Committees operate 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 Chairman of the Investment Committee changed in August 2013 following Ms IYL Lee's retirement.

A report on each Committee's last meeting is provided to the next Board meeting. The Company Secretary acts as secretary to all of the Committees. 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 86.

#### 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.

#### Evaluating senior executives

The Remuneration Committee receives information on the performance of the Group Executive, being the senior executives as defined by the ASX CGC (namely those employees who have the opportunity to materially influence the integrity, strategy, operation and financial performance of the QBE Group).

A performance development plan (PDP) involves a meeting between the relevant member of the Group Executive, the Group Chief Executive Officer and the Group Executive Officer, People and Communications to:

- review past performance;
- discuss career opportunities; and
- consider areas of further development.

PDPs occur periodically in accordance with the process above, and several took place in 2013. In addition, the Board continually monitors the performance of the Group Executive 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 are included on pages 74 and 75 and can also be found on the QBE website at [www.qbe.com](http://www.qbe.com). The Board currently comprises eight directors including an independent Chairman, the Group Chief Executive Officer and six independent non-executive directors applying the "independence" definition of the ASX CGC. 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 revenue.

The roles of Chairman and Group Chief Executive Officer are not exercised by the same individual.

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 has been a non-executive director since September 1997 and Chairman since July 2010. She was re-elected as a director at the 2012 AGM. QBE's other directors believe that Ms Hutchinson AM continues to exercise independent judgment and, through her QBE experience, makes an important contribution. They also believe that the Chairman's experience gained from directorships in other businesses provides an advantage to QBE.

In December 2013, Ms BJ Hutchinson announced her retirement as Chairman effective 31 March 2014. Mr WM Becker was appointed Deputy Chairman and will succeed her. Mr DM Boyle will then become Deputy Chairman.

The Chairman oversees the performance of the Board, its committees and each director. The Board regularly reviews its performance. The Chairman reports the overall result to the Board and it is discussed by all directors. Recommendations for either improvement or increased focus are agreed and then implemented. The board review procedure includes written answers and questions completed confidentially by each director. The board review will be completed in accordance with the process above in April 2014. The board review includes the Audit, Investment, Remuneration and Risk and Capital Committees. As part of the current board review, the other directors determined to support, via the notice of meeting, the election of Mr WM Becker and Ms MMY Leung as directors at the 2014 AGM.

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 at the next AGM. Under QBE's constitution, there is no maximum fixed term or retirement age for non-executive directors.

Directors 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.

## 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 directors are members of the new Nomination Committee that was established in May 2013.

The Board believes that orderly succession and renewal contributes to strong corporate governance and is achieved by careful planning and continual review. Directors consider the size and composition of the Board regularly and at least once a year as part of the Board review procedure. 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. Generally a list of potential candidates is identified based on these 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 are sought who have insurance experience, a proven track record in creating shareholder value, utmost integrity, a commitment to corporate governance, the required time to commit to the position, a strategic mindset, a preparedness to constructively question and challenge and an independence of mind. The Board adopted revised non-executive director nomination, performance evaluation and tenure guidelines in May 2013.

In accordance with QBE's constitution, the number of directors shall not be more than the number as determined by the current directors.

During the year, Mr CLA Irby and Ms IYL Lee retired as directors in March and August respectively and Mr WM Becker and Ms MMY Leung were appointed as directors in August 2013.

## [ASX CGC principle 3: promote ethical and responsible decision making](#)

### Group governance framework

The Board approved a new framework in May 2013. In particular, this includes:

- 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.

The framework has largely 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 who lives locally and includes at least another two local 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 common directors. Mr WM Becker was and Mr JA Graf is currently a director of the holding and insurer boards in North American Operations.

The Board meets separately with local non-executive directors once a year.

These changes followed a review of governance at Group and divisional levels.

As a result of the review, five principles were agreed dealing with the role of the board; board composition; board committees – role, nature and composition; executive committees – role,

nature and composition; and service company governance arrangements. Reporting mechanisms and information flows remain under consideration.

#### 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, 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.

#### Group guidelines

The Group has adopted a revised code of business ethics and conduct for employees and non-executive directors and 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. The code was reviewed by an independent consultant for the ICA during 2013. A revised code was adopted by the ICA in February 2014, to commence on 1 July 2014 with a 12 month transition period.

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 or on request from a company secretary:

- Board charter;
- Audit, Investment, Remuneration, Risk and Capital and Nomination Committee charters;
- non-executive director 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;
- code of business ethics and conduct;
- workforce diversity policy;
- continuous disclosure guidelines;
- shareholder communication guidelines; and
- QBE's constitution.

## Diversity and inclusion

The Group aims to create a workplace that is fair, diverse and inclusive in order to attract and retain the best people. QBE in Australia has been assessed as compliant with the Workplace Gender Equity Act (for locally-based employees) for 2013.

In 2010, QBE considered changes to the ASX CGC's Principles and Recommendations with regard to gender diversity. These changes were integrated into the workforce diversity policy that was first approved by the Remuneration Committee in December 2010 under its charter from the Board. The policy has been communicated to employees across the Group to promote awareness and proactive management practices regarding workplace diversity and inclusion. The Group embraces diversity, including differences in ethnic background, gender, age, sexual orientation, religion and disability.

QBE has the unique opportunity to generate real value from diversity of thought and experiences. We operate in 43 countries and our aim is to leverage this footprint for the benefit of our customers and our people. We are actively creating collaboration opportunities to generate this diversity of thought and ensure that areas of strong organisational capability are leveraged as widely as possible. Our global mobility program creates opportunities to accelerate the value that can be created from our global footprint.

Divisional CEOs manage divisional diversity and inclusion plans aimed at creating a work environment that realises the value that is created from building a diverse and inclusive workplace.

Specific objectives include:

- reasonable participation of women in senior leadership roles;
- participation of women in accelerated talent programs that provide development focused on attainment of leadership roles;
- regular monitoring and management of pay equity between women and men within job families in each region;
- improved awareness of options for flexible working arrangements and family support programs available in each region; and
- 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.

In 2013, strong momentum has been established in each of the divisions in QBE through targeted areas of focus including:

- the proactive career development of identified high potential females with the aim of creating an environment where these high potentials are championed into critical experiences and roles;
- the launch of business resource groups that create network and connecting points across different segments of our workforce; and
- using e-learning to share the value and impact a diverse and inclusive workforce generates and the role each of our people plays to create a culture that truly embraces diversity in all of its forms.

In order to leverage the momentum established in the divisions and to make diversity and inclusion integral to the culture of QBE, QBE has established a Group Diversity Council. The Council is responsible for reviewing and making recommendations to the Remuneration Committee on the Group's workforce diversity and inclusion practices and objectives. This

Council is chaired by the Group Chief Executive Officer and consists of senior executives from each of the divisions to ensure key initiatives are implemented at a local level.

The Council will be supported by a Group Head of Diversity and Inclusion to develop and implement the diversity and inclusion strategy across all of QBE. Her primary focus will be to ensure that diversity and inclusion initiatives and policies are aligned globally, as well as building and sustaining strategic alliances with diversity and inclusion organisations and networks to share learnings and insights.

Building on the progress in 2013, a plan has been put in place for 2014 to continue the positive momentum across QBE in the area of diversity and inclusion. The plan has three key components:

1. Embedding diversity in to our key processes;
2. Developing our leaders and broader workforce to embrace diversity and inclusion in all of its forms; and
3. Taking a visible and strong stand on diversity and inclusion, both internally and externally.

#### Diversity measurement

Given QBE's commitment to creating a culture of diversity and inclusion around the Group, we have put in place measurable objectives for fostering inclusive, diverse workgroups. These measures will be added to performance objectives for leaders at the top three levels of the organisation.

Additionally, QBE has set specific targets to ensure gender diversity across the Group. The target remains for 25% of all senior head office roles and 20% of all senior roles within the divisions to be held by females. A summary of women's roles at QBE is provided below:

Diversity objective	31 December 2013	31 December 2012
Women in workforce	56%	56%
Group Board positions	38%	38%
Group Executive positions	11%	11%
Senior executive positions (Group head office)	23%	24%
Senior executive positions (divisions)	19%	19%

The focus on gender diversity will continue as a matter of priority across the Group.

#### Share trading policy

QBE revised its policy in 2013 for directors and senior Group executives relating to the purchase and sale of QBE securities. This is in addition to the insider trading provisions of the Corporations Act 2001. 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;
- notify any intended transaction to nominated people within the Group, including notification of any hedging; and
- QBE will disclose any hedging in the remuneration report.

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.

#### [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 Mr DM Boyle (Chairman), Ms IF Hudson, Ms BJ Hutchinson AM and Ms MMY Leung.

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 senior 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 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 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 January 2012. 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 rotated in 2009 and will rotate again in 2014.

#### 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 96% 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.

#### CEO/CFO certificates

The Group Chief Executive Officer and Group Chief Financial Officer provide the Board with certificates in relation to risk management and internal control as recommended by the ASX CGC and on the financial reports as required by the Corporations Act 2001.

#### Internal audit

A global internal audit function is critical to the risk management process. QBE's internal audit function reports to senior management 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 JA Graf (Chairman), Mr JM Green and Ms BJ Hutchinson AM. 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 senior managers also attend. 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 material releases made since 1 January 2013 is included on page 188.

#### [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 2014, it will be held on 2 April. Shareholders are encouraged to attend the AGM in person or by proxy. Most 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.

#### [ASX CGC principle 7: recognise and manage risk](#)

##### Risk and Capital Committee

This Committee had its first meeting in June 2013 (the previous Funding Committee had its last meeting in February 2013).

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, Ms BJ Hutchinson AM and Ms MMY Leung. Meetings of the Committee usually include, by invitation, the Group Chief Executive Officer, the Group Chief Financial Officer and Group Chief Risk Officer. As appropriate, other relevant senior managers also attend.

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 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's core business is the underwriting of risk.

It is QBE's policy to adopt a rigorous approach to managing risk throughout the Group. Risk management is a continuous process and an integral part of quality business management. QBE's approach is to integrate risk management into the broader management processes of the organisation. It is QBE's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers.

Diversification is used as a tool to reduce the Group's overall insurance risk profile by spreading exposures, thereby reducing the volatility of results. QBE's approach is to diversify insurance risk, both by product and geographically. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of business. A combination of core and speciality products under the control of proven employees skilled in such products allows QBE to lead underwrite in many of the markets in which we operate. Geographic diversification is achieved by operating in 43 countries.

QBE has a global risk management framework that defines the risks that QBE is in business to accept and those that we are not, together with the material business risks that QBE needs to manage and the framework and standards of control that are needed to manage those risks.

The foundation of our risk management is the obligation and desire to manage our future and create wealth for our shareholders by maximising profitable opportunities through:

- achieving competitive advantage through better understanding of the risk environment in which we operate;
- optimising risk and more effectively allocating capital and resources by assessing the balance of risk and reward;
- adequate pricing of risk;
- avoiding unwelcome surprises by reducing uncertainty and volatility, such as by controlling aggregate exposures and maintaining sound reinsurance arrangements;
- complying with laws and internal procedures; and
- improving resilience to external events.

The Group has established internal controls to manage material business risks in the key areas of exposure relevant to QBE. The broad risk categories are strategic risk, insurance risk, credit risk, market risk, liquidity risk, operational risk and group risk. Internal controls and systems are designed to provide reasonable assurance that the assets of the Group are safeguarded, insurance and investment exposures are within desired limits, reinsurance protections are adequate, counterparties are subject to security assessment and foreign exchange exposures are within predetermined guidelines.

The Board approves a comprehensive risk management strategy (RMS) and reinsurance management strategy (REMS), both of which are lodged with APRA. The RMS outlines the principles, framework and approach to risk management adopted by the Group, deals with all areas of significant business risk to the Group and outlines the Group's risk appetite. The REMS covers topics such as the Group's strategy in respect of the selection, approval and monitoring of all reinsurance arrangements. The Group's reinsurance management framework is made up of

the Group Reinsurance Forum (determines risk appetite and reinsurance strategy), the Group Security Committee (assesses reinsurer counterparty security), the Group Aggregate Management Committee (monitors aggregate accumulation), the Group Technical Committee (controls the adequacy of reinsurance coverage) and finally the Group Commutations Committee (facilitates Group commutation opportunities). The Committees meet regularly throughout the year and report as required to the Group Reinsurance Forum.

While the RMS and REMS are approved by the Board, QBE believes that managing risk is the day to day responsibility of the Group head office and the business units, and that all staff need to understand and actively manage risk. The business units are supported by risk management teams, compliance teams and by senior management. Further information on risk management is provided on pages 70 to 73 of the annual report and in note 5 to the financial statements.

Management has reported to either the Risk and Capital Committee or the Board on the effectiveness of QBE's management of its material business risks.

#### Environmental risk management

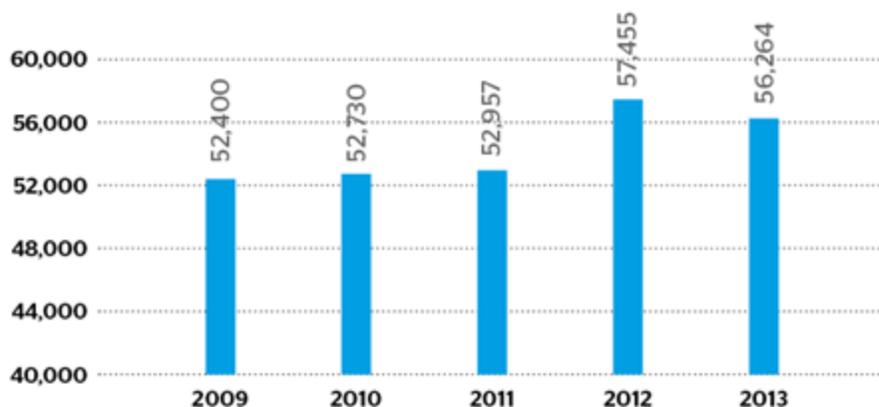
QBE is a corporation involved in an industry that seeks to play a role, in conjunction with governments, individuals and organisations, in managing and reducing environmental risk. In an initiative to collaborate with the United Nations Environment Program, QBE, together with a number of other major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

The Group Chief Risk Officer is responsible for monitoring and managing ongoing risks and opportunities relating to climate change in order to mitigate any adverse effect on QBE's businesses and to protect shareholders' funds. Reports have been provided to the former Audit and Risk Committee.

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 2013 were 56,264 tonnes (2012 57,455 tonnes), a decrease of 2%. This can be summarised as:

- 1,019 tonnes of scope 1 direct greenhouse emissions due to natural gas and oil consumption used for heating (2012 1,160 tonnes);
- 33,639 tonnes of scope 2 indirect greenhouse emissions from electricity consumption (2012 36,396 tonnes); and
- 21,606 tonnes of scope 3 other indirect greenhouse emissions, defined as emissions relating to travel (2012 19,899 tonnes).

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



↓ 2%

### Carbon emissions by scope



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.

### 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 Ms IF Hudson (Chairman), Mr DM Boyle, Mr JM Green and Ms BJ Hutchinson AM. 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 senior managers also attend.

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 the Group Executive. 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 changing shareholder wealth. The Remuneration Committee has the discretion to reduce deferred equity awards to the Group Executive where financial results subsequently deteriorate.

QBE has operations and staff in 43 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 88 to 114 and in notes 30 and 31 to the financial statements.