Climate change – our approach to risks and opportunities

As an insurer, our responsibility is to safeguard our customers against financial loss. We recognise the material risk that climate change poses to our business, and are embedding consideration of climate-related risks and opportunities into our decision making.

Focus on climate change has increased significantly across the globe in 2021. The 26th United Nations (UN) Framework Convention on Climate Change Conference of Parties (COP26) meeting in Glasgow reinforced the need for urgent and significant action to reduce emissions if the world is to achieve the goal of limiting the temperature rise to 1.5°C. The Task Force on Climate-related Financial Disclosures (TCFD) recommendations and Network for Greening the Financial System scenarios were both updated, and there has been a significant increase in the level of regulatory oversight of this risk.

We support an orderly transition to a net-zero emissions economy, aligned with the 2015 Paris Agreement objectives. We recognise the importance of addressing climate change and incorporating climate-related risks and opportunities into our decision making.

We have committed to be a net-zero emissions organisation across our operations by 2030 and through our investment and underwriting activities by 2050.

We have taken meaningful actions in progressing our commitment to achieving net-zero. For our operations, we set a new target of a further 25% reduction in energy use by 2025 (from a 2019 baseline).

We are a member of the UN-convened Net-Zero Asset Owner Alliance (AOA) and this year we set intermediate targets for carbon intensity reduction, engagement with high emitting issuers and external managers, and financing the transition.

As a global insurer, we recognise that the insurance industry has a key role in supporting the transition to a net-zero economy. This is why we have joined the Net-Zero Insurance Alliance (NZIA) and committed to transition our underwriting portfolio to net-zero emissions by 2050.

We will need to balance setting out a road map to net-zero with the need to support our customers through their transition. For this reason, we are proud to collaborate with significant industry peers to collectively work our way through these challenges. As a member of the NZIA and Partnership for Carbon Accounting Financials insured emissions working group, we will contribute to the development of an industry methodology for assessing the carbon intensity of underwriting portfolios. Over the coming years, we will explore strategies and approaches to align our underwriting portfolio with a net-zero emissions by 2050 pathway including setting and communicating our interim targets.

Our Environmental and Social (E&S) Risk Framework came into effect on 1 January 2022. This outlines our updated positions for underwriting and investment across a range of sectors, including energy. Implementing this framework has been a key focus in the last 12 months.

Governance

The Board approves QBE's strategy, which includes consideration of climate risks and opportunities. The Group Executive Committee (GEC) is accountable for developing and implementing the strategy.

As part of the oversight of the Group's risk management strategy, the Board Risk & Capital Committee and the Executive Risk Committee receive regular reports on environment, social and governance (ESG) issues, including climate change. In 2021, both committees considered our physical and transition scenario analysis, as did our divisional board and management committees.

In 2021, we created a new GEC sub-committee, which meets monthly to focus on environmental and social issues including climate change. The sub-committee is comprised of our Group Chief Risk Officer, Group Chief Financial Officer, Group Chief Underwriting Officer, Group Executive, Corporate Affairs and Sustainability, and Group Chief Information Officer.

The sub-committee considers QBE's strategy and management of environmental and social risks and opportunities, with a particular focus on climate change.

QBE Foundation focuses on climate resilience

The QBE Foundation has developed a new strategic framework with the overarching aim of creating strong, resilient and inclusive communities. Climate resilience is one of two pillars of focus, alongside inclusion. The objective is to provide support and mitigation options for communities to become more resilient and prepared for climate impacts. It aims to do this through partnerships that focus on:

- increasing understanding of the physical and financial risks due to climate change and associated mitigation options;
- building capacity to prepare and respond; and
- implementing innovative solutions that support the transition to a low carbon economy.

For further detail on our collaboration on climate change, sustainable finance and resilience, refer to QBE's 2021 Sustainability Report at www.qbe.com/sustainability.

Investments

Net-zero 2050 intermediate targets

Carbon intensity reduction

25% by 2025

of our Scope 1 and 2 emissions in our equity portfolio

Engagement

All external managers

across our investment portfolio

20 highest emitters

in our investment grade corporate credit portfolio

Financing the transition

5% by 2025

of assets under management in climate solutions investments

Net-zero 2050 intermediate target setting

Aligned with our broader climate strategy and our commitment to responsible investments, QBE was the first Australian headquartered insurance company to become a member of the UN-convened Net-Zero AOA in 2020, joining an international group of institutional investors committed to transitioning their investment portfolios to net-zero by 2050.

As asset owners, we have a unique role at the top of the investment value chain, and we acknowledge both the responsibilities and opportunities that come with this role. In order to deliver on our commitment to transition our investment portfolios to net-zero emissions by 2050, consistent with a maximum temperature rise of 1.5°C above pre-industrial temperatures, we established a cross-functional working group composed of key QBE personnel. Members came from areas including fixed income, growth assets, investments data, financial reporting, compliance, ESG risk and sustainability. This diverse representation enabled us to leverage the broad range of skills across our organisation in order to establish our first set of intermediate targets to 2025.

Within this working group, we established three sub-working groups for our three intermediate target areas (carbon intensity reduction, engagement and financing the transition), each dedicated to setting targets that were suitable for QBE whilst recognising the imperative to decarbonise the real economy, not just our portfolio.

Throughout this process, we utilised the guidance, tools and support of the AOA as well as collaborating with the other members, one on one and in working groups, to leverage the deep insights they gained in developing and setting their own intermediate targets.

In line with the recommendations made within the AOA Target Setting Protocol, the working groups initially worked to baseline key data including the carbon footprint of our equity and investment grade corporate credit portfolios, identify our top 20 highest emitters and understand our current exposure to assets that finance the transition.

Carbon intensity reduction

QBE will target a 25% reduction in the carbon intensity of our developed market equity portfolio by 2025, relative to a 2019 baseline. Over the coming years, as methodologies develop through the AOA Target Setting Protocol, we will expand the asset classes where reduction targets are set and continue to align our investment portfolio with the net-zero 2050 objective. We will also continue to communicate our strategy, approach and achievements.

Engagement

We believe that having meaningful dialogue on climate change is a critical component of our responsibility as an asset owner and in ensuring sustainable financial outcomes. Engagement on climate-related risks and opportunities is a key target within our commitment to the UN-convened Net-Zero AOA. We have set a target to engage with the top 20 highest emitters in our portfolio as well as all our external fund managers, deepening our conversations around climate change and setting specific expectations in line with the AOA's Target Setting Protocol.

Financing the transition

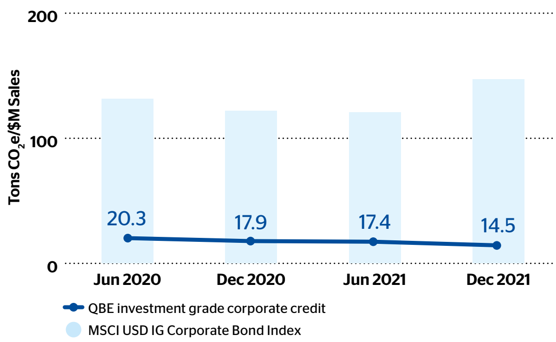
In addition to providing risk management solutions, the insurance industry is one of the largest investors in assets globally with trillions of dollars of assets under management. The industry therefore has an opportunity to align investment decisions, and reorient significant capital, to financing the transition. Consistent with this, we currently have over $950 million invested in assets that finance the transition. This is 3% of assets under management (AUM) and, in line with our net-zero 2050 intermediate targets, we aim to grow this to 5% of AUM by 2025. We are also committed to enhancing the supply of assets that finance the transition by working with external fund managers, intermediaries and issuers to develop investable opportunities and participating in relevant industry forums to encourage the development of institutional grade investment products.

Investment grade corporate credit - transition risk

Carbon footprint

Building on the transition risk analysis done over the past few years, we undertook deeper analysis of our investment grade corporate credit portfolio during 2021 to understand our exposure to climate-related risks and opportunities. Given its significance in our portfolio, representing approximately half of our AUM, our investment grade corporate credit portfolio has always been a key area of focus for us. We have been tracking the Scope 1 and 2 weighted average carbon intensity of this portfolio monthly since 2019. We have committed to maintaining a low carbon risk rating and are pleased to again have achieved this in 2021.[1]

Weighted average carbon intensity



1 Carbon risk measures exposure to carbon intensive companies. It is based on MSCI CarbonMetrics and is calculated as the portfolio weighted average of issuer carbon intensity. Carbon intensity is the ratio of annual Scope 1 and 2 carbon emissions to annual revenue. Carbon risk is categorised as very low (0 to <15), low (15 to <70), moderate (70 to <250), high (250 to <525), and very high (>=525).

High emitting sectors exposure

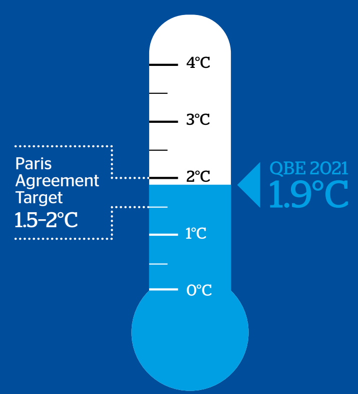
To confirm the portfolio's low transition risks associated with a disruptive shift to a net-zero economy, we again quantified our exposure by assessing the proportion of our investment grade corporate credit portfolio to high emitting sectors using the Paris Agreement Capital Transition Assessment tool. Our exposure to these high emitting sectors is small, with 4.3% of our portfolio in automotive, and no exposure to coal mining, power generation, oil and gas production, cement production, steel production, shipping, and aviation, all of which contribute significantly to global greenhouse gas emissions. Understanding our small exposure to the automotive industry will enable us to continue to target our engagement strategies towards the companies we hold in this sector.

Warming potential

With increased availability of underlying data tailored to understanding climate risk, working with our data provider we were also able to determine the combined Scope 1 and 2 warming potential of the portfolio. A portfolio's warming potential is calculated as a weighted average of each portfolio company's individual contribution to rising temperatures. While a carbon footprint is intrinsically backward-looking, a warming potential metric incorporates individual company emission reduction targets and allows for a forward-looking analysis of the portfolio. Our combined Scope 1 and 2 warming potential of 1.9°C indicates that we are within the Paris Agreement temperature range of 1.5°C to 2°C. We will continue to push for 1.5°C alignment through targeted engagement with our highest emitters.
By understanding where our sector exposures lie and engaging with our top emitters, we will continue our progress towards net-zero by 2050 and 1.5°C alignment.

Investment grade corporate credit warming potential

The temperature gauge illustrates the Scope 1 and 2 combined warming potential for the investment grade corporate credit portfolio.



Investments (continued)

Engaging on climate change

Engagement is our preferred method to effect change in companies and external fund managers. We adopt targeted engagement to gain insight into integration of climate-related issues, which allows us to understand our exposure to risks and opportunities for improvement.

An ESG review is undertaken for all existing managers and, as part of this process, we have included targeted due diligence questions focusing on climate change strategy including mitigation and adaptation, policy implementation and practical business actions, with a view to better understanding what emission reduction targets have been set, as well as the key strategic initiatives being undertaken to ensure a just transition.

In 2021, we strengthened this review process with the introduction of a new scoring methodology, informed by industry best practice frameworks. This scoring methodology allows us to produce a quantitative indicator score of how our external fund managers are implementing responsible investment practices and approaching these key ESG areas including climate risks and opportunities. The outcome of each assessment enables us to further understand the journey of our external fund managers and lays a strong foundation for engagement on action in 2022.

We have also actively engaged our external fund managers in reporting in line with the TCFD and understanding the climate scenario analysis they are undertaking to identify key physical and transition risks. At a minimum, we will conduct an ESG review annually for all existing managers, with additional reviews if material issues arise. We are also committed to reviewing our own integration of ESG into these processes on an annual basis, to reflect continuing changes in market practice and business priorities.

Positively, while our external fund manager reviews and discussions highlighted that climate change is the largest challenge they are currently facing, over 75% of our external fund managers are committed to net-zero by 2050 and integrating emissions reduction considerations into key investment decisions. Approximately 50% of our external fund managers are also doing targeted work to understand their progress in achieving the UN Sustainable Development Goals and exploring opportunities to further develop in this space.

Risk management

Climate change is embedded into QBE's risk management framework. As part of our Risk Management Strategy, we categorise risks into eight classes, with ESG risk classified as part of strategic risk.

Our Group ESG Risk Standard, which forms part of our Strategic Risk Policy, outlines the process we use to identify and manage ESG risks across our business. ESG risks are reported to the Group Chief Risk Officer regularly, with our ESG Risk Committee focusing on material ESG risks.

Our E&S Risk Framework helps us identify and mitigate risks to our underwriting and investment portfolios across a range of material ESG risk issues and sectors including energy.

Since the initial release of our E&S Risk Framework, we have focused on the development of practical implementation guidance ahead of it coming into effect.

As a result of this work, we made some minor amendments to our commitments in relation to biodiversity and protected areas, and controversial weapons to ensure we are able to practically implement and comply with our commitments.

The E&S Risk Framework is available here: www.qbe.com/investor-relations/corporate-governance/global-policies.

Risk tool

In Europe QBE has developed a tool to provide a risk management framework for customers to better assess ESG risk. Developed by QBE's Risk Solutions practice, the tool provides a template sustainability policy and ESG framework to help smaller and medium sized enterprises identify, monitor and manage a range of ESG issues that may impact on their business.

Underwriting

Climate in business planning

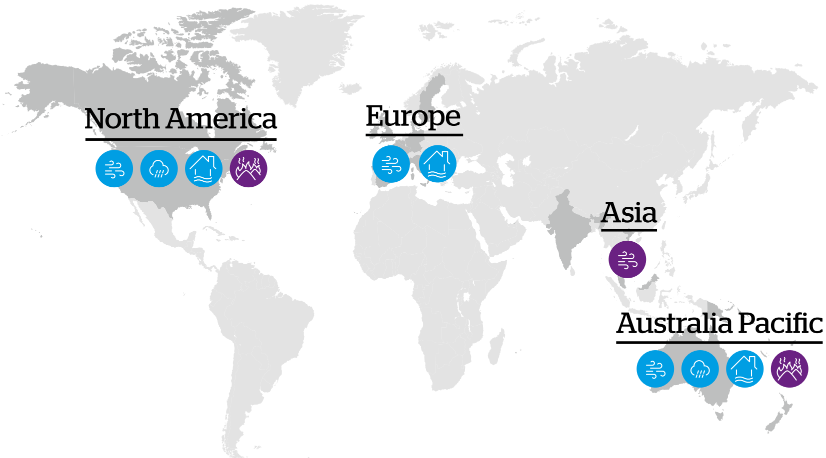
This year, our Group business planning process has explicitly considered the potential impact of climate change. This includes consideration of how climate change is reflected within divisional business plans, the potential impact to the portfolio/product's horizon strategy and anticipated impact on exposures, and any medium-term activities to be considered to adapt to the risks posed by climate change.

Climate change underwriting strategy

As part of its roadmap work in response to the UK Prudential Regulation Authority, our European division has undertaken detailed analysis, mapping exposure by line of business to climate sensitive sectors. There has been extensive engagement with the product heads of each line of business on scenario analysis and the identification of risks and responses to inform our underwriting strategy. A divisional climate change underwriting strategy has been developed, led by the division's Chief Underwriting Officer. It is built upon product-based strategies and has been updated to reflect the latest Network for Greening the Financial System transition scenarios as used by the Bank of England as part of its climate biennial exploratory scenarios.

Physical scenario analysis

Both the frequency and severity of natural catastrophes have increased steadily over time, causing economic and insured losses with the general trend further heightened by climate change. In 2021, we undertook a deeper review of our natural catastrophe exposure to ensure that QBE is not over-exposed to climate risk as the climate continues to change. This resulted in a change in our natural catastrophe business planning philosophy. We strengthened our annual natural catastrophe allowance in the business plan, reflecting the recent period of elevated natural catastrophe activity. We are continuing to learn from the various natural catastrophes, and are continuously refining our models to better price catastrophe risk. This leads to a better understanding of climate change resilience and therefore, where meaningful, credits are built into our pricing for properties with more resilient and energy efficient building features.



Key:
- Windstorm
- Convective storm/Hail
- Flood
- Bushfire/Wildfire

- Scenario analysis completed
- Scenario analysis underway

How do we manage physical risks from climate change?

We use stochastic catastrophe models to better understand our exposure to climate risk. These models inform capital requirements, policy pricing and risk selection, to monitor our change in climate risk exposure, to define and quantify policy exclusions, and to structure reinsurance protection. They are also used to inform financial and strategic planning. We routinely review the adequacy of our catastrophe models and adjust them to reflect the current climate risk.

How do we adjust the catastrophe models for future climate change?

Firstly, we need to determine how climate change will impact the intensity and frequency of severe weather events. This requires the interpretation of scientific papers and establishing consensus scientific views on the impact of climate change and the related timeframe for specific weather phenomena and specific regions. The next step is to modify the weather events embedded in the models to reflect the impact of future climate change. Over the past few years we have worked with catastrophe modelling vendors, Risk Management Solutions, Inc. and AIR Worldwide, and with Aon plc to better understand the impact of climate change and to reflect it in our catastrophe models. This exercise essentially provides us with a tool to better quantify the impact future climate change could have on our insurance and reinsurance portfolios.

Pricing

Change in exposure

Exclusions

Reinsurance

Energy sector

QBE has a diverse and international portfolio of customers in the energy sector. We are committed to working with them to support a shift to more sustainable business models and providing risk management solutions for innovative technologies which will be key to achieving a net-zero economy by 2050.

We have committed to reduce our exposure to higher transition risks in the energy sector, including no longer underwriting new coal and oil sands projects and ensuring that we are only supporting oil sands and Arctic drilling where the company is on a pathway consistent with achieving the Paris Agreement objectives.

To assess the transition pathway for oil sands, we have developed a methodology which considers five key dimensions (governance, metrics, strategy, reporting, and carbon commitments) that will impact a company's emission pathway to 2050. In analysing these dimensions in a standardised way, we expect to gain insight into the level of awareness, acknowledgement and integration of climate change at an operational and a management level. Furthermore, we are seeking to establish how these companies are integrating their climate change strategies into a transition plan. However, this is a complex and unfolding topic, and one in which we need to continue to engage and better understand. It is clear that the evaluation of a pathway towards the Paris Agreement objectives continues to be an evolving space with national, regional and industry-wide issues to consider. In addition, consideration needs to be given to the development and commercialisation of new technologies and other abatement strategies.

We will rely on each company's public disclosures on this topic to assess these dimensions, but we will also enter into more advanced due diligence discussions with them if this helps to develop and improve our understanding of their approach and baselines. In addition, we will also consider the operational environmental policies in place, particularly those that measure and drive companies towards material reductions in their emissions, as a key consideration in assessing the transition pathway goals in place at the time of underwriting the company. There are restrictions on the maximum policy period QBE will commit to before re-checking their progress.

We will continue to review our approach towards emissions-intensive industries, including assessing and refining the transition pathway methodology. This will allow us to evolve our approach and reflect changes to national or intergovernmental policies and agreements, technology and the availability of practical alternatives. We will continue to support industries and companies as they themselves work through the transition to a net-zero economy and continue to develop and offer new insurance products and risk management solutions in support of net-zero by 2050.

Sustainable energies unit

QBE has launched a sustainable energies unit to support customers as they transition to lower carbon energy. The unit will align QBE underwriting capabilities across construction, operational, property & casualty, and D&O lines, focusing on underwriting the growing range of companies and energy systems that form part of a rapidly changing energy mix throughout the world. Projects include hydrogen, ammonia, hydro, solar, fixed and floating wind-power and carbon capture and sequestration.

Metrics and targets

We are committed to net-zero across our operations by 2030, and our investment and underwriting portfolios by 2050. Getting to net-zero in operations will require ongoing work to optimise the energy efficiency of our buildings; transition our fleet to hybrid and, when feasible, fully electric vehicles; and transition to 100% renewable electricity. This year, we refreshed our energy reduction target which came to an end in 2021 and maintained carbon neutrality.

More detail on QBE's Sustainability Framework and our performance and progress is available in QBE's 2021 Sustainability Report.

MEASURE	TARGET	2021	2020	STATUS
Energy use (GJ)	25% reduction by 2025 (2019 baseline)	106,673	122,115	Achieved
Scope 1 and 2 emissions (1.5°C trajectory aligned science-based target) (tCO_2-e)	30% reduction by 2025 (2018 baseline)	6,062	5,881	Achieved
Renewable electricity use (MWh)	100% by 2025	20,199 (100%)[1]	22,529 (97%)	Achieved
Underwriting portfolio emissions	Net-zero emissions (Scope 1 and 2) in underwriting portfolio by 2050	N/A	N/A	Interim targets to be set
Carbon intensity reduction	25% reduction by 2025 of Scope 1 and 2 emissions in equity portfolio	N/A	N/A	Target set in 2021
Engagement	• All external managers • 20 highest emitters in investment grade corporate credit portfolio	N/A	N/A	Target set in 2021
Financing the transition	5% increase of assets under management in climate solutions investments by 2025	N/A	N/A	Target set in 2021
Impact investing ambition	$2 billion by 2025	$1.4 billion	$1.1 billion	On track

1 Based on RE100 Materiality Threshold guidance and excludes electricity use from countries with small electricity loads (<100 MWh/year) up to a total of 500 MWh/year and where it is not feasible to source renewable electricity.

Sustainability-linked loan

In 2021, we launched our first syndicated sustainability-linked banking facility, connecting fees paid on the facility to QBE's commitment to sustainability performance, underpinned by performance targets linked to renewable electricity, women in leadership and Premiums4Good impact investments. The sustainability aspect of the facility has been drafted in accordance with the Sustainability Linked Loan Principles published by the Asia Pacific Loan Market Association.

Partnerships and initiatives

Climate change is a global challenge requiring the collaborative efforts of a range of stakeholders to minimise economic disruption and deliver an orderly transition to a low carbon economy. We engage in climate-related partnerships for impact, working with government, industry, customers and community groups. These include:

- Actuaries Institute – Climate Change Working Group
- Australian Sustainable Finance Institute
- CDP
- ClimateWise
- CRO Forum
- Investor Group on Climate Change
- Insurance Council of Australia – Climate Change Action Committee
- RE100
- UN-convened Net-Zero AOA
- UN-convened NZIA, including the insured emissions working group in collaboration with the Partnership for Carbon Accounting Financials
- UNEP FI Principles for Responsible Investment
- UNEP FI Principles for Sustainable Insurance