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QBE Casualty Syndicate 386 Annual report 2014

ANNUAL REPORT
for the year ended 31 December 2014

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ANNUAL ACCOUNTS

UNDERWRITING YEAR ACCOUNTS

MANAGING AGENCY – CORPORATE INFORMATION

Directors

W-F Au*	
I D Beckerson	
D J Clayden	
C K Curtis	
P A Dodridge	
J Gordon	
D S Hall	Appointed 24 November 2014
T C W Ingram*	Appointed 21 March 2014 - Chairman
M G McCaig*	Appointed 4 April 2014
C R O'Farrell	
J W Parry	
R V Pryce	
S W Sinclair*	
D J Winkett	

Former directors who served during part of the year

P V Olsen*	Resigned 31 December 2014
B W Pomeroy*	Resigned 30 September 2014

* non-executive directors

Company secretary

S M Boland

Registered office

Plantation Place
30 Fenchurch Street
London
EC3M 3BD

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

STRATEGIC REPORT

The Directors of QBE Underwriting Limited (QUL), the Managing Agent for Syndicate 386, present their Strategic report for the Syndicate for the year ended 31 December 2014.

Principal activities

Syndicate 386 is a specialist non-US domiciled liability syndicate, (including some US business operations of non-US domiciled parents), operating within the Lloyd's insurance market, headed by the Active Underwriter of the syndicate, David Harries. David is supported by an experienced team of underwriters.

Syndicate 386 forms an integral part of QBE European Operations (QBE EO).

Business written by the Syndicate during the year can be divided into three core areas: employers' liability; professional and financial lines, and general liability (the latter encompassing, inter alia, products liability and third party liability). Risks are accepted and written on a worldwide basis. Throughout the year, the syndicate has maintained its strong reputation for excellent service, risk and claims management.

The Syndicate, together with other underwriting entities within QBE EO, continued to provide an integrated casualty offering during 2014, leveraging enhanced distribution opportunities and economics of scale in the cost of reinsurance protection and providing a strong diversity of products.

The new underwriting management structure implemented by QBE EO during 2013 is now embedded, and has continued to work well. The syndicate has a greater emphasis on its customer value proposition, with a greater focus on understanding what clients require beyond the purchase of monoline insurance.

Casualty International and Professional and Financial Lines

Casualty International

The Syndicate has an enviable reputation as a leader in International Liability business, with the Casualty International account comprising approximately 43% of overall gross written premium. The team underwrites public and products' liability as well as umbrella and excess of loss for risks including large industrial, mineral extraction, utility and transport concerns.

The account also includes pharmaceutical and medical malpractice business.

Professional and Financial Lines

This account, which comprises approximately 18% of overall gross written premium and encompasses risks in the construction business, technology business and miscellaneous traditional professions. The Syndicate also writes a significant global book of solicitors' business. As leaders in this technical field, the Syndicate gives customers the peace of mind that it is able to control the structure and scope of exposure.

UK and Ireland Liability

This account totals approximately 39% of overall syndicate gross written premium. The team underwrites employers' liability, public and products' liability, and products' guarantee for construction and offshore accounts, as well as for more traditional industries. A leader in the liability field, and with strong broker and customer relationships, the team endeavours to offer a combined employers' liability and third party product, where possible incorporating a customer's excess layer requirements.

Claims

The Syndicate has an excellent claims team, operating within a combined QBE EO claims service, with an exemplary reputation in service and working closely with customers.

STRATEGIC REPORT (continued)

Business review and future developments

The table below details the Syndicate's annually accounted result as at 31 December 2014 relative to the previous year:

	2014 Total £000	2013 Total £000
Gross written premium	332,559	449,256
Net earned premiums	359,352	375,663
Net claims	(205,271)	(177,153)
Acquisition costs	(93,021)	(97,381)
Loss on exchange	(2,791)	(45,451)
Other net operating expenses	(29,591)	(34,785)
Net underwriting profit	28,678	20,893
Investment return	18,847	17,812
Total profit for the year	47,525	38,705
Claims ratio	57.1%	47.2%
Combined operating ratio	92.0%	82.3%

Other net operating expenses include standard personal expenses.

The Active Underwriter comments

Market conditions in 2014 continued to be highly competitive in all our major product lines and territories. Our gross written premium was lower in the year (2014 £332,559,000 vs. 2013 £449,256,000) but the reduction was less on a net earned premium basis, due to retaining more of the underlying risk. In 2014 the outwards reinsurance arrangements for the Syndicate were changed resulting in the Syndicate retaining more risk both by way of retention and annual aggregate deductible. This remains the case for 2015. This makes sense over a period of time as it avoids money swapping at the bottom end or indeed paying more than we recover, but it could introduce more volatility on individual years. We purchased some specific facultative reinsurance to back this strategy up. The deterioration in the combined operating ratio (2014 92.0% vs. 2013 82.3%) reflected the increase in claims ratio (2014 57.1% vs. 2013 47.2%), and is due to the back year strengthening of reserves as noted below.

In previous years the Syndicate has benefitted from substantial back year releases but this year there was an adverse experience (2014 £23,233,000 vs. 2013 £17,262,000 positive) on claims on an annual accounting basis. This reflected worse than expected experience from the general liability and professional indemnity classes. EY have again been engaged to provide independent projections to support the Statement of Actuarial Opinion (SAO) to be issued to Lloyd's.

Acquisition costs as a ratio of net earned premium was constant (2014 25.9% vs. 2013 25.9 %) in the year. The continued low investment return (2014 £18,847,000 vs. 2013 £17,812,000) was very much a reflection of the returns available and our conservative approach to the portfolio. The Syndicate has reported a much reduced foreign exchange loss for the 2014 calendar year - £2,791,000 (2013 £45,451,000). This is driven by lower volatility in currency rates in the first part of the year, and, as previously advised, the decision to hedge foreign currency exposures in the latter part of the year. This will have the result of substantially reducing currency volatility in the syndicate results.

As I mentioned last year, 2014 saw the introduction of the Mesothelioma levy. This was put in force to compensate the sufferers of Mesothelioma including by way of a levy on Employers Liability insurers. This was slightly lower than initially anticipated at 2.1% of relevant gross written premium and will continue be an additional cost to the business.

Overall, I am satisfied with the result given the tough market conditions.

STRATEGIC REPORT (continued)

The Active Underwriter comments (continued)

All key underwriting areas have contributed to the insurance result. The table below illustrates net earned premiums after net claims by the key underwriting areas:

	2014 £'m	2013 £'m
UK and Ireland Liability	**69.2**	104.3
Professional and Financial Lines	**20.4**	17.2
Casualty International	**64.5**	77.0
	154.1	198.5

Underwriting outlook

2014 was a challenging year for 386 with a combination of difficult market conditions and the loss of some key underwriters. Local markets abroad often proved even more competitive than those in London resulting in further pressure on premium income. Some of the business that we let go had high levels of attritional claims activity. The Syndicate continues to apply our underwriting protocols as confirmed by the Internal Audit of this in 2014.

We have made some excellent hires both on our International Casualty side and for our UK & Ireland business. These new joiners bring complementary experience and skills to those underwriters we already have and we are working hard to ensure that both existing underwriters and new joiners have a stimulating and rewarding environment. We have also promoted from within allowing those with a proven track record to step up. To help our Underwriters deliver improved performance we are investing more in data analytics so that we better exploit the wealth of data that is the envy of many of our competitors.

We continue to strengthen our strategic relationships with our major trading partners. This will increasingly be the case going forward as we work with our strategic partners to enhance our value proposition to clients in key market segments (SME, mid-market, corporate and large commercial). This will include a focus in 2015 and beyond on greater industry specialisation.

There are many positives in what we are doing but there is no getting away from the fact that many continue to flood into areas of business previously the stronghold of 386 and from which the syndicate produced good profits. However many will find that these levels of returns are no longer achievable if they simply read the 7 year summary at the back of these financials. Underwriting year 2012 was the first not to benefit from back year releases and this accounts largely for it looking modest compared with those that went before it. It is though a good result.

Our plans are more realistic following a 14.6% de-emption in Syndicate capacity to £352.5m form 2015. We work harder than ever to deliver to our customers products and services that are better than our competitors. This along with our greater distribution and better data analytics will hold us in good stead to produce solid financial performance going forward.

I would like to thank the Underwriting, Claims, Actuarial, Finance and Admin teams for their contribution to a good result in difficult conditions.

STRATEGIC REPORT (continued)

Investment policy

The QBE European Operations division operates an investment committee which is responsible for developing and monitoring the syndicate's investment policy and strategy, subject to QUL's Board approval. The committee also monitors the syndicate's investment manager's performance and their compliance with the internal guidelines set by the committee and external regulations. The investment policy is designed to ensure that appropriate levels of liquidity, credit and investment risk are maintained.

In order to reduce volatility in investment return in each financial year, the syndicate holds investments with shorter average duration than would normally be expected if it were matching the duration of liabilities relating to long-tail classes of business.

Syndicate investments are primarily held in fixed income bonds and money market instruments; with modest exposure to growth assets including developed market equities and unlisted property trusts. The majority of portfolios have an average credit rating equivalent to or better than Standard & Poor's "AA". The minimum permitted credit quality per the guidelines is "A-" grade instruments. The performance of the investment manager is monitored against an absolute return mandate, using other reference benchmarks or peer group performance as key performance indicators.

Management of the investment portfolios for the syndicate is delegated, under an arm's length agreement, to QBE Management Services Pty Limited, (the investment manager), a wholly owned subsidiary of the QBE Insurance Group.

The syndicate operates a policy to reduce foreign exchange risk by ensuring the closed year distribution is funded by selling profits from the currency in which they crystallised. This reduces the risk of significant currency imbalances occurring within the syndicate. Any remaining material monetary foreign currency exposure is hedged using foreign exchange derivatives in order to minimise foreign exchange risk.

Investment performance

The total investment returns achieved for each financial year are set out below. These include income earned on funds which are not managed by the investment manager, such as short-term liquid deposits and certain regulatory overseas deposits managed directly by Lloyd's. The total currency return for the year was 2.0% (2013 1.8%).

Portfolio currency	2014 Average funds '000	2014 Average return %	2014 Target return %	2013 Average funds '000	2013 Average return %	2013 Target return %
Australian dollar	433,536	4.6	3.0	461,435	3.5	3.1
Canadian dollar	496,625	1.5	1.5	480,953	1.6	1.2
Euro	202,940	1.1	0.8	210,223	0.4	0.7
UK pound sterling	178,042	1.0	1.0	132,785	0.8	1.2
US dollar	179,269	0.7	0.8	181,758	0.7	0.7
South African rand	131,137	6.0	5.5	150,686	5.1	5.8

The benchmark target for fixed income portfolios is an absolute return yield, agreed for each currency on an annual basis by the QBE European Operations' Executive Board. Targets for each currency agreed for each financial year are shown above.

The majority of currency investment returns outperformed their respective currency targets for the year. As a result, overall performance for the syndicate was ahead of the annual weighted target return of 1.7% (2013 1.7%).

During 2014, the syndicate's fixed income portfolios continued to be managed conservatively with average duration of less than one year. Through the investment manager's cautious stance, the syndicate has not incurred any credit defaults or write downs in any of its fixed interest portfolios.

Hedging

In the light of foreign exchange volatility, the pronounced strength of sterling, and having consulted with agents, the Syndicate commenced foreign exchange hedging from the third quarter of the year. The cost of the policy is not material and should greatly reduce future result volatility caused by exchange rate movements.

STRATEGIC REPORT (continued)

Corporate governance

The Syndicate is managed by QBE Underwriting Limited (QUL), a subsidiary of QBE European Operations plc, which is the holding company for the European Operations division (QBE EO) of QBE Insurance Group Limited (QBE Group). The corporate governance framework is managed at QBE EO division level.

QBE EO's ongoing commitment to maintaining high standards of corporate governance was further demonstrated during 2014 through the implementation of an updated system of governance. This had been designed to encourage efficient, considered and effective decision making, as well as improved reporting and co-operation throughout QBE EO. The new system has led to a deeper understanding of the role of each Board Committee and an improved flow of information to, and delegation from, the Board. Each Committee acts in accordance with Board-approved terms of reference; promoting a clear and appropriate level of delegated authority, with Committees elevating matters for consideration by the Board where necessary or appropriate.

During 2014, ongoing analysis of corporate governance best practice led to the expansion of the role of the Remuneration Committee to encompass Board composition and nominations to the main QBE EO Boards, forming the Remuneration and Nomination Committee. In addition, Stuart Sinclair was appointed as a Senior Independent Director of the Board.

We recognise the necessity of seeking continuous improvement in the output and value of the system of governance. In late 2014, QBE EO underwent an externally and independently facilitated review of Board and key Committee effectiveness. The provider was asked to identify ways of enabling QBE EO main Boards and Committees to work more effectively in fulfilling their governance roles, whilst fostering greater challenge and supporting non-executive director engagement. The suggested changes in the review, which will support QBE EO in building upon its current governance foundations, included restructuring meeting timings, Board agendas and meeting papers and reorganising formal risk governance. It was recommended that all QBE EO non-executive directors become members of the Risk & Capital Committee, with an executive risk & capital working group being set up to support the work of the Risk & Capital Committee at an operational level. These changes are in the process of being implemented.

During 2014, timely, accurate and appropriate information flow for the Board has been improved by embedding electronic Board reporting for all Board and Committee meetings. We have also implemented Board and Committee reporting protocols and templates.

A Board away day was held in May, providing the opportunity for a deeper focus on strategy (with presentations from senior management) and for the Board to meet more informally. We further supported non-executive director engagement through informal meetings exclusively for non-executive directors and meetings with non-executive directors from the QBE Group Board. The Board and Board Committees met regularly during the year with strong attendance from all members.

As a member of the QBE Group, the QUL Board is not bound by the UK Corporate Governance Code (the Code) but as a matter of best practice it gives consideration to the Code and seeks to comply with it, where relevant, as well as with current regulatory and market standards.

STRATEGIC REPORT (continued)

Corporate governance (continued)

QBE Underwriting Limited

The QUL Board charter states that the role of the Board is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The role of the Board includes setting the Company's strategic aims and its values and standards. Matters reserved for the Board include strategic issues, such as setting of annual business plans, approval of financial statements and dividends, the management and setting of risk appetite and the internal control framework of the Company. The Board is also responsible for delegating authority to Committees, and reviewing and approving acquisitions and disposals.

The Board is chaired by Tim Ingram. The Board comprises ten executive directors and four non-executive directors.

The role of the Chairman of the Board is distinct from that of the Chief Executive Officer of QBE EO, and each role is clearly established. The Board considers that the experience and areas of focus which each Board member brings to QBE Underwriting Limited results in a strong and balanced Board team to set and monitor the strategy and values of the Company.

There were three appointments to and two resignations from the Board during the year. These are summarised on page 2. In conjunction with QBE Group and supported by the Remuneration and Nomination Committee, the Board undertakes succession planning in accordance with the world-class talent and leadership objective, which underpins the strategic ambitions of QBE Group. The non-executive directors are all members of the Audit Committee.

All the non-executive directors are considered to be independent of management and free from any relationship that could materially interfere with the exercise of their independent judgement.

Board Committees

The Boards of QBE European Operations plc and the three key regulated companies in QBE EO, including the Company have jointly constituted Board Committees. The Committees all comprise appropriately skilled members and are supported by attendees as necessary.

QBE EO's key Committees comprise:

- Audit Committee
- Executive Committee
- Investment Committee
- Remuneration and Nomination Committee
- Risk and Capital Committee

Audit Committee

Chairman Malcolm McCaig

The Committee is comprised entirely of non-executive directors and supports the Board in overseeing the integrity and effectiveness of QBE EO companies' financial reporting. This includes monitoring the systems and financial controls which support such reporting. The Committee monitors the scope, effectiveness and outcome of external and internal audits and monitors how identified issues are dealt with.

STRATEGIC REPORT (continued)

Corporate governance (continued)

Executive Committee

Chairman Richard Pryce

The Committee supports the Chief Executive Officer in performing his role effectively, in particular in formulating recommendations for consideration and approval by the Boards and in delivering agreed strategy and plans. The Committee meets regularly and has recently introduced new ways of working together more effectively, including weekly ‘huddles’ and offsite away days. The Committee has constituted three management sub-groups to support its work in the key areas of underwriting, operations, and finance and reserving.

Investment Committee

Chairman David Winkett

The key role of the Committee is to oversee the effectiveness of the investment strategy of the QBE EO entities. The Committee monitors investment performance and investment risks, considering expected returns, volatilities, correlation of asset classes and regulatory requirements and guidance.

Remuneration and Nomination Committee

Chairman Wai-Fong Au

The Committee is comprised entirely of non-executive directors and reviews the design and operation of QBE EO’s remuneration framework. It is responsible for making recommendations to the main QBE EO Boards regarding the structure, size and composition of such Boards (including skills, knowledge, experience, qualifications and diversity). In considering the remuneration framework, the Committee reviews factors including QBE EO’s long-term strategic goals and financial soundness, with the aim of ensuring that QBE EO is able to attract, retain, reward and motivate talented employees and directors. The Committee keeps the executive and non-executive leadership needs of the Companies under review, giving due consideration to succession planning.

Risk and Capital Committee

Chairman Stuart Sinclair

The Committee supports the Boards in overseeing the integration and effectiveness of QBE EO’s risk and capital management frameworks in order to support their strategic objectives, inform business plans and ensure that risks are identified, assessed and monitored in line with risk appetite. The Committee monitors the maintenance of adequate capital for the risks associated with the business activities of QBE EO. A focus of the Committee for 2014 has been compliance with Solvency II regulations.

Risk management

The Company’s risk management function is co-ordinated at the QBE EO divisional level and forms an integral part of the QBE EO risk management framework.

QBE EO is committed to continuous development of the risk management framework to facilitate the effective identification and management of key risks. This is performed with reference to QBE Group’s risk management framework, and in conjunction with the QBE Group wide economic capital model, to ensure the effective allocation of risk based capital.

Risk management overview

Effective risk management supports the achievement of QBE EO strategic objectives through efficient allocation of resources, avoiding surprises and by gaining a detailed understanding of our risk and control environment. The Enterprise Risk Management (ERM) function co-ordinates QBE EO’s risk management processes and supports the Boards and Risk and Capital Committee in their responsibilities for risk and capital management.

STRATEGIC REPORT (continued)

Risk management (continued)

Risk management strategy

QBE EO's risk management strategy puts structure around the risks to which QBE EO is exposed to and defines the framework to manage those risks and meet strategic objectives.

During 2014 QBE EO embedded ONE ERM, a QBE Group initiative launched during 2013 to align and harmonise global risk management functions. A key component of this initiative is to hold regular risk and control workshops with all business units to identify and assess material risks to their strategic and business objectives. The process facilitates the integration of risk management into QBE EO's business management, thereby linking risk management with strategy and planning, as well as performance monitoring and evaluation.

Solvency II

Compliance with Solvency II regulation continues to be a key priority for QBE EO. Led by an executive Solvency SII steering group, we continued to prepare for the introduction of Solvency II regulation during 2014, and are proactively managing adherence to the tests and standards. Solvency II continues to be a focus into 2015 as we develop a number of our internal model processes and enhance our financial reporting.

QBE EO's internal model is at the core of its enterprise risk management framework. QBE EO has defined its internal model as an integrated framework to support its objectives by managing risk and capital across the business. The internal model has broad scope including capital modelling; risk identification, mitigation, assessment and monitoring, and is used in the day to day operation of the Group.

During 2014, we also began our operational transformation programme. This transfers a number of our finance, insurance administration and claims processes offshore to the QBE Group shared service company in the Philippines. The ERM function supported the programme through the project's design and delivery in order to capture and mitigate key transition and business as usual risks.

Risk management culture

We maintain a strong risk management culture. Supported by QBE Group's global risk management framework, this culture protects and advances the interests of our shareholders and policyholders. Within QBE EO, ONE QBE defines six values and associated behaviours that contribute to the careful assessment of risk and reward. These values include open-minded behaviour, business acumen and achieving excellent outcomes. When embedded throughout the business, these values and behaviours enable us to identify opportunities, maximise QBE EO's business activities and limit any potential downside.

To further integrate risk management into daily business activity and support a culture of effective risk management, during 2014 we added a specific risk management objective to all staff's performance objectives.

Risk appetite and tolerance

Risk appetite is the level of risk that the board and management are willing to take in pursuit of the organisation's strategic objectives.

It is managed:

- through board-approved risk appetite statements and risk tolerances;
- through the capital adequacy objectives contained in the business plan, including return on risk-adjusted capital and through detailed risk limits;
- within the delegation of authority from the QBE Group CEO to the QBE EO CEO and onward to the management team; and
- within QBE EO policies relating to key risk areas.

STRATEGIC REPORT (continued)

Risk management (continued)

Risk management framework

The risk management framework reflects the “three lines of defence” approach, summarised as follows:

a. The Boards, underwriting divisions and corporate services form the first line of defence. They have direct responsibility for risk management and control.

b. The Risk and Capital Committee, ERM function and other control functions form the second line of defence. They are responsible for co-ordinating, facilitating and overseeing the risk framework’s effectiveness and integrity. The ERM team’s objective is to optimise return from risk by improving decision-making, providing the enterprise risk framework and reviewing and supporting its application and by offering an independent viewpoint.

c. The Audit Committee, external audit and the internal audit function form the third line of defence. They challenge the integrity and effectiveness of the framework and provide independent assurance, across all our business functions.

Capital allocation

We use a QBE Group-wide economic capital model (ECM) to help assess our risk and calculate the appropriate level of risk-based capital to allocate to risks to which we are exposed.

The assessment of risk-based capital enables us and QBE Group to make decisions that involve quantitative risk reward trade-offs. The allocation of risk-based capital helps ensure that the level of risk we take is commensurate with the required returns and is within the approved risk appetite and tolerance.

Key risks

Risks that could affect our ability to achieve our objectives are identified on a continuous basis through business unit risk and control workshops, and the emerging risk process.

Our main risks are regularly reported and discussed at the Risk and Capital Committee through the Own Risk and Solvency Assessment (ORSA). A summary of the main risk categories and risk mitigation techniques is outlined below.

Strategic risk

QBE EO defines strategic risk as the current and prospective impact on earnings and/or capital arising from strategic business decisions, implementation of decisions and responsiveness to external change.

QBE EO mitigates strategic risk using the following:

- We mitigate strategic risk by considering strategic options in light of the impact on return volatility and capital requirements; and
- We plan and monitor capital levels on an ongoing basis, with reference to regulatory rating agency and economic requirements.

STRATEGIC REPORT (continued)

Risk management (continued)

Key risks (continued)

Insurance risk

QBE EO defines insurance risk as the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations. Our exposure to insurance risk arises from - underwriting/pricing, insurance concentrations, reserving, and reinsurance.

QBE EO mitigates insurance risk using the following:

- We analyse historical pricing and claims experience;
- We set a tolerance to concentration risk;
- We monitor and review performance; and
- We conduct both an in-house and external actuarial review of our claims provisions, independent of our underwriting teams.

Credit risk

QBE EO defines credit risk as the risk of default by borrowers and transactional counterparties, as well as the loss in value of assets due to deterioration in credit quality. Our exposure to credit risk arises from - reinsurance counterparty credit and other recoveries, premium and other counterparty credit and investment counterparty default.

QBE EO mitigates credit risk using the following:

- We regularly review our exposure limits for approved counterparties in relation to deposits and investments;
- We maximise the amount of reinsurance that we place with highly rated and regarded counterparties and limit concentrating our exposures.

Group risk

QBE EO defines group risk as the risk to a division arising specifically from being part of the wider QBE Group, including financial impact and loss of support from the parent company.

QBE EO mitigates group risk using the following:

- We take care in how we manage our relationship with QBE Group and Lloyd’s.
- Independent non executive directors on QBE EO Boards.
- Contractual arrangements in place for material services provided by other QBE Group divisions and companies.

Market risk

QBE EO defines market risk as the risk of variation in the value of investments due to market movements. Our exposure to market risk arises from investment market movement risk and foreign exchange rate movement risk.

QBE EO mitigates market risk using the following:

- We actively manage investment assets;
- We maintain a diversified portfolio; and
- We hedge residual net asset exposures.

STRATEGIC REPORT (continued)

Risk management (continued)

Key risks (continued)

Liquidity risk

QBE EO defines liquidity risk as the risk of having insufficient liquid assets to meet liabilities falling due to policyholders and creditors.

QBE EO mitigates liquidity risk using the following:

- We hold minimum levels of liquid, short term money market securities; and
- Stress testing of liquidity needs relative to major catastrophe events;
- We match assets and liabilities in our major currency positions.

Operational risk

QBE EO defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk. Our exposure to operational risk arises from - internal fraud, external fraud, employment practices, improper business practice, technology and infrastructure failures and business and transaction processing.

QBE EO mitigates operational risk using the following:

- We actively monitor our key processes;
- We conduct scenario reviews to identify and quantify potential exposures for mitigation; and

We maintain effective segregation of duties, access controls, authorisation and reconciliation procedures.

Business continuity management

A business continuity management framework ensures that QBE EO is resilient and able to respond effectively to incidents that threaten business continuity. It also ensures that the impact of any major disruption is minimised.

The framework includes a set of emergency management plans, department-level business continuity plans and technology recovery plans. It is supported by a range of activities, including staff awareness and testing.

This Strategic Report was approved by the QBE Underwriting Limited board of Directors on 6 March 2015 and signed on its behalf by:

T C W Ingram
Director
QBE Underwriting Limited
London

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of QBE Underwriting Limited (QUL), the Managing Agent for Syndicate 386, present the annual report and audited financial statements for the Syndicate for the year ended 31 December 2014.

This annual report is prepared using the annual basis of accounting as required by regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 2008 Regulations).

Principal activities

Please refer to the Strategic report on page 3.

Business review and future developments

Please refer to the Strategic report on page 4.

Solvency II

Solvency II is a new supervisory regime for insurance entities across the European Economic Area (EEA) which will commence from 1 January 2016. Solvency II entails a fundamental review of the prudential regulatory requirements of insurance entities, with the establishment of a revised set of capital requirements, risk management and disclosure.

The implementation of Solvency II is built around a three pillar approach:

- Pillar I – calculation of technical provisions, admissible assets and a risk responsive solvency capital requirement (SCR)
- Pillar II – development and enhancement of our system of governance, including an enhanced risk management system and emerging risk identification through the own risk and solvency assessment (ORSA)
- Pillar III – a new set of regulatory disclosure requirements including reporting to the regulators and additional public reporting requirements.

QUL continues to develop the financial and reporting infrastructure necessary to achieve compliance with the new supervisory regime. This includes delivery of the following requirements:

- Systems and governance requirements, applicable from the beginning of 2014;
- The Own Risk and Solvency Assessment (ORSA);
- Submission of Pillar III reporting deliverables to Lloyd's and the PRA, comprising annual data at 31 December 2014, quarterly reporting requirements at Q3 2015 and a full Pillar III dry run for Lloyd's; and
- Compliance with all other elements of the six Solvency II tests and standards:
    - Statistical quality
    - Validation
    - Calibration
    - Use
    - Profit and loss attribution
    - Documentation

QUL continues to invest significant resources in preparation for the requirements of Solvency II and associated capital requirements. QUL continues to participate in all relevant submissions to Lloyd's and the PRA. This includes a semi-annual submission of Solvency II balance sheets for each syndicate as at 30 June and 31 December each year to Lloyd's. This forms part of Lloyd's calculation on the members' balance held.

External audit requirements of the syndicate balance sheets at 31 December 2014, prepared on a Solvency II basis, have been completed.

Corporate governance

Please refer to our Strategic report on page 8.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Risk management

Please refer to the Strategic report on page 9.

Internal audit

An internal audit department provides assurance to the Audit Committee as to the effectiveness of internal systems and controls, makes recommendations for improvement and monitors progress towards completion via management action plans. Internal Audit also provides feedback on the risk management process.

Relationship with Managing Agent

QUL has adopted a code of conduct which outlines a set of general business ethics that apply to all employees when conducting any activity on behalf of the Syndicate. The code of conduct requires employees to carry on business in an open and honest manner with customers, shareholders, employees, regulatory bodies, outside suppliers, intermediaries and the community at large. The code also deals with a number of other requirements including whistle-blowing, confidentiality, disclosure of information, conflicts of interest and treating customers fairly. Other policies are in place to cover areas such as health and safety, harassment, equal opportunities and financial crime.

Directors

Details of the Directors of the Managing Agent that served during the year and up to the date of signing of the syndicate annual accounts are shown on page 2.

Statement of Managing Agent’s responsibilities

The Directors of the Managing Agent are responsible for preparing the strategic report, report of the directors of the Managing Agent and the annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 (IAD) requires the Managing Agent to prepare annual accounts for each financial year. Under that law the directors are required to prepare the Syndicate annual accounts in accordance with UK generally accepted accounting practice (UK accounting standards and applicable law). The IAD requires that the Directors must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit and loss of the Syndicate for that period.

In preparing these Syndicate annual accounts, the Managing Agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the annual accounts on the basis that the Syndicate will continue to write business unless it is inappropriate to presume that the Syndicate will do so.

The Directors of the Managing Agent are responsible for keeping proper accounting records that are sufficient to show and explain the Syndicate’s transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the Syndicate annual accounts comply with the IAD. They are also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors of the Managing Agent are responsible for the maintenance and integrity of the company’s website and legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Statement of disclosure of information to auditors

Each person who is a director of the Managing Agent at the date of this report confirms that:

- so far as the director is aware, there is no information relevant to the audit of the Syndicate's annual accounts for the year ended 31 December 2014 of which the auditors are unaware; and
- the Director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of, and to establish that the Syndicate's auditors are aware of, any relevant audit information.

Independent auditors

The Directors of the Managing Agent intend to reappoint PricewaterhouseCoopers LLP as the Syndicate's auditors.

By order of the board of the Managing Agent,

D J Winkett
Director
QBE Underwriting Limited
London
6 March 2015

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QBE CASUALTY SYNDICATE 386

Report on the syndicate annual accounts

Our opinion

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited

The syndicate annual accounts for the year then ended 31 December 2014, which are prepared by the Managing Agent, comprise:

- the balance sheet as at 31 December 2014;
- the profit and loss account for the year then ended;
- the statement of cash flows;
- the statement of accounting policies; and
- the notes to the syndicate annual accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Strategic Report and the Report of the Directors of the Managing Agent for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the Managing Agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QBE CASUALTY SYNDICATE 386 (continued)

Responsibilities for the syndicate annual accounts and the audit

Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 15 the Managing Agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Andrew Moore (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 March 2015

Note:
The maintenance and integrity of the QBE EO website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the syndicate annual accounts since they were initially presented on the website

Legislation in the United Kingdom governing the preparation and dissemination of syndicate annual accounts may differ from legislation in other jurisdictions.

PROFIT AND LOSS ACCOUNT - TECHNICAL ACCOUNT - GENERAL BUSINESS

for the year ended 31 December 2014

	Note	2014 £'000	2014 £'000	2013 £'000	2013 £'000
Earned premium, net of reinsurance					
Gross premiums written	3	332,559		449,256	
Outward reinsurance premiums		(15,487)		(56,092)	
Net premiums written			317,072		393,164
Change in the gross provision for unearned premiums		69,618		(17,021)	
Change in the provision for unearned premiums, reinsurers' share		(27,338)		(480)	
Change in the net provision for unearned premiums			42,280		(17,501)
Earned premium, net of reinsurance			359,352		375,663
Allocated investment return transferred from the non-technical account			18,847		17,812
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(322,153)		(228,004)	
Reinsurers' share		124,038		49,598	
Net claims paid		(198,115)		(178,406)	
Change in the provision for claims					
Gross amount		87,724		(36,105)	
Reinsurers' share		(94,880)		37,359	
Change in the net provision for claims		(7,156)		1,254	
Claims incurred, net of reinsurance			(205,271)		(177,152)
Net operating expenses	5		(111,044)		(165,465)
Standard personal expenses			(14,359)		(12,153)
Balance on the technical account for general business			47,525		38,705

The notes set out of pages 24 to 37 form an integral part of these financial statements

PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT

for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Balance on the general business technical account		47,525	38,705
Investment income	8(a)	24,409	26,821
Investment expenses and charges	8(b)	(4,599)	(6,247)
Unrealised losses on investments		(963)	(2,762)
Investment return		18,847	17,812
Allocated investment return transferred to the general business technical account		(18,847)	(17,812)
Profit for the financial year	13	47,525	38,705

The results above are derived from continuing operations.

The syndicate has no recognised gains and losses other than those included within the non-technical account.

Neither gains and losses arising on the holding or disposal of investments, nor the effect of fair value accounting for financial instruments are required to be included in a note of historical profit and losses. There are no other differences between the profit for the financial year stated above and its historical cost equivalent.

The notes set out of pages 24 to 37 form an integral part of these financial statements

BALANCE SHEET
As at 31 December 2014

Assets	**Note**	**2014 £'000**	**2013 £'000**
Investments			
Other financial investments	9	837,082	715,806
		837,082	715,806
Reinsurers' share of technical provisions			
Provision for unearned premiums		16,161	43,500
Claims outstanding		267,811	361,023
		283,972	404,523
Debtors			
Debtors arising out of direct insurance operations	11(i)	94,509	123,308
Debtors arising out of reinsurance operations	11(ii)	15,516	6,126
Other debtors		653	1,414
		110,678	130,848
Other assets			
Cash at bank and in hand		6,845	22,043
Overseas deposits	12	177,335	265,936
		184,180	287,979
Prepayments and accrued income			
Accrued interest and rent		5,104	4,044
Deferred acquisition costs		47,509	57,680
		52,613	61,724
Total assets		1,468,525	1,600,880

The notes set out of pages 24 to 37 form an integral part of these financial statements

BALANCE SHEET

As at 31 December 2014

Liabilities	Note	2014 £'000	2013 £'000
Members' balances	13	46,317	36,844
Technical provisions			
Provision for unearned premiums		198,279	267,897
Claims outstanding		1,128,632	1,227,401
		1,326,911	1,495,298
Creditors			
Creditors arising out of direct insurance operations	14 (i)	20,233	11,928
Creditors arising out of reinsurance operations	14 (ii)	47,743	39,896
Other creditors including taxation and social security	15	20,500	11,806
		88,476	63,630
Accruals and deferred income		6,821	5,108
Total liabilities		1,468,525	1,600,880

These financial statements on pages 19 to 37 were approved by the board of QBE Underwriting Limited on 6 March 2015 and signed on its behalf by:

D J Winkett
Director

The notes set out of pages 24 to 37 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Net cash inflow from operating activities		57,792	97,358
Transfer to members in respect of underwriting participations			
Distribution of profits		(29,724)	(57,184)
Open year profit release		(7,892)	(44,767)
Members' agent fees paid on behalf of members		(1,056)	(1,060)
		19,120	(5,653)
Cash flows were utilised as follows:			
(Increase) in cash holdings	16	(14,802)	(5,920)
(Decrease)/increase in overseas deposits	16	(81,295)	33,691
Net portfolio investment/(divestment)	16	115,217	(33,424)
		19,120	(5,653)

RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Note	2014 £'000	2013 £'000
Operating profit on ordinary activities		47,525	38,705
Realised and unrealised investment losses	16	1,643	80,770
Decrease in net technical provisions		(47,837)	(20,045)
Decrease in debtors		29,282	8,890
Increase /(decrease) in creditors		26,560	(9,874)
Other		619	(1,088)
		57,792	97,358

The notes set out of pages 24 to 37 form an integral part of these financial statements

NOTES TO THE ANNUAL ACCOUNTS
for the year ended 31 December 2014

1. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

(a) Basis of preparation

These annual accounts have been prepared in accordance with regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 (as amended in December 2006), except that foreign exchange gains and losses are taken to the profit and loss technical account.

The accounts incorporate all transactions committed to by the 2014 year of account and prior years of account.

The directors of the managing agent have prepared the financial statements on the basis that the Syndicate will continue to write future business. The ability of the syndicate to meet its obligations as they fall due is underpinned by the support provided by the Lloyd's solvency process and its chain of security for any members who are unable to meet their underwriting liabilities. Members' Funds at Lloyd's are further explained in note 2.

(b) Basis of accounting for insurance

The result is determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned portion of premiums, net of reinsurance as described below:

(i) Premiums written

Premiums written comprise premiums on contracts incepted during the financial year, together with adjustments made in the year to premiums written in prior years. Premiums are shown gross of commissions payable to intermediaries, and exclude taxes and duties levied on them. Estimates are included for premiums due but not yet received or notified, less an allowance for cancellations.

(ii) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns.

(iii) Outwards reinsurance

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

(iv) Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2014

1. Accounting policies (continued)

(b) Basis of preparation (continued)

(v) Claims provisions and related reinsurance recoveries

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the syndicate. The estimated cost of claims includes expenses to be incurred in settling claims and allows for the expected value of salvage and other recoveries.

Outstanding claims and reinsurance recoveries are estimated by reviewing individual claims and making allowance for claims incurred but not reported using past experience and trends adjusted for foreseeable events.

Case estimates are set by experienced claims technicians, applying their skill and specialist knowledge to the circumstances of individual claims. The ultimate cost of outstanding claims, including claims incurred but not reported, is estimated by the syndicate actuaries who apply recognised actuarial techniques considered appropriate for each portfolio, such as the Chain Ladder and Bornhuetter-Ferguson methods. These methods take into account, amongst other things, statistical analysis of the development of the value and frequency of past claims and the results of analyses undertaken at the point of underwriting. Techniques considered appropriate for specific portfolios include contract by contract analysis, segmentation by subclass, and stochastic analysis. Classes of business are analysed at a level of detail appropriate to their materiality. Allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or decrease when compared with the cost of previously settled claims, for example, one-off occurrences and changes in mix of business, policy conditions or the legal environment.

The Syndicate actuaries produce an estimate of reserves, which is reviewed by an independent actuarial firm and is then assessed by QBE management with input from the Syndicate underwriting and claims experts.

As provisions for claims outstanding are based on information which is currently available, the eventual outcome may vary from the original assessment depending on the nature of information received or developments in future periods. For certain classes of business including liability and other long-tail classes written by the syndicate, claims may not be apparent for many years after the event giving rise to the claim has happened. These classes will typically display greater variation between initial estimates and final outcomes. Differences between the estimated cost and subsequent re-estimation or settlement of claims are reflected in the technical account for the year in which these claims are re-estimated or settled.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

(vi) Unexpired risks provision

Provisions are made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that have occurred prior to the balance sheet date.

Unexpired risk surpluses and deficits are offset where business classes are managed together.

(vii) Acquisition costs

A portion of acquisition costs, which represent commissions and other related expenses, is deferred in recognition that it represents a future benefit. Deferred acquisition costs are measured at the lower of cost and recoverable amount and are amortised over the period in which the related premiums are earned.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2014

1. Accounting policies (continued)

(b) Basis of preparation (continued)

(viii) Foreign currency

The functional currency of the Syndicate is UK pound sterling (£). The Syndicate presents its accounts in thousands of pounds sterling.

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the time of the transactions. Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the balance sheet date with the exception of non-monetary assets and liabilities, which are maintained at historic rates. Unclosed foreign exchange derivatives are marked to market at year end date.

Exchange gains or losses are recognised in the profit and loss technical account.

(ix) Financial assets

Financial assets are managed on a fair value basis in accordance with the Syndicate's investment strategy. The Syndicate has therefore elected to measure all financial assets at fair value through the profit and loss non-technical account.

Listed investments are stated at fair value on current bid prices quoted by the relevant exchanges. Unlisted investments are carried at the directors' estimate of the current fair value, except as stated below.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently stated at fair value obtained from quoted market prices in active markets.

Financial assets are derecognised when the right to receive future cash flows from the assets has expired, or has been transferred, and the Syndicate has transferred substantially all the risks and rewards of ownership.

(x) Investment income

Investment income is taken into account in the profit and loss non-technical account on an accruals basis, except for dividends which are taken into account when quoted ex dividend. Investment income includes realised gains or losses on the disposal of financial assets.

A transfer is made from the non-technical account to the technical account of the return on investments supporting the insurance technical provisions.

(xi) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to the member is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate on behalf of the members during the year are included in the balance sheet under the heading "members' balance".

No provision has been made for any overseas tax payable by members on underwriting results.

(xii) Administrative expenses

Administrative expenses are taken into account on an accruals basis. These recharged expenses include the costs of staff, who are employed by QBE Management Services (UK) Limited. QBE Management Services (UK) Limited operates both defined benefit and defined contribution pension schemes, the expense of which is included in the recharges. The recharged expenses also include the costs of various service and claims handling companies. These companies are wholly owned by QUL.

(xiii) Profit commission

Profit commission is charged by the managing agent at a rate of 20% of profit subject to the operation of a deficit clause. Profit commission is recognised on the basis of the annual accounting result for each year of account. It is charged to the syndicate as incurred.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2014

2. Capital

Each syndicate in Lloyd's is required to carry out a self assessment of the capital it requires, the Individual Capital Assessment (ICA). This is required to reflect the level of capital needed to ensure that the syndicate will remain solvent for the next 12 months in 99.5% of future foreseeable scenarios.

QBE EO has developed a sophisticated stochastic risk-based capital model over the past five years, which incorporates the key risks being faced. The output from this model, which is tailored to QBE's risk profile, is reported to the Capital Committee, which in turn recommends it to the relevant QBE Boards for adoption. The ICAs have been reviewed by Lloyd's, and form the basis of the minimum capital required by the Syndicate.

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these annual accounts by way of such capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

All externally imposed capital requirements have been complied with during the year.

QBE's capital model has been embedded in the business, and as well as assessing minimum capital requirements for QBE entities, it has also been used to:

- allocate capital to class of business for business planning and performance monitoring
- assess the effectiveness of existing reinsurance protections and new reinsurance strategies
- consider the implications of Solvency II on the business

3. Segmental information

2014

	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Third party liability	285,293	353,489	(207,171)	(109,859)	(8,262)	28,197
Reinsurance acceptances	47,266	48,688	(27,258)	(15,544)	(5,405)	481
Total	332,559	402,177	(234,429)	(125,403)	(13,667)	28,678

2013

	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Third party liability	396,231	379,118	(235,055)	(155,000)	26,832	15,895
Reinsurance acceptances	53,025	53,117	(29,054)	(22,618)	3,553	4,998
Total	449,256	432,235	(264,109)	(177,618)	30,385	20,893

Operating expenses includes standard personal expenses and reinsurance related expenses.

All premiums are concluded in the UK.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2014

3. Segmental information (continued)

Gross premium by destination

	2014 £'000	2013 £'000
United Kingdom	174,069	216,415
Other EU member states	28,640	45,690
North America excluding USA	47,087	56,929
Other	82,763	130,222
	332,559	449,256

4. Significant changes in prior years' claims provisions

During the year there was an overall negative net run-off development of £23,233,000 (2013 £17,262,000 positive) of which the major contributor was third party liability of £20,420,000 adverse (2013 £13,006,000 positive) together with a negative development in reinsurance acceptances of £ 2,813,000 (2013 £4,256,000 positive).

5. Net operating expenses

		2014 £'000	2013 £'000
Acquisition costs:	direct commission	49,940	65,895
	other	32,910	36,463
Change in deferred acquisition costs		10,171	(4,977)
Administrative expenses		15,232	22,633
Loss on exchange		2,791	45,451
Net operating expenses		111,044	165,465

Administrative expenses include auditors' remuneration:

Fees payable to the Syndicate's auditor for the audit of the Syndicate's annual accounts	183	179
Other services pursuant to legislation	130	144

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2014

6. Employees

All staff are employed by QBE Management Services (UK) Limited, a wholly owned subsidiary of QBE Insurance Group Limited. Total employee costs for the year were:

	2014 £'000	2013 £'000
Wages and salaries	13,671	15,936
Social security costs	1,530	1,855
Pension costs	1,491	1,854
	16,692	19,645

The average number of staff represented by the above recharge for the period was:

	2014 Number	2013 Number
Underwriting	75	68
Claims	64	82
Administration	117	115
	256	265

7. Directors' emoluments

The directors of QUL and the Active Underwriter received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2014 £'000	2013 £'000
Directors of the managing agent	417	492
Active Underwriter	70	150

Further information in respect of the directors of QUL is provided in that company's financial statements.

8. Investment income, expenses and charges

(a) Investment income

	2014 £'000	2013 £'000
Income from investments	24,409	26,821
	24,409	26,821

(b) Investment expenses and charges

	2014 £'000	2013 £'000
Net losses on the realisation of investments	3,711	5,297
Investment management expenses	888	950
	4,599	6,247

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2014

9. Other financial investments

(a) Designated at fair value through profit and loss

	2014		2013	
	Cost £'000	Fair value £'000	Cost £'000	Fair value £'000
Shares and other variable yield securities and units in unit trusts	4,927	4,927	8,637	8,637
Debt securities and other fixed income securities	814,325	813,131	707,352	707,169
Deposits with credit institutions	10,515	10,515	-	-
Derivatives	-	8,509	-	-
	829,767	837,082	715,989	715,806

The debt securities and other fixed income securities are listed on recognised exchanges. £220,000 of the shares and other variable yield securities and units in unit trusts are listed on recognised exchanges (2013 Nil).

(b) Derivative financial instruments

Fair value	2014 £'000	2013 £'000
Foreign currency derivatives		
Other financial investments – derivatives (note 9(a))	8,509	-
Other creditors	(1,564)	-

Foreign currency derivatives

In the past the syndicate has not undertaken currency hedging, and the results shown in converted sterling were susceptible to material fluctuations arising from movements in the exchange rate. During the year this policy was changed, and from the third quarter the syndicate now hedges foreign currency risks using forward foreign exchange derivatives. These are valued using the underlying foreign exchange rates at the year end. Contractual amounts for foreign currency exchange derivatives outstanding at the balance sheet date include foreign exchange contracts to buy the net equivalent of £349,567,000 (2013 £nil).

The forward foreign exchange derivatives outstanding at year end expired by 30 January 2015.

During the year a profit of £3,774,000 relating to such contracts was recognised. This is included in the net foreign exchange loss of £2,793,000 in the profit and loss technical account.

Fixed income derivatives

The Syndicate entered into fixed income derivative future contacts to provide a partial hedge for the fixed income portfolios within the Syndicate against a rise in short term interest rates.

During the year, a loss of £111,000 (2013 £nil) was included in the profit and loss non-technical account relating to these derivatives.

Contractual amounts for fixed income derivatives outstanding at the balance sheet date were £9,067,000 (2013 £nil). These are due to expire by March 2015.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2014

9. Other financial investments (continued)

(c) Valuation hierarchy

The table below shows the financial instruments carried at fair value by valuation method.

2014	Level 1 £'000	Level 2 £'000	Total £'000
Overseas deposits	78,735	98,600	177,335
Deposits with credit institutions	10,515	-	10,515
Variable yield securities and units in unit trusts	4,927	-	4,927
Debt securities and other fixed income securities	64,041	749,090	813,131
Derivatives	-	8,509	8,509
	158,218	856,199	1,014,417

2013	Level 1 £'000	Level 2 £'000	Total £'000
Overseas deposits	-	265,936	265,936
Variable yield securities and units in unit trusts	8,637	-	8,637
Debt securities and other fixed income securities	74,955	632,214	707,169
	83,592	898,150	981,742

Level 1 Valuation is based on quoted prices in active markets for the same instruments.

Level 2 Valuation is based on quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data, for example, consensus pricing using broker quotes and valuation models with observable input.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2014

10. Financial risk

The activities of the Syndicate expose it to financial risks such as market risk (including currency risk, cash flow and fair value interest rate risk and price risk), credit risk and liquidity risk. The Syndicate's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Syndicate.

The key objectives of the Syndicate's asset and liability management strategy are to ensure sufficient liquidity is maintained at all times to meet the Syndicate's obligations, including its settlement of insurance liabilities and, within these parameters, to optimise investment returns for the Syndicate.

(i) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises three types of risk: currency risk (due to fluctuations in foreign exchange rates), interest rate risk (due to fluctuations in market interest rates) and price risk (due to fluctuations in market prices).

Currency risk

The Syndicate is exposed to foreign currency risk in respect of its foreign currency exposures and forward foreign exchange derivatives are used to protect the currency positions.

The risk management process covering forward foreign exchange derivatives involves close senior management scrutiny, including regular board and other management reporting. All forward foreign exchange derivatives are subject to delegated authority levels provided to management, and levels of exposure are reviewed on an ongoing basis.

The table below shows the impact on profit and loss and equity as a result of movements in foreign exchange rates.

		2014		2013	
	Movement in variable %	Profit / (loss) £'000	Equity £'000	Profit / (loss) £'000	Equity £'000
US dollar	+10	(146)	(146)	(1,015)	(1,015)
	–10	146	146	1,015	1,015
Canadian dollar	+10	119	119	(691)	(691)
	–10	(119)	(119)	691	691
Australian dollar	+10	(539)	(539)	(579)	(579)
	–10	539	539	579	579
Euro	+10	168	168	147	147
	–10	(168)	(168)	(147)	(147)

The Syndicate manages its exposure to foreign currencies based on the balance sheet by currency which also includes insurance assets and liabilities.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2014

10. Financial risk (continued)

(i) Market risk (continued)

Interest rate risk

The Syndicate is exposed to interest rate risk arising on interest bearing assets. Assets with floating interest rates expose the Syndicate to cash flow interest rate risk. Fixed interest rate assets expose the Syndicate to fair value interest rate risk. The Syndicate's strategy is to invest in high quality, liquid fixed interest securities and cash and to actively manage duration. The investment portfolios are actively managed to achieve a balance between cash flow interest rate risk and fair value interest rate risk bearing in mind the need to meet the liquidity requirements of the business.

The Syndicate's exposure to interest rate risk for each significant class of interest bearing financial assets and liabilities is as follows:

2014	Floating interest rate £'000	Fixed interest rate maturing in: 1 year or less £'000	1 to 2 years £'000	2 to 3 years £'000	3 years over £'000	Total £'000
Interest bearing assets	304,053	393,533	68,546	218,854	27,767	1,012,753

2013	Floating interest rate £'000	Fixed interest rate maturing in: 1 year or less £'000	1 to 2 years £'000	2 to 3 years £'000	3 years over £'000	Total £'000
Interest bearing assets	312,163	289,893	344,846	38,193	18,690	1,003,785

The Syndicate's sensitivity to movements in interest rates in relation to the value of fixed interest securities is shown in the table below.

	Movement in variable %	2014 Profit / (loss) £'000	2014 Equity £'000	2013 Profit / (loss) £'000	2013 Equity £'000
Interest rate movement – fixed interest securities	+0.5	(3,181)	(3,181)	(3,383)	(3,383)
	-0.5	2,929	2,929	3,322	3,322

Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

The Syndicate holds no equity investments and so has a low exposure to price risk.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2014

10. Financial risk (continued)

(i) Market risk (continued)

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation.

Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with counterparties.

99.2% (2013 98.3%) of total fixed interest and cash investments are with counterparties having a Moody's rating of A or better. The Syndicate does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings. The Syndicate only uses derivatives in highly liquid markets.

The reinsurers' share of claims outstanding is also exposed to credit risk. 98.8% (2013 98.4%) of the balance is with reinsurers with an S&P rating of "A-"or greater.

The following table provides information regarding the carrying value of the Syndicate's financial assets, excluding amounts in respect of insurance contracts. All amounts are neither past due nor impaired at the balance sheet date.

	2014 £'000	2013 £'000
Cash	6,845	22,043
Other interest bearing investments	1,005,908	981,742
Derivatives	8,509	-
Other debtors	653	1,414
	1,021,915	1,005,199

(iii) Liquidity risk

In addition to the treasury cash held for working capital requirements, a minimum percentage of the Syndicate's total financial assets is held in liquid, short term money market securities to ensure there are sufficient liquid funds available to meet current obligations.

At 31 December 2014, the average duration of cash and fixed interest securities was 0.7 years (2013 0.6 years).

The table below summarises the maturity profile of all financial liabilities based on the remaining contractual obligations.

	2014		2013	
	Within 1 year £'000	Over 1 year £'000	Within 1 year £'000	Over 1 year £'000
Trade and other payables	88,476	-	63,630	-
Derivative financial instruments	(1,564)	-	-	-
	86,912	-	63,630	-

The Syndicate has no significant concentration of liquidity risk.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2014

11. Debtors

(i) Debtors arising out of direct insurance operations

	2014 £'000	2013 £'000
Due within one year		
Due from intermediaries	94,509	123,308

(ii) Debtors arising out of reinsurance operations

	2014 £'000	2013 £'000
Due within one year	15,516	6,126

12. Overseas deposits

	2014 £'000	2013 £'000
Additional Securities Limited (ASL) overseas deposits	8,284	7,277
Australian Trust Funds	114,657	203,199
Canadian Margin Funds	34,375	34,066
Joint Asset Trust Funds	12,386	13,144
South African Trust Funds	7,633	8,250
	177,335	265,936

13. Reconciliation of members' balance

	2014 £'000	2013 £'000
At 1 January	36,844	102,238
Profit for the financial year	47,525	38,705
Members' agent fees	(1,055)	(1,060)
Non-standard personal expenses	619	(1,088)
Distribution of profits	(29,724)	(57,184)
Open year profit release	(7,892)	(44,767)
At 31 December	46,317	36,844

14. Creditors

(i) Creditors arising out of direct insurance operations

	2014 £'000	2013 £'000
Due within one year		
Due to intermediaries	20,233	11,928

(ii) Creditors arising out of reinsurance operations

	2014 £'000	2013 £'000
Due within one year	47,743	39,896

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2014

15. Other creditors including taxation and social security

Other creditors include profit commission due to the managing agent of £12,842,000 (2013 £10,595,000) and £4,619,000 due to QBE Management Services (UK) Limited in relation to recharged expenses (2013 £1,101,000.).

16. Movement in opening and closing portfolio investments net of financing

	2014 £'000	2013 £'000
Net cash inflow for the year:		
Increase /(Decrease) in cash holdings	(14,802)	(5,920)
Increase /(Decrease) in overseas deposits	(81,295)	33,691
Net portfolio investment/(divestment)	115,217	(33,424)
Movement arising from cash flows	19,120	(5,653)
Realised and unrealised investment losses	(1,643)	(80,770)
Total movement in portfolio investments, net of financing	17,477	(86,423)
At 1 January, net of financing	1,003,785	1,090,208
At 31 December, net of financing	1,021,262	1,003,785

Movement in cash, portfolio investments and financing

	1 January 2014 £'000	Cash flow £'000	Reclass £'000	Changes to market value and currencies £'000	At 31 December 2014 £'000
Cash at bank and in hand	22,043	(14,802)	(10,515)	10,119	6,845
Overseas deposits	265,936	(81,295)	-	(7,305)	177,336
Shares and other variable yield securities and units in unit trusts	8,636	(3,957)	-	247	4,926
Debt securities and other fixed income securities	707,170	119,174	-	(13,213)	813,131
Deposits with credit institutions	-	-	10,515	-	10,515
Derivatives	-	-	-	8,509	8,509
Total cash, portfolio investments and financing	1,003,785	19,120	-	(1,643)	1,021,262

17. Cash flows invested in portfolio investments

	2014 £'000	2013 £'000
Purchase of shares and other variable yield securities and units in unit trusts	(50,182)	(89,739)
Purchase of debt securities and other fixed income securities	(1,077,059)	(1,078,886)
Sale of shares and other variable yield securities and units in unit trusts	54,139	90,753
Sale of debt securities and other fixed income securities	957,885	1,111,296
	(115,217)	33,424

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2014

18. Related parties

The managing agent of the syndicate, QUL, and a corporate Name, QBE Corporate Limited, that provides capital to the syndicate, are wholly owned subsidiaries of their ultimate parent company, QBE Insurance Group Limited (Group).

All transactions between the syndicate and companies within the Group are conducted on normal market terms on an arm's length basis.

Directors' interests

All of the executive directors listed on page 2 hold, or held in the year, executive directorships of companies within the QBE European Operations division. In addition, W-F Au, T C W Ingram, M G McCaig , P V Olsen, B W Pomeroy, and S W Sinclair are, or were in the year, non-executive directors of related companies within the QBE European Operations division. QBE European Operations plc is the parent company of the QBE European Operations division. Its accounts are available from QUL's registered office.

T C W Ingram had an interest in The Ingram (409) LLP, which participated on the 2012, 2013, and 2014 underwriting years of the Syndicate. In each of those years he had an interest in £165,253 of the Syndicate's capacity. Following the October 2014 Lloyd's capacity auction, he has no participation for the 2015 underwriting year onwards.

Inter syndicate transactions

In certain instances the syndicate has underwritten reinsurances of other managed syndicates. The premiums paid are not material either in the context of those syndicates' overall reinsurance costs nor are they a material part of this syndicate's income.

All contracts are written on normal market terms at arm's length.

Inwards reinsurance contracts with related QBE companies

In certain instances the syndicate has underwritten inwards reinsurance business from companies within the Group during the year. Inwards premiums totalling £365,000 (2013 £828,000) were written in the year with related QBE companies. All such contracts are written on normal market terms on an arm's length basis. At the year end there was a balance of £58,000 (2013 £399,000) in respect of technical provisions. arising from these transactions.

Outwards reinsurance contracts with related QBE companies

The syndicate has purchased reinsurance with companies within the QBE Group during the year. Outward premiums totalling £3,294,000 (2013 £42,280,000) were placed with Equator Reinsurances Limited (Equator Re), and £nil (2013 £8,000) with other Group companies. All such contracts are written on normal market terms on an arm's length basis.

Balances received in respect of reinsurance recoverable from Equator Re amounted to £7,313,000 (2013 £386,000). At the year end, balances due from Equator Re in respect of the reinsurers' share of technical provisions was £108,735,000 (2013 £123,265,000).

Profit commission

Profit commission is payable to the managing agent as per note 1(b)(xiii). During the year £11,881,000 was charged (2013 £9,676,000). At the year end £12,842,000 (2013 £10,595,000) was outstanding. This is shown within other creditors.

Managing agent

Total fees payable to QUL in respect of services provided to the syndicate in the year amounted to £2,478,000 (2013 £2,476,000). No balance is outstanding at the year end.

Administrative expenses

Total expenses recharged from QBE Management Services (UK) Limited in respect of services provided to the syndicate amounted to £36,415,000 (2013 £38,997,000). The balance outstanding at year end is £4,619,000 (2013 £1,101,000). There are no other transactions or arrangements to be disclosed.

Service companies

Certain group service companies provided insurance business to the syndicate and charged fees equal to the costs they incurred in placing the business with the syndicate. These service companies are not operated to make a profit. The risks placed with the syndicate are under normal market conditions and are in the interests of all the Names on the syndicate.

2012 UNDERWRITING YEAR ACCOUNTS

UNDERWRITING YEAR - REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Managing Agent presents its report at 31 December 2014 for the 2012 closed year of account.

The report is prepared in accordance with the Lloyd’s Syndicate Accounting Byelaw (No. 8 of 2005). It accompanies the underwriting year accounts prepared on an underwriting year basis of accounting as required by the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008.

The reinsurance to close for the 2012 underwriting year was approved by the board of Directors on 6 March 2015.

Principal activity

Syndicate 386 is a specialist non-US domiciled liability syndicate, including some US business operations of non-US domiciled parents, operating within the Lloyd’s insurance market, headed by the Active Underwriter of the syndicate, David Harries. David is supported by an experienced team of underwriters.

Syndicate 386 forms an integral part of QBE European Operations’ (QBE EO’s) underwriting strategy. The syndicate’s strong franchise and track record support the QBE Group’s vision to be the most successful global insurer and reinsurer in the eyes of its customers, people, shareholders and the community.

Business written by the syndicate during the year can be divided into three core areas: employers’ liability; professional and financial lines and; general liability (the latter encompassing, inter alia, products liability and third party liability). Risks are accepted and written on a worldwide basis, but predominantly in the UK. Throughout the year, the syndicate has maintained its strong reputation for excellent service, risk and claims management.

The syndicate, together with other underwriting entities within QBE EO, continued to provide an integrated casualty offering during the period, leveraging enhanced distribution opportunities and economics of scale in reinsurance purchase and providing a strong diversity of products.

The new underwriting management structure implemented by QBE EO during 2013 is now embedded, and has continued to work well. The syndicate has a greater emphasis on customer value proposition, with a greater focus on providing clients both with what the need, and with a consistent service.

UNDERWRITING YEAR – REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

2012 closed year of account

The 2012 pure underwriting year continued to perform well, producing a net ultimate loss ratio of 62.1% and resultant underwriting profit of £124.8 million.

The 2011 and prior years produced a net deficit of £16.3 million. The largest components of this deficit are Australian general liability risks, including bushfires and some Canadian general liability risks, together with some deterioration on medical liability relating to 2007 and prior.

This, coupled with investment return and deducting the loss on foreign exchange and other syndicate expenses, has resulted in a total profit to Names of 9.7% of capacity.

Gross written premium (less brokerage and commission) was in line with previous expectations at £395.69 million for the 2012 year, equivalent to 96% utilisation of the syndicate's £412.4 million capacity.

My congratulations go to the whole Casualty team for a strong result in difficult market conditions.

All classes of business contributed significantly to the 2012 pure year profit (before expenses) as follows:

	£'m
UK and Ireland Liability	57.5
Professional and Financial Lines	10.4
Casualty International	56.9
	124.8

2013 and 2014 open years of account

The 2013 pure underwriting year also continues to perform well but to a lesser extent with a projected net ultimate loss ratio of 67.1% versus 65.8% planned, producing a mid-range profit of 8.9% of capacity to Names. Projected gross written premium (less brokerage and commission) is £344.1 million. This equates to 83% utilisation of its £412.6 million capacity.

In spite of challenging market conditions, early predictions for the 2014 year remain acceptable, albeit again slightly below plan to date, with a projected net ultimate loss ratio of 70.8% (versus 71.7% planned), due predominantly to the tough rating environment. Gross written premium is projected to be below plan. We believe that the syndicate is ahead of the market in taking action in the international liability market.

Foreign exchange hedging

In the light of foreign exchange volatility, the pronounced strength of Sterling, and having consulted with members agents, the Syndicate commenced foreign exchange hedging from the third quarter of 2014. The cost of the policy is not material and should greatly reduce future result volatility caused by exchange rate movements.

Directors

Details of the directors of the Managing Agent that served during the year and up to the date of signing of the syndicate annual accounts are shown on page 2.

UNDERWRITING YEAR – REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Statement of Managing Agent's responsibilities

The directors of the Managing Agent are responsible for preparing the Managing Agent's report and the syndicate underwriting year accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

In preparing the syndicate underwriting year accounts, the Managing Agent is required to:

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the underwriting year accounts.

The Managing Agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board of the Managing Agent

D J Winkett
Director
QBE Underwriting Limited
London
6 March 2015

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS ON THE 2012 CLOSED UNDERWRITING YEAR OF ACCOUNT OF QBE CASUALTY SYNDICATE 386

Report on the syndicate underwriting year accounts

Our Opinion

In our opinion the syndicate underwriting year accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs for the 2012 closed year of account and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

What we have audited

The syndicate underwriting year accounts for the 2012 year of account of Syndicate 386 for the 3 years ended 31 December 2014, which are prepared by the Managing Agent, comprise:

- the balance sheet as at 31 December 2104;
- the profit and loss account for the 3 years then ended;
- the statement of accounting policies; and
- the notes to the syndicate underwriting year accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate underwriting year accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Other matters on which we are required to report by exception

Under the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) we are required to report to you if, in our opinion:

- the Managing Agent in respect of the syndicate has not kept proper accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate underwriting year accounts and the audit

Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities, set out on page 40, the Managing Agent is responsible for the preparation of the syndicate underwriting year accounts, under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS ON THE 2012 CLOSED UNDERWRITING YEAR OF ACCOUNT OF QBE CASUALTY SYNDICATE 386 (continued)

What an audit of syndicate underwriting year accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate underwriting year accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating disclosures in the syndicate underwriting year accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited syndicate underwriting year accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Andrew Moore (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 March 2015

Note:
The maintenance and integrity of the QBE EO website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the syndicate underwriting year accounts since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of syndicate underwriting year accounts may differ from legislation in other jurisdictions

PROFIT AND LOSS ACCOUNT -
2012 UNDERWRITING YEAR TECHNICAL ACCOUNT - GENERAL BUSINESS

for the 36 months ended 31 December 2014

	Note	£'000	£'000
Syndicate allotted capacity			412,391
Earned premium, net of reinsurance			
Gross premiums written	2	466,347	
Outward reinsurance premiums		(65,604)	
Earned premium, net of reinsurance			400,742
Reinsurance to close premium received, net	3		614,538
Allocated investment return transferred from the non-technical account			19,353
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(327,276)	
Reinsurers' share		125,848	
Net claims paid		(201,428)	
Reinsurance to close premium payable, net of reinsurance	4	(636,857)	
Claims incurred, net of reinsurance			(838,285)
Net operating expenses	5		(141,260)
Standard personal expenses			(16,392)
Balance on the technical account - general business			38,696

The underwriting year has closed: all items therefore relate to discontinued operations.

The notes set out of pages 46 to 52 form an integral part of these financial statements

PROFIT AND LOSS ACCOUNT - 2012 NON-TECHNICAL ACCOUNT

for the 36 months ended 31 December 2014

	Note	£'000
Balance on the technical account - general business		38,696
Investment income	6(a)	24,987
Unrealised losses on investments		(1,305)
Investment expenses and charges	6(b)	(4,329)
Investment return		19,353
Allocated investment return transferred to the general business technical account		(19,353)
Profit for the underwriting year	11	38,696

There are no recognised gains or losses in the accounting period other than those included dealt with in the technical and non-technical accounts.

The underwriting year has closed: all items therefore relate to discontinued operations.

The notes set out of pages 46 to 52 form an integral part of these financial statements

2012 UNDERWRITING YEAR - BALANCE SHEET

For the closed year of account as at 31 December 2014

	Note	£'000
Assets		
Investments		
Other financial investments	8	543,223
Debtors		
Debtors arising out of direct insurance operations	9	72,122
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	4	206,862
Other assets		
Cash at bank and in hand		4,574
Overseas deposits	10	128,696
Prepayments and other accrued income		3,634
Total assets		959,111

	Note	£'000
Liabilities		
Amounts due to members	11	17,145
Reinsurance to close premium payable to close the account – gross amount		843,719
Creditors	12	96,665
Accruals and deferred income		1,582
Total liabilities		959,111

These financial statements on pages 38 to 52 were approved by the board of QBE Underwriting Limited on 6 March 2015 and signed on its behalf by:

D J Winkett
Director

The notes set out of pages 46 to 52 form an integral part of these financial statements

2012 UNDERWRITING YEAR - NOTES TO THE FINANCIAL STATEMENTS

Forming part of the financial statements

1. Accounting policies

(a) Basis of preparation

These syndicate underwriting year accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2005 (as amended in December 2006) by the Association of British Insurers, except that foreign exchange gains and losses are taken to the profit and loss technical account.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2012 year of account which has been closed by reinsurance to close as at 31 December 2014. Consequently the balance sheet represents the assets and liabilities of the 2012 year of account at the date of closure. The profit and loss account reflects the transactions for that year of account during the three year period until closure.

These accounts cover the three years from the date of inception of the 2012 year of account to the date of closure. Accordingly, this is the only reporting period and so corresponding amounts are not shown.

(b) Insurance

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

(i) Premiums written

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Premiums in respect of insurance contracts underwritten under a binding authority, line slip or consortium arrangement are allocated to the year of account corresponding to the calendar year of inception of the arrangement. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

(ii) Reinsurance premium ceded

Initial reinsurance premiums paid to purchase policies which give excess of loss protection are charged to the year of account in which the protection commences. Premiums for other reinsurances are charged to the same year of account as the risks being protected.

(iii) Claims paid and related recoveries

Gross claims paid include internal and external claims settlement expenses and, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

(iv) Reinsurance to close premium payable

The net reinsurance to close premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims incurred but not reported), net of estimated collectible reinsurance recoveries, relating to the closed year of account and all previous years of account reinsured therein.

The estimate of claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date. It also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Forming part of the financial statements

1. Accounting policies (continued)

(b) Insurance (continued)

(v) Reinsurance to close premium payable (continued)

The reinsurers' share is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

A critical assumption as regards claims estimates is that the past is a reasonable predictor of the likely level of claims development.

(c) Foreign currency transactions

Transactions in foreign currencies other than the reinsurance to close are translated at the rates of exchange prevailing at the time of the transaction. Reinsurance to close premiums receivable and payable, and underwriting transactions denominated in other foreign currencies, are included at the rate of exchange ruling at the closing date.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate.

Exchange differences are included in the technical account.

Where currencies are sold or bought relating to the profit or loss of the closed underwriting account after 31 December, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured.

(d) Investments

Investments are stated at fair value at the balance sheet date. For this purpose listed investments are stated at market values, and deposits with credit institutions and overseas deposits are stated at market value. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently stated at fair value obtained from quoted market prices in active markets.

(e) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. The returns on the Joint Asset Trust Funds and Illinois Deposit are allocated to the year of account as notified by Lloyd's. The returns on other assets arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

Realised gains and losses on investments carried at fair value through profit and loss are calculated as the difference between sale proceeds and purchase price or where forming consideration for RITC receivable the fair value at the date of transfer. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair value at transfer as consideration for RITC receivable, together with the reversal of unrealised gains and losses recognised in the accounting period in respect of investment disposals.

Investment return on general business is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Forming part of the financial statements

1. Accounting policies (continued)

(f) Administrative expenses

Administrative expenses are taken into account on an accruals basis. These recharged expenses include the costs of staff, who are employed by QBE Management Services (UK) Limited. QBE Management Services (UK) Limited operates both defined benefit and defined contribution pension schemes, the expense of which is included in the recharges. The recharged expenses also include the costs of various service and claims handling companies. These companies are wholly owned by QUL.

Syndicate operating expenses are allocated to the year of account for which they are incurred. Commission and brokerage are charged to the year of account to which the relevant policy is allocated.

(g) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate on behalf of the members during the year are included in the balance sheet under the heading "other debtors".

No provision has been made for any overseas tax payable by members on underwriting results.

(h) Profit commission

Profit commission is charged by the managing agent at a rate of 20% of profit for the closed year of account, subject to the operation of a deficit clause. Where profit commission is charged, it is included within standard personal expenses within the profit and loss - technical account.

2. Segmental Information

An analysis of the underwriting result before investment return is set out below:

	Gross premium written £'000	Gross claims incurred (note a) £'000	Gross operating expenses £'000	Reinsurance balance (note b) £'000	Total £'000
Third party liability	410,121	(239,016)	(126,392)	(1,638)	43,075
Reinsurance acceptances	54,026	(25,810)	(14,483)	(4,736)	8,997
	464,147	(264,826)	(140,875)	(6,374)	52,072
Reinsurance to close	616,738	(906,170)	(386)	273,481	(16,337)
Total	1,080,885	(1,170,996)	(141,261)	267,107	35,735

a) Gross claims incurred comprise gross claims paid and gross reinsurance to close premium payable.

b) The reinsurance balance comprises reinsurance premiums ceded less reinsurance recoveries on claims paid and reinsurance recoveries anticipated on reinsurance to close payable.

c) All premiums are concluded in the UK.

d) Operating expenses includes standard personal expenses and reinsurance related expenses.

e) Gross premium written equals gross premium earned.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Forming part of the financial statements

3. Reinsurance to close premium received

	£'000
Gross reinsurance to close premium received	867,800
Reinsurance recoveries anticipated	(253,262)
Reinsurance to close premium receivable, net of reinsurance	614,538

4. Reinsurance to close premium payable

	Reported £'000	IBNR £'000	Future premiums £'000	Total £'000
Gross reinsurance to close premium payable	558,964	283,872	883	843,719
Reinsurance recoveries anticipated	(172,024)	(51,975)	17,137	(206,862)
Reinsurance to close premium payable, net of reinsurance				636,857

5. Net operating expenses

	£'000
Acquisition costs – brokerage	68,529
Acquisition costs – other	30,973
Administrative expenses	20,598
Loss on exchange	21,160
	141,260

Administrative expenses include:

Auditors' remuneration	
Fees payable to the syndicate auditor for the audit of the 2012 accounts	162
Other services pursuant to legislation	130

6. Investment income, expenses and charges

(a) Investment income

	£'000
Income from investments	24,987

(b) Investment expenses and charges

	£'000
Losses on the realisation of investments	(3,447)
Investment management expenses	(882)
	(4,329)

NOTES TO THE FINANCIAL STATEMENTS (continued)

Forming part of the financial statements

7. Analysis of result by year of account

	2011 and prior years of account £'000	2012 pure year of account £'000	Total £'000
Balance excluding investment return and operating expenses	(15,951)	192,947	176,996
Brokerage and commission on gross premium	(386)	(68,144)	(68,530)
	(16,337)	124,803	108,466
Allocated investment return transferred from the non-technical account			19,353
Net operating expenses excluding brokerage and commission			(72,731)
Standard personal expenses			(16,392)
			38,696

8. Other financial investments

	Cost £'000	Market value £'000
Shares and other variable yield securities and units in unit trusts	2,160	2,160
Debt securities and other fixed income securities	527,976	527,213
Deposits with credit institutions	7,682	7,682
Other investments	-	6,168
	537,818	543,223

9. Debtors arising out of insurance operations

	£'000
Due within one year	
Due from intermediaries	10,363
Inter-year loan	43,214
Reinsurance recoveries	16,500
Other	2,045
	72,122

10. Overseas deposits

These are lodged as a condition of conducting underwriting business in certain countries.

	£'000
Additional Securities Limited (ASL)	7,009
Australian Trust Funds	84,147
Canadian Margin Fund	22,870
Joint Asset Trust Funds	10,829
South African Trust Funds	3,841
	128,696

NOTES TO THE FINANCIAL STATEMENTS (continued)

Forming part of the financial statements

11. Amounts due to members

	£'000
Profit for the closed year of account	38,696
Distributions made to 31 December 2014	(21,551)
	17,145

12. Creditors

	£'000
Due within one year	
Arising out of direct insurance operations:	
Due to intermediaries	44,927
Arising out of reinsurance operations	46,037
Other	5,701
	96,665

13. Related parties

The Managing Agent of the syndicate, QUL, and a corporate Name that provides capital to the syndicate, are wholly owned subsidiaries of their ultimate parent company, QBE Insurance Group Limited (Group).

All transactions between the syndicate and companies within the Group are conducted on normal market terms on an arm's length basis.

Directors' interests

All of the executive directors listed on page 2 hold, or held in the year, executive directorships of companies within the QBE European Operations division. In addition, W-F Au, T C W Ingram, M G McCaig , P V Olsen, B W Pomeroy, and S W Sinclair are, or were in the year, non-executive directors of related companies within the QBE European Operations division.

T C W Ingram participated on the 2012 underwriting year of the Syndicate. He had an interest in £165,253 of the Syndicate's capacity.

Inter-syndicate transactions

In certain instances the syndicate has underwritten reinsurances of other managed syndicates. The premiums paid are not material either in the context of those syndicates' overall reinsurance costs nor are they a material part of this syndicate's income. All contracts are written on normal market terms at arm's length.

Inwards reinsurance contracts with related QBE companies

In certain instances the syndicate has underwritten inwards reinsurance business from companies within the Group during the year. Inwards premiums totalling £683,191 were written for the 2012 account, all with QBE Insurance (Europe) Limited. All such contracts are written on normal market terms on an arm's length basis.

Outwards reinsurance contracts with related QBE companies

The syndicate has placed outwards reinsurance business with companies within the Group during the period, premiums ceded in respect of the 2012 year of account were £43,201,000.

Profit commission

Profit commission is payable to the Managing Agent as per note 1(h). During the period £9,936,000 was charged in respect of the 2012 year of account. At the end of the period, £4,548,000 was outstanding. This is shown within other creditors.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Forming part of the financial statements

13. Related parties (continued)

Managing Agent

Total fees payable to QBE Underwriting Limited in respect of services provided to the syndicate in respect of the 2012 year of account amounted to £2,474,000. No balance is outstanding at the year end.

Administrative expenses

Total expenses recharged from QBE Underwriting Limited and QBE Management Services (UK) Limited in respect of services provided to the syndicate in respect of the 2012 year of account amounted to £40,685,000. No balance is outstanding at the year end.

There are no other transactions or arrangements to be disclosed.

SEVEN YEAR SUMMARY

The results for the last seven years on an annual accounting basis are as follows:

	2008 £'000	2009 £'000	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000
Gross premium written	411,967	417,121	458,066	442,678	443,771	449,256	**332,559**
Net earned premiums	359,216	374,916	355,389	377,265	378,701	375,663	**359,352**
Net claims	(192,421)	(85,813)	(123,339)	(102,746)	(165,493)	(177,152)	**(205,271)**
Acquisition costs	(81,486)	(83,946)	(76,534)	(87,049)	(89,228)	(97,381)	**(93,021)**
	85,309	205,157	155,516	187,470	123,980	101,130	**61,060**
Profit/(loss) on exchange	70,857	20,708	44,071	(4,540)	(12,316)	(45,451)	**(2,791)**
Other net operating expenses	(53,693)	(67,717)	(59,571)	(59,609)	(46,057)	(34,786)	**(29,591)**
Investment return	60,812	62,518	35,068	36,317	36,280	17,812	**18,847**
Profit for the financial year	163,285	220,666	175,084	159,638	101,887	38,705	**47,525**

The results for the last seven underwriting years to close are as follows:

	2006	2007	2008	2009	2010	2011	2012
Syndicate allocated capacity	£339.4m	£339.3m	£339.7m	£339.8m	£364.9m	£364.7m	**£412.4m**
Capacity utilised	136.0%	125.6%	123.2%	127.1%	122.0%	123.9%	**113.1%**
Number of underwriting members	1,185	1,156	1,130	1,123	1,147	1,155	**1,193**
Aggregate net premiums	£391.6m	£377.9m	£381.8m	£390.7m	£378.2m	£383.6m	**£400.7m**
Net capacity utilised	115.4%	111.4%	112.4%	115.0%	103.7%	105.2%	**97.2%**
Technical account ratio	40.1%	51.8%	46.7%	35.1%	23.5%	17.7%	**7.7%**

Result for an illustrative share of £10,000

	2006	2007	2008	2009	2010	2011	2012
	£	£	£	£	£	£	£
Gross premiums	13,604	12,559	12,316	12,711	12,197	12,395	**11,308**
Net premiums	11,539	11,136	11,242	11,499	10,366	10,517	**9,718**
Reinsurance to close from earlier account	21,473	22,394	21,914	21,281	18,592	17,342	**14,902**
Net claims	(4,824)	(5,015)	(5,042)	(5,433)	(5,129)	(4,994)	**(4,884)**
Reinsurance to close	(22,177)	(20,881)	(21,615)	(20,370)	(18,131)	(17,152)	**(15,443)**
Profit/(loss) on exchange	1,877	1,383	1,763	418	(129)	(735)	**(513)**
Syndicate operating expenses	(2,437)	(2,515)	(2,506)	(2,939)	(2,699)	(2,788)	**(2,912)**
Balance on technical account	5,451	6,502	5,756	4,456	2,870	2,190	**868**
Investment income and gains less losses, less expenses and charges	1,763	2,021	1,204	1,097	917	615	**469**
	7,214	8,523	6,960	5,553	3,787	2,805	**1,337**
Illustrative personal expenses for a traditional Name							
Managing agent's fee	(60)	(60)	(60)	(60)	(60)	(60)	**(60)**
Contribution to Lloyd's Central Fund	(100)	(100)	(53)	(54)	(55)	(53)	**(24)**
Profit commissions	(1,401)	(1,662)	(1,359)	(1,077)	(723)	(528)	**(241)**
Lloyd's subscription	(50)	(50)	(53)	(54)	(55)	(53)	**(47)**
	(1,611)	(1,872)	(1,525)	(1,245)	(893)	(694)	**(372)**
Profit/(loss) after illustrative profit commission and personal expenses	5,603	6,651	5,435	4,308	2,894	2,110	**965**

Note:

1 The seven year summary has been prepared from the audited accounts of the Syndicate.

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