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QBE Casualty Syndicate 386 Annual report 2016



QBE Casualty Syndicate 386

Annual Report

31 December 2016

QBE CASUALTY SYNDICATE 386

PAGE

Managing agency - corporate information	2
Strategic report	3
Report of the Directors of the Managing Agent	11
Independent Auditors' report to the Members of QBE Casualty Syndicate 386	13
Profit and loss account - technical account - general business	16
Profit and loss account - non-technical account	17
Statement of income and members balances	18
Balance sheet	19
Statement of cash flows	21
Notes to the annual accounts	22
2014 UNDERWRITING YEAR ACCOUNTS	40
Underwriting year - report of the Directors of the Managing Agent	41
Independent Audits' report to the Members of QBE Casualty Syndicates 386 - 2014 closed year of account	43
Profit and loss account - 2014 underwriting year technical account - general business	45
Profit and loss account - 2014 underwriting year non-technical account	46
Balance sheet - 2014 underwriting year	47
Notes to the underwriting year accounts	48
Seven year summary	55

MANAGING AGENCY – CORPORATE INFORMATION

Directors

W-F Au*
T C W Ingram*
M G McCaig*
C R O'Farrell
R V Pryce
S W Sinclair*
N J D Terry Appointed 19 December 2016
D J Winkett

* non-executive Directors

Former Directors who served during part of the year

P A Dodridge Resigned 19 December 2016

Company secretary

E Felton Smith

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, the Managing Agent for QBE Casualty Syndicate 386 (the Syndicate), present their Strategic report for the Syndicate for the year ended 31 December 2016.

Principal activities

The Syndicate 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 and headed by Active Underwriter, David Harries. David is supported by an experienced team of underwriters.

The Syndicate 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 2016, leveraging enhanced distribution opportunities and economies of scale in the cost of reinsurance protection.

The Syndicate has continued the emphasis on its customer value proposition, with a focus on understanding what clients require beyond the purchase of monoline insurance.

International Casualty

The Syndicate has an enviable reputation as a leader in International Liability business, with the Casualty International account comprising approximately 38% 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.

Professional and Financial Lines

This account, which comprises approximately 23% of overall gross written premium, encompasses risks in the construction business, technology business and miscellaneous and 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.

The account also includes pharmaceutical and medical malpractice business.

UK and Ireland Liability

This account totals approximately 39% of overall 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. As a leader in the liability field, 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's claims team operate within a combined QBE EO claims service, with a strong reputation for 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 2016 relative to the previous year:

	2016	2015
	£000	£000
Gross written premium	328,080	335,172
Net earned premiums	270,983	323,567
Net claims	(167,375)	(173,751)
Acquisition costs	(73,529)	(89,184)
Non-technical account income/(charges)	5,584	(4,243)
Other net operating expenses	(26,060)	(25,713)
Net underwriting profit	9,603	30,676
Investment return	22,122	11,558
Total profit for the year	31,725	42,234
Claims ratio	61.8%	53.7%
Combined operating ratio	96.5%	90.5%

Other net operating expenses include standard personal expenses.

The Active Underwriter comments

I am pleased to report a profitable result for 2016 and a combined ratio of 96.5% (2015: 90.5%).

This result includes the anticipated impact of the recent announcement from the Ministry of Justice, reducing the statutory discount rate applied to certain UK personal injury claims (referred to as Ogden tables) to -0.75%.

The competitive market conditions previously reported in 2015 saw no abatement in 2016, across all major product lines and geographies, with an actual rate experience on renewals of -1.9% relative to -0.7% plan, coupled with lower new business volumes. As a consequence and despite a weakening in sterling against the major currencies, gross written premium for the year is down 2.1% on 2015 at £328,080k.

The combined operating ratio of 96.5% was worse than prior year (2015: 90.5%) due to the impact of the Ogden table changes, coupled with a reduced profit contribution from prior years. This, coupled with an adverse performance relative to plan from the 2016 underwriting year, has resulted in an increased combined operating ratio relative to 2015. EY have again been engaged to provide independent projections to support the Statement of Actuarial Opinion (SAO) to be issued to Lloyd's.

The 2016 result also includes the cost of the 2007 and prior year Loss Portfolio Transfer Agreement in respect of the Syndicate's UK & Ireland EL and PL legacy reserves. This agreement transferred 100% of the Syndicate's economic liability in the reinsured portfolio to an external reinsurer by way of 100% quota share reinsurance, providing future protection from any potential downside risk from long tail disease exposure.

Acquisition costs at 27.1% of net earned premium were broadly in line with 2015 at 27.6%. Investment return of £22,122k is materially improved on prior year (2015: £11,558k), due to calendar year yield of 2.1% being ahead of budget, and greater than the prior calendar year yield of 0.9%.

During the year the Syndicate entered into a significant transaction with a third party organisation, whereby, in return for a reinsurance premium, the Syndicate benefits from 100% reinsurance of certain long tail outstanding claims on 2014 and prior underwriting years. This policy removes reserve uncertainty applicable to the reinsured claims, and is due to be followed by legal transfer of the underlying claims to the reinsurer.

STRATEGIC REPORT (continued)

Outlook

In 2016 we have put much emphasis on how we can build broader and deeper relationships with our clients in order to assist our underwriting teams to maintain high levels of retention on performing business.

This focus has become increasingly important as it is challenging to win quality new business. To meet this challenge on new business there is early identification of opportunities and action plans across all lines for successful execution. The increased sophistication of our clients is likely to create demand for a multinational solution which includes the issuance of local policies that go beyond Syndicate 386's underwriting appetite. This will inevitably have an impact on potential growth over the next few years.

The outlook continues to be one of ever more competition in all lines and now of course greater political uncertainty.

To put this in context, Casualty business in Lloyd's has grown by over 50% in 5 years even though underlying rates have fallen over the period. Conversely, acquisition costs in the market have increased, partly as a result of the continued increase in the number of Delegated Underwriting Authorities. The lower profit margins that result from these conditions make it more difficult to absorb large claims as and when they occur.

Our underwriting and claims teams work very hard to counter these pressures and deliver a positive result to our capital providers. They, along with actuarial, finance and admin teams should be commended for another strong set of numbers in what many describe as the most competitive market of our generation.

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 QBE Underwriting Limited’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 regulation. The investment policy is designed to ensure that liquidity, credit and market risk are appropriately managed.

Syndicate investments are primarily held in fixed income bonds and money market instruments; with modest exposure to growth assets through investment funds in developed market equities, high yield debt, emerging market debt and emerging market equities. The majority of fixed income portfolios have an average credit rating equivalent to or better than Standard & Poor’s “A”. The minimum permitted credit quality per the guidelines is “BBB-” 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.

The Syndicate is implementing a policy to reduce asset / liability duration mismatch. Asset duration within the Syndicate’s investment portfolios is gradually, over a number of years, being extended to move closer to that of the Syndicate’s insurance liabilities. In 2016 the Syndicate still held investments with shorter average duration than would normally be expected if it were wholly matching the duration of liabilities relating to long-tail classes of business.

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 minimise foreign exchange risk by holding monetary assets in foreign currencies in order to match monetary liabilities in such currencies where size is deemed material. 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 combined currency total return for the year was 2.1% (2015 1.2%).

Portfolio currency	2016 Average funds £’000	2016 Average return %	2016 Target return %	2015 Average funds £’000	2015 Average return %	2015 Target return %
Australian dollar	272,298	2.6	2.4	359,082	2.5	2.8
Canadian dollar	323,318	1.4	1.0	507,279	1.2	1.3
Euro	159,199	3.0	2.6	194,823	0.4	0.4
UK pound sterling	352,692	2.1	1.7	281,008	0.7	1.1
US dollar	98,134	1.6	1.4	144,783	0.6	0.6
South African rand	177,129	8.5	8.6	138,191	5.4	6.6

The benchmark target for investment portfolios is an absolute return yield, agreed for each currency on an annual basis by the QBE European Operations’ Executive Board. Combined asset class targets for each currency agreed for each financial year are shown above.

During 2016 most asset classes performed well, supported by monetary policy and continued economic expansion. Geopolitical surprise dominated the second half of the year following the UK’s ‘Brexit’ vote in June and the election of Donald Trump as US President in November. Earlier strong returns in developed market bonds were pared back in the last quarter as global yields rose and investors switched attention to riskier assets.

The majority of the Syndicate’s 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 1.8% (2015 1.4%).

STRATEGIC REPORT (continued)

Investment performance (continued)

During 2016, the Syndicate's fixed income portfolios continued to be managed conservatively with average duration of between one and two years. 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.

Corporate governance

The Syndicate is managed by QBE Underwriting Limited (QUL or the Company), 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.

The QUL corporate governance structure has continued to evolve during 2016, reflecting the Boards' commitment to ensuring that it remains efficient, relevant and supportive of the strategic aims of the Company. The structure continues to comply with all relevant regulatory and legal requirements, including the Lloyd's governance standards. As a member of the QBE Group, the Company is not bound by the UK Corporate Governance Code. However, as a matter of best practice, the Company's Board seeks to comply with the Code, where practical and relevant.

Key changes to the corporate governance structure during the year were:

- (i) The establishment of a Compliance Management Group to support the Risk and Capital Committee (RCC) in providing co-ordinated oversight and monitoring of the Company's adherence to its Compliance Framework in meeting its legal and regulatory responsibilities;
- (ii) The establishment of a Brexit Steering Group to provide oversight, direction and guidance to support the Boards in responding to the United Kingdom's exit from the European Union;
- (iii) The disbanding of the Solvency II Steering Group (previously a sub-group of the RCC), the Company having received approval from the PRA to the use of the Internal Model in December 2015 and subsequent work in respect of other Solvency II related matters having been concluded or, where relevant, being now undertaken within other areas of the formal corporate governance structure; and
- (iv) The formalisation of the Risk & Capital Group ('RCG') as a formal sub-group of the RCC. The RCG was established in 2015 to provide executive support, and filter information flow, to the RCC. Given its importance in the structure, in February 2016 it was determined that the RCG should become a formal sub-group of the RCC.

During the year, Committee Terms of Reference and Board Charters were all reviewed by the relevant Committees and Boards, with minor enhancements being made to reflect ongoing assessment of key responsibilities of the Committees and matters reserved to the Boards.

In accordance with applicable governance standards, in June and July 2016 the Board undertook a Board Effectiveness Review, facilitated by a bespoke software which allowed tailored questionnaires to be completed anonymously by Board and Committee members in respect of the Boards, each of the Committees and independent Director performance. The results of the questionnaires were followed up by the Chairman of the Board in individual meetings with Directors and at Committee meetings by Committee Chairs. A series of minor recommendations to support continuous improvement of effectiveness arising from the review were discussed and agreed by the Boards.

A Board away day was held in May, providing the opportunity for the Boards to focus on strategy (with presentations from senior management) and to meet more informally. We further supported non-executive Director engagement through informal meetings exclusively for QBE EO non-executive Directors and meetings with non-executive Directors from the QBE Group Board.

The main Company's Board and Board Committees met regularly during the year with strong attendance from all members. The Board of the Company met 9 times during 2016.

STRATEGIC REPORT (continued)

Corporate governance (continued)

The Board of QBE Underwriting Limited

The Company's Board charter states that the role of the Board is to provide leadership; to oversee the design and implementation of the Company's strategy and to set a framework of prudent and effective controls which enable risk to be assessed and managed within it. The Board ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews the performance of management in delivering on the Company's strategic aims. The Board should set and instil the Company's values and culture in the light of those set by QBE Group and ensure that its obligations to its shareholder and other stakeholders of QBE Underwriting Limited are understood and met.

The Board is chaired by Tim Ingram and comprises four executive Directors and four independent non-executive Directors. During the year, Philip Dodridge resigned as an executive Director of the Company and Nigel Terry was appointed as an executive Director of the Company.

The role of the Chairman of the Board is distinct from that of the Chief Executive Officer, 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 leadership team to set and monitor the strategy and values of QBE EO.

In conjunction with QBE Group and supported by the Remuneration and Nomination Committee, succession planning is undertaken in accordance with the world-class talent objective, which forms part of the strategic priorities of both QBE EO and QBE Group.

QBE Underwriting Limited has four non-executive Directors, including the Chairman of the Company, all of whom are 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 the 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 Management Board
- Investment Committee
- Remuneration and Nomination Committee
- Risk and Capital Committee

STRATEGIC REPORT (continued)

Risk management and principal risks and uncertainties

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

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

The main risks are regularly reported and discussed at the QBE EO 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

The Company defines strategic risk as the current and prospective impact on earnings and/or capital arising from strategic business decisions and responsiveness to external change.

The Company manages strategic risk using the following:

- Consider strategic options in light of the impact on return volatility and capital requirements of the Syndicates; and
- Planning and monitoring capital levels of the Syndicates on an ongoing basis, with reference to regulatory, rating agency and economic requirements.

Credit risk

The Company defines credit risk as the risk of not recovering money owed to the Company by third parties, as well as the loss in value of assets due to deterioration in credit quality.

The Company manages credit risk using the following:

- Regularly reviewing our exposure limits and credit quality levels for approved counterparties in relation to deposits and investments.

Group risk

The Company defines group risk as the risk to a division arising specifically from being part of a wider group, including financial impact and loss of support from the QBE Group; coupled with operating in the Lloyd's Market.

The Company manages group risk using the following:

- Challenge and oversight of independent non-executive Directors on the Company Board.
- Contractual arrangements in place for material services provided by other QBE Group divisions and companies.
- The QBE Group services framework which governs the procurement, monitoring and review of services provided to the Company by the wider QBE Group.
- Involvement of QBE EO individuals within all material QBE Group initiatives.

Liquidity risk

The Company defines liquidity risk as the risk of insufficient liquid assets to meet liabilities as they fall due to creditors.

The Company manages liquidity risk using the following:

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

STRATEGIC REPORT (continued)

Operational risk

The Company defines operational risk as the risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events. Exposure to operational risk arises from - internal fraud, external fraud, employment practices, improper business practice, technology and infrastructure failures and business and transaction processing.

The Company manages operational risk using the following:

- Actively monitoring our key processes and systems;
- Conducting scenario reviews to identify and quantify potential exposures for mitigation; and
- Maintaining effective segregation of duties, access controls, authorisation and reconciliation procedures.

Solvency II and capital adequacy

The Company has been applying the Prudential Regulation Authority (PRA) approved Society of Lloyd's Solvency II internal capital model from 1 January 2016. Acting on behalf of the Syndicates, the internal model is an integrated framework to support its objectives by managing risk and capital across the Syndicates' 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 Company.

The internal model is used 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 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.

Business continuity management

A business continuity management framework ensures that the Company is resilient and able to respond effectively to incidents that threaten business continuity, including any material failures in significant outsourcing arrangements. 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 13 March 2017 and signed on its behalf by:

D J Winkett

QBE Underwriting Limited
London

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of QBE Underwriting Limited, the Managing Agent for the Syndicate, present their report and the audited financial statements of the Syndicate for the year ended 31 December 2016.

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).

Strategic report

The strategic report, which includes details of the Syndicate's principal activities, development, performance and KPI's, risk management framework and governance structure, is set out on pages 3 to 10.

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 provide 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.

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 2016 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
QBE Underwriting Limited
London
13 March 2017

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

Report on the Syndicate annual accounts

Our opinion

In our opinion, Syndicate 386's syndicate annual accounts (the "Syndicate annual accounts"):

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2016 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 ended 31 December 2016, included within the Annual Report, comprise:

- the balance sheet as at 31 December 2016;
- the profit and loss account for the year then ended;
- the statement of income and members balances;
- the statement of cash flows;
- the 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 United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (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 Managing Agent's Report for the financial year for which the Syndicate annual accounts are prepared is consistent with the Syndicate annual accounts.

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

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.

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 11, the Managing Agent is responsible for the preparation of the 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 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.

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

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

14 March 2017

QBE CASUALTY SYNDICATE 386

**PROFIT AND LOSS ACCOUNT -
TECHNICAL ACCOUNT - GENERAL BUSINESS**

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Earned premium, net of reinsurance			
Gross premiums written	3	328,080	335,172
Outward reinsurance premiums		(59,346)	(25,139)
Net premiums written		268,734	310,033
Change in the gross provision for unearned premiums	12	(1,241)	17,897
Change in the provision for unearned premiums, reinsurers' share	12	3,490	(4,363)
Change in the net provision for unearned premiums		2,249	13,534
Earned premium, net of reinsurance		270,983	323,567
Allocated investment return transferred from the non-technical account		22,122	11,558
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(236,811)	(260,624)
Reinsurers' share		10,621	187,423
Net claims paid		(226,190)	(73,201)
Change in the provision for claims			
Gross amount	12	16,711	39,473
Reinsurers' share	12	42,104	(140,023)
Change in the net provision for claims		58,815	(100,550)
Claims incurred, net of reinsurance		(167,375)	(173,751)
Net operating expenses	4	(89,545)	(102,067)
Standard personal expenses		(10,044)	(12,830)
Balance on the technical account for general business		26,141	46,477

The notes set out of pages 22 to 39 form an integral part of these financial statements

QBE CASUALTY SYNDICATE 386

PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Balance on the general business technical account		26,141	46,477
Investment income	7(a)	19,651	17,652
Net unrealised gains/ (losses) on investments		3,610	(2,196)
Investment expenses and charges	7(b)	(1,139)	(3,898)
Investment return		22,122	11,558
Allocated investment return transferred to the general business technical account		(22,122)	(11,558)
Non-technical account foreign exchange gain		5,584	(4,243)
Profit for the financial year		31,725	42,234

The results above are derived from continuing operations.

The notes set out of pages 22 to 39 form an integral part of these financial statements

QBE CASUALTY SYNDICATE 386

STATEMENT OF INCOME AND MEMBERS BALANCES

for the year ended 31 December 2016

	2016	2015
	£'000	£'000
Members' balances as at 1 January	48,905	46,949
Profit for the financial year	31,725	42,234
Members' agent fees	(909)	(1,048)
Non-standard personal expenses	(25)	550
Distribution of profits	(46,758)	(17,145)
Open year profit release	-	(22,635)
Members' balances as at 31 December	32,938	48,905

The notes set out of pages 22 to 39 form an integral part of these financial statements

QBE CASUALTY SYNDICATE 386

BALANCE SHEET

As at 31 December 2016

Assets	Note	2016 £'000	Restated 2015 £'000
Investments			
Other financial investments	8	885,932	836,269
Derivative financial instruments	9	9,366	524
		895,298	836,793
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	16,026	12,034
Claims outstanding	12	183,588	126,281
		199,614	138,315
Debtors			
Debtors arising out of direct insurance operations	13(i)	96,885	101,826
Debtors arising out of reinsurance operations	13(ii)	26,265	117,577
Other debtors	13(iii)	19,978	2,078
		143,128	221,481
Other assets			
Cash at bank and in hand		32,614	11,203
Overseas deposits	14	187,785	142,569
		220,399	153,772
Prepayments and accrued income			
Accrued interest and rent		1,897	2,804
Deferred acquisition costs		42,094	40,714
		43,991	43,518
Total assets		1,502,430	1,393,879

The notes set out of pages 22 to 39 form an integral part of these financial statements

QBE CASUALTY SYNDICATE 386

BALANCE SHEET

As at 31 December 2016

Liabilities	Note	2016 £'000	Restated 2015 £'000
<hr/>			
Members' balances		32,938	48,905
<hr/>			
Technical provisions			
Provision for unearned premiums	14	188,080	180,646
Claims outstanding	14	1,148,563	1,063,737
<hr/>			
		1,336,643	1,244,383
<hr/>			
Creditors			
Creditors arising out of direct insurance operations	19 (i)	20,488	56,241
Creditors arising out of reinsurance operations	19 (ii)	51,467	12,074
Derivative financial instrument	9	155	2,458
Other creditors including taxation and social security	20	50,472	22,608
<hr/>			
		122,582	93,381
<hr/>			
Accruals and deferred income		10,267	7,210
<hr/>			
Total liabilities		1,502,430	1,393,879

These financial statements on pages 16 to 39 were approved by the board of QBE Underwriting Limited on 13 March 2017 and signed on its behalf by:

D J Winkett
Director

The notes set out of pages 22 to 39 form an integral part of these financial statements

QBE CASUALTY SYNDICATE 386

STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	2016	Restated
	£'000	2015
		£'000
Cash flow from operating activities		
Operating profit	31,725	42,234
Increase / (decrease) in gross technical provisions	92,260	(82,318)
(Increase) / decrease in reinsurers' share of technical provisions	(61,299)	146,101
Decrease / (increase) in debtors	77,880	(101,730)
Increase in creditors	29,712	7,841
Investment returns	(22,122)	(11,558)
	148,156	570
Cash flows from investing activities		
Purchase of equity and debt instruments	(1,781,803)	(1,273,737)
Sale of equity and debt instruments	1,845,873	1,217,195
Purchase of derivatives	(71)	(15)
Sale of derivatives	34	-
Investment income received	18,511	9,362
Foreign exchange	(150,738)	71,723
	(68,194)	24,528
Cash flow from financing activities		
Distribution of profits	(46,758)	(17,145)
Open year profit release	-	(22,635)
	(46,758)	(39,780)
Movement in cash, portfolio investments and financing		
Cash and cash equivalents at the beginning of the year	153,772	184,147
Net increase / (decrease) in cash and cash equivalents	66,627	(30,375)
	220,399	153,772
	2016	2015
	£'000	£'000
Non-cash items		
Unrealised investment gain/(loss)	3,610	(2,196)
Members' Agents Fees	(1,060)	(1,048)
Foreign exchange movement on cash and cash equivalents	30,747	(12,999)
Non-standard personal expenses	126	550
	33,423	(15,693)

NOTES TO THE ANNUAL ACCOUNTS

for the year ended 31 December 2016

1. Accounting policies

The principal accounting policies adopted in the preparation of these annual accounts 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 in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103 "Insurance Contracts" ("FRS 103").

The accounts incorporate all transactions committed to by the 2016 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 inception 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.

(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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

1. Accounting policies (continued)

(b) Basis of accounting for insurance (continued)

(v) Claims provisions and related reinsurance recoveries (continued)

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 EO 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 2016

1. Accounting policies (continued)

(b) Basis of accounting for insurance (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. All assets and liabilities arising from insurance contracts are treated as monetary items.

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

(ix) Financial assets

The Syndicate has chosen to adopt the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102.

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 using current or recent bid prices where available. In the absence of an active market, current or recent bid prices for similar instruments may be used to estimate fair value. 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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

1. Accounting policies (continued)

(b) Basis of accounting for insurance (continued)

(xii) Administrative expenses

Administrative expenses are taken into account on an accrual 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.

2. Capital

Each Syndicate in Lloyd's is required to carry out a self-assessment of the capital it requires, the Solvency Capital Requirement (SCR). This is required to reflect the level of capital needed to ensure that the Syndicate will remain solvent at the point where all of the liabilities have run-off 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 Risk and Capital Committee, which in turn recommends it to the relevant QBE Boards for adoption. The SCRs 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 members' FAL to meet liquidity requirements or to settle losses.

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

QBE CASUALTY SYNDICATE 386

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

3. Segmental information

2016

	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Third party liability	286,708	287,240	(205,229)	(87,622)	(387)	(5,998)
Reinsurance acceptances	41,372	39,599	(14,871)	(11,967)	(2,744)	10,017
Total	328,080	326,839	(220,100)	(99,589)	(3,131)	4,019

2015

	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Third party liability	296,941	314,824	(195,459)	(102,196)	19,227	36,396
Reinsurance acceptances	38,231	38,245	(25,692)	(12,701)	(1,329)	(1,477)
Total	335,172	353,069	(221,151)	(114,897)	17,898	34,919

Operating expenses includes standard personal expenses and reinsurance related expenses.

All premiums are concluded in the UK.

Gross premium written by destination

	2016 £'000	Restated 2015 £'000
Europe - United Kingdom	106,404	108,949
Other Europe	9,719	6,677
America - North America	7,274	11,660
Other America	3,194	1,878
Asia	160	309
Worldwide	199,016	202,066
Other (including Africa, Oceania and Middle East)	2,313	3,633
	328,080	335,172

QBE CASUALTY SYNDICATE 386

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

4. Net operating expenses

	2016	2015
	£'000	£'000
Acquisition costs: direct commission	46,225	48,779
other	27,593	33,582
Change in deferred acquisition costs	(289)	6,823
Administrative expenses	16,016	12,883
Net operating expenses	89,545	102,067

	2016	2015
	£'000	£'000
Administrative expenses include auditors' remuneration:		
Fees payable to the Syndicate's auditor for the audit of the Syndicate's annual accounts	178	192
Other services pursuant to legislation	129	128

5. 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:

	2016	2015
	£'000	£'000
Wages and salaries	12,821	13,390
Social security costs	1,482	1,986
Pension costs	1,302	1,383
	15,605	16,759

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

	2016	2015
	Number	Number
Underwriting	67	73
Claims	50	55
Administration	89	95
	206	223

6. 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:

	2016	2015
	£'000	£'000
Directors of the Managing Agent	319	481
Active Underwriter	72	72

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

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

7. Investment income, expenses and charges

(a) Investment income

	2016	2015
	£'000	£'000
Income from investments	19,651	17,652

(b) Investment expenses and charges

	2016	2015
	£'000	£'000
Net losses on the realisation of investments	195	3,564
Investment management expenses	944	334
	1,139	3,898

8. Other financial investments

Designated at fair value through profit and loss

	2016		2015	
	Cost	Fair value	Cost	Fair value
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	75,941	77,170	23,815	23,376
Debt securities and other fixed income securities	762,395	808,762	815,809	812,861
Deposits with credit institutions	-	-	32	32
	838,336	885,932	839,656	836,269

The debt securities and other fixed income securities are listed on recognised exchanges, £45,823k of the shares and other variable yield securities and units in unit trusts are listed on recognised exchanges (2015 £10,759k).

9. Derivative financial instrument

	2016	Restated 2015
	£'000	£'000
Foreign currency derivatives		
Derivative financial instrument – assets	9,366	524
Derivative financial instrument – liabilities	(155)	(2,458)

Foreign currency derivatives

The Syndicate uses forward foreign exchange derivatives in order to hedge its exposure to foreign currencies. 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 £290,072k (2015 £237,433k).

The forward foreign exchange derivatives outstanding at year end expired by 25 January 2017 (2015 29 January 2016).

During the year a loss of £35,762k (2015 gain £24,922k) relating to such contracts was recognised. This is included in the net foreign exchange gain of £10,719k (2015 loss £4,705k) in the profit and loss technical account.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

9. Derivative financial instrument (continued)

Fixed income derivatives

The Syndicate entered into fixed income derivative future contracts 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 £37k (2015 £13k loss) 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 nil (2015 £49,891k).

10. Valuation hierarchy

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

2016	Level 1 £'000	Level 2 £'000	Total £'000
Overseas deposits	15,359	172,426	187,785
Variable yield securities and units in unit trusts	45,823	31,347	77,170
Debt securities and other fixed income securities	123,845	684,917	808,762
Derivative financial instrument – assets	-	9,366	9,366
	185,027	898,056	1,083,083
2015	Restated Level 1 £'000	Restated Level 2 £'000	Total £'000
Overseas deposits	9,347	133,222	142,569
Deposits with credit institutions	32	-	32
Variable yield securities and units in unit trusts	10,759	12,617	23,376
Debt securities and other fixed income securities	22,164	790,697	812,861
Derivative financial instrument – assets	-	524	524
	42,302	937,060	979,362

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

Level 2 Valuation is based on quoted market 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. For unlisted property, fair valued is determined by using the current unit price as advised by the responsible entity, trustee or equivalent of the investment management scheme.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

11. 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.

	Movement in variable %	2016		2015	
		Profit / (loss) £'000	Equity £'000	Profit / (loss) £'000	Equity £'000
US dollar	+10	(1,199)	(1,199)	122	122
	-10	1,199	1,199	(122)	(122)
Canadian dollar	+10	150	150	281	281
	-10	(150)	(150)	(281)	(281)
Australian dollar	+10	(23)	(23)	462	462
	-10	23	23	(462)	(462)
Euro	+10	(832)	(832)	95	95
	-10	832	832	(95)	(95)

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

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.

QBE CASUALTY SYNDICATE 386

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

11. Financial risk (continued)

(i) Market risk (continued)

Interest rate risk (continued)

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

	Floating interest rate £'000	Fixed interest rate maturing in			Total £'000	
		1 year or less £'000	1 to 2 years £'000	2 to 3 years £'000		3 years over £'000
Interest bearing assets	309,809	228,334	128,254	120,048	282,383	1,068,828

2015	Floating interest rate £'000	Fixed interest rate maturing in			Total £'000	
		1 year or less £'000	1 to 2 years £'000	2 to 3 years £'000		3 years over £'000
Interest bearing assets	354,169	316,060	40,232	176,434	96,922	983,817

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 %	2016		2015	
		Profit / (loss) £'000	Equity £'000	Profit / (loss) £'000	Equity £'000
Interest rate movement – fixed interest securities	+0.5	(7,835)	(7,835)	(3,755)	(3,755)
	-0.5	6,900	6,900	3,389	3,389

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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

11. Financial risk (continued)

(i) Market risk (continued)

Equity price risk

Equity price risk is the risk that the fair value of an equity 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 equity instrument or its issuer, or factors affecting all similar equity instruments traded on the market.

The potential impact of movements in the market value of equities on the profit and loss account and balance sheet is shown in the sensitivity analysis below.

The impact has been shown on the basis that equity funds are fully exposed to market price fluctuations. Equity portfolios are from time to time hedged in order to manage this exposure.

	Movement in variable %	Financial impact	
		2016 Profit / (loss) and equity £'000	2015 Profit / (loss) and equity £'000
EURO STOXX	+20	5,316	-
	-20	(5,316)	-
Emerging market equities	+20	68	993
	-20	(68)	(993)

(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.

96.4% (2015 99.2%) of total fixed interest and cash investments are with counterparties having a Standard & Poors'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. 97.2% (2015 99.4%) of the balance is with reinsurers with an S&P rating of "A-" or greater.

The Syndicate holds letters of credit as security to mitigate credit risk exposure to reinsurers. At the balance sheet date the Syndicate held £6,807k (2015 £11,439k) as collateral against credit risk.

The following table provides information regarding the carrying value of the Syndicate's financial assets, excluding amounts in respect of insurance contracts.

	2016 £'000	Restated 2015 £'000
Other interest bearing investments	1,068,828	983,817
Other financial investments	37,504	6,224
Derivative financial instrument – assets	9,366	524
Other debtors	19,978	2,078
Debtors arising out of direct insurance operations	96,885	101,826
Debtors arising out of reinsurance operations	26,265	117,577
	1,258,826	1,212,046

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

11. Financial risk (continued)

(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 2016, the average duration of cash and fixed interest securities was 1.6 years (2015 0.9 years).

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

	2016		Restated 2015	
	Within 1 year £'000	Over 1 year £'000	Within 1 year £'000	Over 1 year £'000
Trade and other payables	122,427	-	90,923	-
Derivative financial instrument – liabilities	155	-	2,458	-
	122,582	-	93,381	-

The Syndicate has no significant concentration of liquidity risk.

12. Technical provisions

2016	Provision for unearned premium £'000	Claims outstanding £'000	Net £'000
Gross			
At 1 January	(180,646)	(1,063,737)	(1,244,383)
Movement per technical account	(1,241)	16,711	15,470
Foreign exchange	(6,193)	(101,537)	(107,730)
At 31 December	(188,080)	(1,148,563)	(1,336,643)

Reinsurance

At 1 January	12,034	126,281	138,315
Movement per technical account	3,490	42,104	45,594
Foreign exchange	502	15,203	15,705
At 31 December	16,026	183,588	199,614

QBE CASUALTY SYNDICATE 386

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

12. Technical provisions (continued)

2015	Provision for unearned premium £'000	Claims outstanding £'000	Net £'000
Gross			
At 1 January	(198,068)	(1,128,632)	(1,326,700)
Movement per technical account	17,897	39,473	57,370
Foreign exchange	(475)	25,422	24,947
At 31 December	(180,646)	(1,063,737)	(1,244,383)

Reinsurance

At 1 January	16,605	267,811	284,416
Movement per technical account	(4,363)	(140,023)	(144,386)
Foreign exchange	(208)	(1,507)	(1,715)
At 31 December	12,034	126,281	138,315

13. Debtors

(i) Debtors arising out of direct insurance operations

	2016 £'000	2015 £'000
Due within one year		
Due from intermediaries	96,885	101,826

(ii) Debtors arising out of reinsurance operations

	2016 £'000	2015 £'000
Due within one year	26,265	117,577

(iii) Other debtors

	2016 £'000	2015 £'000
Trade debtors	-	461
Unsettled investment trade debtors	19,956	891
Amounts due from Group undertakings	22	726
	19,978	2,078

QBE CASUALTY SYNDICATE 386

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

14. Overseas deposits

	2016 £'000	2015 £'000
Additional Securities Limited overseas deposits	4,015	4,512
Australian Trust Funds	121,509	92,115
Canadian Margin Funds	41,056	31,424
Joint Asset Trust Funds	9,278	7,227
South African Trust Funds	11,927	7,291
	187,785	142,569

15. Outstanding claims – claims development

2016	2010 and prior £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
At end of year		101,250	98,711	89,077	88,220	78,013	97,205	
One year later		276,499	184,759	160,497	176,542	163,363		
Two years later		267,968	228,361	160,924	194,372	-		
Three years later		301,515	208,310	175,196	-	-		
Four years later		298,773	193,323	-	-	-		
Five years later		271,215	-	-	-	-		
Current estimate of net cumulative claims cost		271,215	193,323	175,196	194,372	163,363	97,205	
Cumulative net claims payments to date		(193,789)	(84,228)	(30,724)	(28,972)	(1,454)	(2)	
Net outstanding claims		209,470	77,426	109,095	144,472	161,909	97,203	964,975

The claims development tables express the development on an underwriting year basis. At the end of the opening year, the underwriting year has not yet fully earned. One year after the opening year, the underwriting year has substantially earned, and the development of that underwriting year becomes evident. The development is only developments in actuarial assumptions.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

15. Outstanding claims – claims development (continued)

The Syndicate writes business in currencies other than Pound Sterling. The translation of outstanding claims denominated in foreign currencies gives rise to foreign exchange movements which have no direct bearing on the development of the underlying claims. To eliminate this distortion, claims liabilities have been retranslated to the Pound Sterling at constant rate of exchange for each reporting year. All estimates of net cumulative claims cost and cumulative claims payments for the six most recent reporting years reported in functional currencies other than Pound Sterling have been retranslated to Pound Sterling using the exchange rate at the end of the reporting year.

16. Concentration of insurance risk

The Syndicate's exposure to concentrations of insurance risk is mitigated by a portfolio diversified across countries and classes of business. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of business. A combination of core and speciality products under the control of employees skilled in underwriting such products allows the Syndicate to lead underwrite in many of the markets in which they operate.

The segmental and geographical analysis at note 3 demonstrates the diversity of the Syndicate's operations.

The Syndicate has potential exposure to catastrophe losses. Each year, the Syndicate sets its tolerance to concentration risk. Realistic Disaster Scenarios (RDSs), using industry standard and the Syndicate determined probable maximum losses and various catastrophe models, are calculated for each portfolio as part of the business planning process. These RDSs are aggregated across all portfolios to determine the Syndicate's maximum event retention (MER) which is the estimated maximum net claim from a one in 250 year natural catastrophe event. The MER must be less than the Syndicate's concentration risk tolerance, otherwise steps such as the purchase of additional reinsurance are taken to limit the exposure.

17. Impact of changes of key variables on the outstanding claims provision

The impact of changes in key variables used in the calculation of the outstanding claims provision is summarised in the table below. Each change has been calculated in isolation from the other changes and each change shows the after tax impact on profit assuming that there is no change to any of the other variables.

	Sensitivity %	Profit / (Loss)	
		2016 £'000	Restated 2015 £'000
Net claims outstanding	+5	38,599	37,381
	-5	(38,599)	(37,381)
Sterling to US dollar exchange rate	+10	5,682	7,374
	-10	(5,682)	(7,374)
Sterling to Australian dollar exchange rate	+10	11,438	11,691
	-10	(11,438)	(11,691)
Sterling to Euro exchange rate	+10	14,231	11,654
	-10	(14,231)	(11,654)
Sterling to Canadian dollar exchange rate	+10	10,118	7,811
	-10	(10,118)	(7,811)

QBE CASUALTY SYNDICATE 386

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

18. Maturity profile of net outstanding claims

	1 year or less £'000	1 to 2 years £'000	2 to 3 years £'000	3 to 4 years £'000	4 to 5 years £'000	Over 5 years £'000	Total £'000
2016	211,263	183,790	149,420	113,917	84,296	222,289	964,975
2015	210,334	175,014	144,483	113,282	83,286	211,057	937,456

19. Creditors

(i) Creditors arising out of direct insurance operations

	2016 £'000	2015 £'000
Due within one year		
Due to intermediaries	20,488	56,241

(ii) Creditors arising out of reinsurance operations

	2016 £'000	2015 £'000
Due within one year	51,467	12,074

20. Other creditors including taxation and social security

	2016 £'000	2015 £'000
Due within one year		
Unsettled investment trade creditors	33,616	4,719
Amounts due to group undertakings	3,521	2,701
Taxation and social security	2,584	1,836
Other creditors	10,646	13,352
Trade creditors	105	-
	50,472	22,608

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

21. Presentation of prior year comparatives

The Company has changed the presentation of unrealised gains and losses on foreign exchange derivatives to present the derivative financial instrument assets and liabilities at a counterparty level, where right of set-off exists. In the prior year derivative financial instrument assets and liabilities were assessed at a contract level.

The impact of this change to the balance sheet is:

	2015 Restated presentation £'000	2015 Previous presentation £'000
Derivative financial instruments - assets	524	3,071
Derivative financial instruments - liabilities	(2,458)	(5,005)

There has been no impact to the profit and loss account or the value of net assets from this change in presentation.

22. Related parties

The Managing Agent QUL, and the corporate member QBE Corporate Limited (QCORP), are wholly owned subsidiaries of the ultimate parent company QBE Insurance Group Limited.

The Syndicate is managed at the QBE EO group level, which is headed by QBE European Operations plc. The immediate parent company of QUL and QCORP is QBE Holdings (EO) Limited (QHEO). QHEO is a wholly owned subsidiary of QBE European Operations plc. QBE European Operations plc, QUL, QCORP and QHEO are incorporated in the United Kingdom.

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

The consolidated financial statements of the QBE EO group are available from QUL's registered office.

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 and S W Sinclair are, or were in the year, non-executive Directors of related companies within QBE EO.

Inter Syndicate transactions

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

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 £2,037k (2015 £477k) 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 £1k (2015 £6k) 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 £33,778k (2015 £24,861k) were placed with Equator Reinsurances Limited (Equator Re), and £nil (2015 £ nil) 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 £6,113k (2015 £112,125k) and £nil (2015 £39k) with other Group companies. At the year end, balances due from Equator Re in respect of the reinsurers' share of technical provisions was £15,157k (2015 £12,800k) and £nil (2015 £28k) with other Group companies.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

22. Related parties (continued)

Profit commission

Profit commission is payable to the Managing Agent as per note 1(b) (xiii). During the year £7,931k was charged (2015 £10,717k). At the year-end £10,646k (2015 £13,352k) 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 £2,113k (2015 £2,113k). No balance is outstanding at the year end (2015 nil).

Administrative expenses

Total expenses recharged from QBE Partner Services (Europe) LLP in respect of services provided to the Syndicate amounted to £41,541k (2015 £39,891k). The balance outstanding at year end with QBE Partner Services (Europe) LLP is £3,521k (2015 £1,941k). There are no other transactions or arrangements to be disclosed.

Service companies

Certain QBE EO owned 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.

2014 UNDERWRITING YEAR ACCOUNTS

UNDERWRITING YEAR - REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Managing Agent presents its report at 31 December 2016 for the 2014 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 2014 underwriting year was approved by the board of Directors on 30 January 2017.

Principal activity

The Syndicate 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.

The Syndicate forms an integral part of 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 calendar year 2016, leveraging enhanced distribution opportunities and economies of scale in the cost of reinsurance protection.

The Syndicate has continued the emphasis on its customer value proposition, with a focus on understanding what clients require beyond the purchase of monoline insurance.

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

2014 closed year of account

We are delighted to report a total profit to Names of 14.7% of capacity after standard personal expenses.

This result includes the anticipated impact of the recent announcement from the Ministry of Justice, reducing the statutory discount rate applied to certain UK personal injury claims (referred to as Ogden tables) to -0.75%.

Gross written premium of £352,974k, was down on original plan, due to continued difficult trading environment, and equated to £304,041k (net of brokerage and commission), or 73.6% utilisation of the Syndicate’s £413,000k stamp capacity.

Loss experience for the 2014 pure year was slightly better than expectation ,with a net ultimate loss ratio of 72.7% against a plan of 71.6%, producing a 2014 pure year underwriting profit (before expenses) of £84,182k.

All classes of business contributed significantly to the 2014 pure year underwriting profit (before expenses) as follows:

	£'000
International Casualty	21,677
UK and Ireland Liability	40,743
Professional and Financial Lines	21,762
	84,182

The 2013 and prior years produced a net profit of £3,648k, following better than expected claims activity, particularly in the Professional Indemnity and General Liability classes.

This, coupled with investment return, profit on foreign exchange and deduction of Syndicate expenses, has resulted in an excellent total profit to Names of £59,543k.

2015 and 2016 open years of account

Projected gross written premium of £312,581k for the 2015 pure year is down on 2014, reflecting the effect of movements in rates of exchange against Sterling and the continuing competitive market conditions, both in respect of retaining existing business for adequate price and securing new business. Loss experience to date is worse than expected with a projected net claims ratio of 74.9% against a plan of 72.3%, producing a mid-range profit to Names of 3.6% of capacity.

Pricing and market pressures continued into 2016, causing further reductions to gross written premium. Whilst too early to accurately predict, the year has witnessed greater frequency and size of large losses than anticipated and we continue to monitor developments closely.

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

QBE Underwriting Limited
London
13 March 2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QBE CASUALTY SYNDICATE 386 – 2014 CLOSED YEAR OF ACCOUNT

Report on the Syndicate underwriting year accounts

Our Opinion

In our opinion, Syndicate 386's syndicate underwriting year accounts for the 2014 year of account for the 3 years ended 31 December 2016 (the "Syndicate underwriting year accounts"):

- give a true and fair view of the state of the Syndicate's profit for the 2014 closed year of account; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

What we have audited

The Syndicate underwriting year accounts, included within the "Annual Report", comprise:

- the Balance Sheet as at 31 December 2016;
- the Profit and Loss account for the 3 years then ended;
- the 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, comprising FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

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 42, the Managing Agent is responsible for the preparation of the Syndicate underwriting year accounts in accordance with the financial reporting framework described above and for being satisfied that they give a true and fair view of the result for the 2014 closed year of account.

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 part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and part C of 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QBE CASUALTY SYNDICATE 386 – 2014 CLOSED YEAR OF ACCOUNT (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
14 March 2017

QBE CASUALTY SYNDICATE 386

PROFIT AND LOSS ACCOUNT - 2014 UNDERWRITING YEAR TECHNICAL ACCOUNT - GENERAL BUSINESS

for the 36 months ended 31 December 2016

	Note	£'000	£'000
Syndicate allotted capacity			413,000
<hr/>			
Earned premium, net of reinsurance			
Gross premiums written	2	352,974	
Outward reinsurance premiums		(49,513)	
<hr/>			
Earned premium, net of reinsurance			303,461
Reinsurance to close premium received, net	3		755,544
Allocated investment return transferred from the non-technical account			20,399
<hr/>			
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(231,396)	
Reinsurers' share		10,650	
<hr/>			
Net claims paid		(220,746)	
Reinsurance to close premium payable, net of reinsurance	4	(700,225)	
<hr/>			
Claims incurred, net of reinsurance			(920,971)
Net operating expenses	5		(86,161)
Standard personal expenses			(21,701)
<hr/>			
Balance on the technical account - general business			50,571

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

The notes set out of pages 48 to 54 form an integral part of these financial statements

**PROFIT AND LOSS ACCOUNT -
2014 UNDERWRITING YEAR NON - TECHNICAL ACCOUNT**

for the 36 months ended 31 December 2016

	Note	£'000
Balance on the technical account - general business		50,571
Investment income	6(a)	20,437
Unrealised losses on investments		2,167
Investment expenses and charges	6(b)	(2,205)
Investment return		20,399
Allocated investment return transferred to the technical account - general business		(20,399)
Non – technical account income		8,972
Profit for the underwriting year	11	59,543

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

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

The notes set out of pages 48 to 54 form an integral part of these financial statements

QBE CASUALTY SYNDICATE 386

BALANCE SHEET - 2014 UNDERWRITING YEAR

for the closed year of account as at 31 December 2016

	Note	£'000
Assets		
Investments		
Other financial investments	8	563,685
Debtors		
Debtors arising out of direct insurance operations	9	145,001
Reinsurance recoveries anticipated on gross reinsurance to close premium payable	4	158,535
Other assets		
Cash at bank and in hand		18,612
Overseas deposits	10	156,265
Prepayments and other accrued income		730
Total assets		1,042,828
Liabilities		
Amounts due to members	11	54,270
Reinsurance to close premium payable – gross amount	4	858,760
Creditors	12	123,682
Accruals and deferred income		6,116
Total liabilities		1,042,828

These underwriting year accounts on pages 45 to 54 were approved by the board of QBE Underwriting Limited on 13 March 2017 and signed on its behalf by:

D J Winkett

Director

The notes set out of pages 48 to 54 form an integral part of these financial statements

NOTES TO THE UNDERWRITING YEAR ACCOUNTS

Forming part of the underwriting year accounts

1. Accounting policies

(a) Basis of preparation

These 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, comprising Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

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 2014 year of account which has been closed by reinsurance to close as at 31 December 2016. Consequently the balance sheet represents the assets and liabilities of the 2014 year of account at the date of closure. The underwriting 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 2014 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 UNDERWRITING YEAR ACCOUNTS (continued)

Forming part of the underwriting year accounts

1. Accounting policies (continued)

(b) Insurance (continued)

(iv) 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.

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 overseas deposit funds 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 reinsurance to close (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 UNDERWRITING YEAR ACCOUNTS (continued)

Forming part of the underwriting year accounts

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 for the 2014 underwriting year, 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	306,514	(209,831)	(75,535)	(791)	20,357
Reinsurance acceptances	44,230	(15,205)	(10,316)	(5,614)	13,095
	350,744	(225,036)	(85,852)	(6,405)	33,452
Reinsurance to close	757,774	(865,120)	(309)	126,078	18,422
Total	1,108,518	(1,090,156)	(86,161)	119,673	51,874

- 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.

NOTES TO THE UNDERWRITING YEAR ACCOUNTS (continued)

Forming part of the underwriting year accounts

2. Segmental Information (continued)

- e) Gross premium written equals gross premium earned.
- f) The underwriting year accounts include £2,230k gross premium written, and £309k gross operating expenses relating to 2013 and prior underwriting years.

3. Reinsurance to close premium received

£'000

Gross reinsurance to close premium received	885,981
Reinsurance recoveries anticipated	(130,437)
Reinsurance to close premium receivable, net of reinsurance	755,544

4. Reinsurance to close premium payable

	Reported £'000	IBNR £'000	Future premiums £'000	Total £'000
Gross reinsurance to close premium payable	582,953	275,973	(166)	858,760
Reinsurance recoveries anticipated	(97,386)	(55,677)	(5,472)	(158,535)
Reinsurance to close premium payable, net of reinsurance				700,225

5. Net operating expenses

£'000

Acquisition costs – brokerage	(48,932)
Acquisition costs – other	(33,363)
Administrative expenses	(3,866)
	(86,161)

Administrative expenses include:

Auditors' remuneration	
Fees payable to the Syndicate auditor for the audit of the 2014 accounts	183
Other services pursuant to legislation	129

6. Investment income, expenses and charges

(a) Investment income

£'000

Income from investments	20,437
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NOTES TO THE UNDERWRITING YEAR ACCOUNTS (continued)

Forming part of the underwriting year accounts

6. Investment income, expenses and charges (continued)

(b) Investment expenses and charges

	£'000
Losses on the realisation of investments	(1,343)
Investment management expenses	(862)
	(2,205)

7. Analysis of result by year of account

	2013 and prior years of account £'000	2014 pure year of account £'000	Total £'000
Balance excluding investment return and operating expenses	18,731	119,303	138,034
Brokerage and commission on gross premium	(309)	(48,623)	(48,932)
	18,422	70,680	89,102
Allocated investment return transferred from the non-technical account			20,399
Net operating expenses excluding brokerage and commission			(37,229)
Standard personal expenses			(21,701)
Non – technical account income			8,972
			59,543

8. Other financial investments

	Cost £'000	Market value £'000
Shares and other variable yield securities and units in unit trusts	47,713	48,485
Debt securities and other fixed income securities	479,008	508,140
Other investments	-	7,060
	526,721	563,685

9. Debtors arising out of insurance operations

	£'000
Due within one year	
Due from intermediaries	8,083
Inter-year loan	94,229
Reinsurance recoveries	4,671
Other	38,018
	145,001

NOTES TO THE UNDERWRITING YEAR ACCOUNTS (continued)

Forming part of the underwriting year accounts

10. Overseas deposits

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

£'000

Additional Securities Limited overseas deposits	3,003
Australian Trust Funds	101,315
Canadian Margin Fund	31,585
Joint Asset Trust Funds	8,858
South African Trust Funds	11,504
	156,265

11. Amounts due to members

£'000

2014 Underwriting year distributions made up to 31 December 2016	(5,273)
Profit for the closed year of account	59,543
Due to members	54,270

12. Creditors

£'000

Due within one year

Arising out of direct insurance operations:

Due to intermediaries	(32,792)
Arising out of reinsurance operations	(35,976)
Other	(54,914)

(123,682)

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 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 EO. 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 during the underwriting year, non-executive Directors of related companies within the QBE European Operations division.

T C W Ingram participated on the 2014 underwriting year of the Syndicate. He had an interest in £165k of the Syndicate's capacity. He disposed of this interest during 2014.

NOTES TO THE UNDERWRITING YEAR ACCOUNTS (continued)

Forming part of the underwriting year accounts

13. Related parties (continued)

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 £424k (2013: £707k) were written for the 2014 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 2014 year of account were £23,019k (2013: £46,168k).

Profit commission

Profit commission is payable to the Managing Agent as per note 1(h). During the period £15,150k was charged in respect of the 2014 year of account. At the end of the period, £18,056k (2013 £10,636k) was outstanding. This is shown within creditors.

Managing Agent

Total fees payable to QBE Underwriting Limited in respect of services provided to the Syndicate in respect of the 2014 year of account amounted to £2,478k. No balance is outstanding at the year end.

Administrative expenses

Total expenses recharged from QBE Underwriting Limited, QBE Management Services (UK) Limited and QBE Partner Services (Europe) LLP in respect of services provided to the Syndicate in the 2014 year of account amounted to £36,534k. At the end of the period, £1,956k was outstanding.

There are no other transactions or arrangements to be disclosed.

QBE CASUALTY SYNDICATE 386

SEVEN YEAR SUMMARY

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

	2010	2011	2012	2013	2014	2015	2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross premium written	458,066	442,678	443,771	449,256	332,559	335,172	328,080
Net earned premiums	355,389	377,265	378,701	375,663	359,352	323,567	270,983
Net claims	(123,339)	(102,746)	(165,493)	(177,152)	(205,271)	(173,751)	(167,375)
Acquisition costs	(76,534)	(87,049)	(89,228)	(97,381)	(93,021)	(89,184)	(73,529)
	155,516	187,470	123,980	101,130	61,060	60,632	30,079
Profit/(loss) on exchange	44,071	(4,540)	(12,316)	(45,451)	(2,791)	(4,243)	5,584
Other net operating expenses	(59,571)	(59,609)	(46,057)	(34,786)	(29,591)	(25,713)	(26,060)
Investment return	35,068	36,317	36,280	17,812	18,847	11,558	22,122
Profit for the financial year	175,084	159,638	101,887	38,705	47,525	42,234	31,725

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

	2008	2009	2010	2011	2012	2013	2014
Syndicate allocated capacity	£339.7m	£339.8m	£364.9m	£364.7m	£412.4m	£412.6m	£413m
Capacity utilised	123.2%	127.1%	122.0%	123.9%	113.1%	100.4%	85.5%
Number of underwriting members	1,130	1,123	1,147	1,155	1,193	1,215	1,220
Aggregate net premiums	£381.8m	£390.7m	£378.2m	£383.6m	£400.7m	£332.8m	£303.5m
Net capacity utilised	112.4%	115.0%	103.7%	105.2%	97.2%	80.7%	73.5%
Technical account ratio	46.7%	35.1%	23.5%	17.7%	7.7%	22.0%	14.7%

Result for an illustrative share of £10,000

	2008	2009	2010	2011	2012	2013	2014
	£	£	£	£	£	£	£
Gross premiums	12,316	12,711	12,197	12,395	11,308	10,039	8,547
Net premiums	11,242	11,499	10,366	10,517	9,718	8,067	7,348
Reinsurance to close from earlier account	21,914	21,281	18,592	17,342	14,902	14,979	18,294
Net claims	(5,042)	(5,433)	(5,129)	(4,994)	(4,884)	(1,759)	(5,345)
Reinsurance to close	(21,615)	(20,370)	(18,131)	(17,152)	(15,443)	(16,482)	(16,955)
Profit/(loss) on exchange	1,763	418	(129)	(735)	(513)	-	-
Syndicate operating expenses	(2,506)	(2,939)	(2,699)	(2,788)	(2,912)	(2,598)	(2,086)
Balance on technical account	5,756	4,456	2,870	2,190	868	2,207	1,256
Investment income and gains less losses, less expenses and charges	1,204	1,097	917	615	469	(90)	711
	6,960	5,553	3,787	2,805	1,337	2,117	1,967
Illustrative personal expenses for a traditional Name							
Managing agent's fee	(60)	(60)	(60)	(60)	(60)	(60)	(60)
Contribution to Lloyd's Central Fund	(53)	(54)	(55)	(53)	(24)	(42)	(37)
Profit commissions	(1,359)	(1,077)	(723)	(528)	(241)	(395)	(367)
Lloyd's subscription	(53)	(54)	(55)	(53)	(47)	(42)	(37)
	(1,525)	(1,245)	(893)	(694)	(372)	(539)	(501)
Profit after illustrative profit commission and personal expenses	5,435	4,308	2,894	2,110	965	1,578	1,466

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

QBE Casualty Syndicate 386

Plantation Place, 30 Fenchurch Street, London EC3M 3BD

tel +44 (0)20 7105 4000

QBEurope.com

QBE Casualty Syndicate 386 is managed by QBE Underwriting Limited (No. 01035198), registered in England and Wales, registered office at Plantation Place, 30 Fenchurch Street, London EC3M 3BD, a Lloyd's Managing Agent authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

