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QBE Casualty Syndicate 386 Annual report 2017

QBE Casualty Syndicate 386

Annual Report

31 December 2017

QBE CASUALTY SYNDICATE 386

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
D J Winkett

* non-executive Directors

Company secretary

A J 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 2017.

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 is divided into three core areas: employers’ liability; professional lines, and general liability (the latter encompassing, inter alia, products liability and third party liability). The portfolio includes risks with worldwide exposures.

The Syndicate, together with other underwriting entities within QBE EO, continued to provide an integrated casualty offering during 2017, leveraging our extensive distribution capability 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 a strong reputation as a leader in international liability business, with the account comprising approximately 36.9% of overall gross written premium. The team underwrites a broadly based public and products’ liability account as well as umbrella and excess of loss for risks including large industrial, mineral extraction, utility and transport concerns.

Professional Lines

This account, which comprises approximately 18.7% of overall gross written premium, encompasses risks in the construction business, technology business and miscellaneous and traditional professions. The Syndicate also writes a significant book of solicitors’ business. As leaders in this class, the Syndicate provides assurance to our customers that it can lead large complex placements.

UK and Ireland Liability

This account totals approximately 44.4% of overall gross written premium. The team underwrites traditional lines including employers’ liability, public and products liability, and products guarantee for construction and offshore accounts. The Syndicate offers a comprehensive product capability to its clients.

Claims

The Syndicate’s claims team operate within a combined QBE EO claims service, leveraging operational and cost efficiencies.

STRATEGIC REPORT (continued)

Business review and future developments

The table below details the Syndicate's annually accounted result as at 31 December 2017 relative to the previous year:

	2017 £000	Restated 2016 £000
Gross written premium	357,417	328,080
Net earned premiums	316,500	270,983
Net claims	(179,149)	(167,375)
Acquisition costs	(79,925)	(73,529)
Other net operating expenses	(32,607)	(26,060)
Net underwriting profit	24,819	4,019
Investment return	17,688	22,122
Non-technical account income	4,050	5,584
Total profit for the year	46,557	31,725
Claims ratio	56.6%	61.8%
Combined operating ratio	92.2%	98.5%

The net underwriting profit reported in 2016 included non-technical account income. In the current year the non-technical account income is presented below the net underwriting profit. This results in a 2016 combined operating ratio of 98.5% (previously 96.5%). There is no impact to the profit for the year from this change in presentation.

Other net operating expenses include standard personal expenses.

The Active Underwriter comments

I am pleased to report a profitable result for 2017, with a net underwriting profit of £24,819k (2016 £4,019k) and a combined ratio of 92.2% (2016 98.5%).

Whilst the competitive market conditions previously reported in 2016 saw little improvement in 2017, with continued pressure on new business and retention levels, gross written premium increased by 8.9% on 2016. This was primarily due to a weakening in sterling against the major currencies, coupled with a modest overall rate increase of +0.4%, relative to a -1.3% plan.

The net underwriting profit for 2016 of £4,019k included the anticipated impact of the 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 UK government's subsequent decision to revise its proposals for the Ogden discount rate to an expected range of between 0% and 1%, has been reflected in the 2017 result at an assumed rate of +0.25%. Any further advice from the Justice Committee will be monitored closely.

The combined operating ratio of 92.2% is better than prior year (2016 98.5%), despite adverse large loss experience in the Professional Lines portfolio. This was partly due to the improved impact of the Ogden table changes, including claims inflation assumptions on UK Employer's Liability reserves, coupled with reduced in year reinsurance spend and improved net claims ratio. EY have again been engaged to provide independent projections to support the Statement of Actuarial Opinion (SAO) to be issued to Lloyd's.

Acquisition costs were materially unchanged year on year on a gross basis, however at 25.2% net were better than previous (2016 27.1%) due to the impact of reduced reinsurance spend on net earned premium. Investment return of £17,688k is down on previous year (2016 £22,122k).

STRATEGIC REPORT (continued)

Outlook

2018 has commenced with a high degree of uncertainty. The discount rate, the impact to the market of hurricanes Harvey, Irma and Maria and the political uncertainty including Brexit, have all conspired to come together.

Recent performance varies by line of business and by geography, hence certain portfolios will be more effected than others and our underwriting teams are working hard to use our extensive data to best effect.

Our teams are travelling regularly in the UK and Internationally to work with our brokers to deliver the messaging required and also to listen to our customers to make sure we provide them with the service they demand.

As we move towards 2019, considerable energies will be expended in ensuring our post-Brexit platform continues to meet our regulatory and customer needs.

We are acutely aware that whilst the landscape is changing there continues to be excess capacity and 2018 looks set to be another challenging year.

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, infrastructure assets and unlisted property. 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.

Responsibility for the oversight and monitoring of the asset / liability strategy falls within the remit of the QBE European Operations investment committee. Risks monitored include the matching of investment assets and the liabilities generated by insurance activities. In 2017 the Syndicate 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 Group 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.

STRATEGIC REPORT (continued)

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 certain regulatory overseas deposits managed directly by Lloyd's. The combined currency total return for the year was 2.0% (2016 2.1%)

Portfolio currency	2017 Average funds £'000	2017 Average return %	2017 Target return %	2016 Average funds £'000	2016 Average return %	2016 Target return %
Australian dollar	168,767	1.8	2.4	272,298	2.6	2.4
Canadian dollar	318,546	0.7	1.1	323,318	1.4	1.0
Euro	194,262	2.6	4.0	159,199	3.0	2.6
UK pound sterling	226,654	0.9	1.0	352,692	2.1	1.7
US dollar	106,481	5.3	3.7	98,134	1.6	1.4
South African rand	11,749	8.4	8.1	177,129	8.5	8.6

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 2017, a continued and broadening economic expansion, together with ongoing supportive monetary policy, was the backdrop to good performance from most asset classes. In bond markets there was some movement higher in shorter-dated government bond yields, particularly in the US and Canadian markets, whereas UK and Euro moves were more muted; overall returns were boosted by strong credit markets. Growth asset returns were consistently positive, providing some pick up over fixed income performance.

The majority of the Syndicate's currency investment returns underperformed their respective currency targets for the year, as a result overall performance for the Syndicate was slightly below the annual weighted target return of 2.2% (2016 1.8%).

During 2017, 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.

During 2017, the Company's corporate governance structure and system of governance has continued to evolve, reflecting the Boards' ongoing 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 included the formalisation of the Conduct Risk Group ('CRG') as a formal sub-group of the RCC. The CRG was originally established in 2013 and its responsibilities include the identification, assessment, mitigation and oversight of Conduct Risk. In particular, the CRG monitors and provides customer challenge to high product risk areas. Given the importance of its responsibilities, in November 2017 the RCC agreed that the CRG should become part of the formal corporate governance structure.

STRATEGIC REPORT (continued)

Corporate governance (continued)

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

In May and June 2017, the Board undertook a Board Effectiveness Review. The Review was conducted by the Chairman of the Boards, supported by QBE EO Company Secretarial. 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. In November, a further strategy session was held in order to discuss progress on strategic priorities. The non-executive Director engagement was further supported through informal meetings exclusively for QBE EO non-executive Directors and meetings with non-executive Directors from the QBE Group Board.

The main QBE EO Boards and Board Committees met regularly during the year with strong attendance from all members. The Board of QBE Underwriting Limited met 13 times during 2017.

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 sets and instils 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 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 EO plc results in a strong and balanced leadership team to set and monitor the strategy and values of the Company.

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.

The Board 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 of the Regulated Companies are considered to be independent of management and free from any relationship that could materially interfere with the exercise of the independent judgement.

STRATEGIC REPORT (continued)

The Board of QBE Underwriting Limited (continued)

Board Committees

The Boards of QBE European Operations plc and the Regulated Companies, 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

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 Group's main risks are regularly reported and discussed at the Risk and Capital Committee (RCC) 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:
- Considering 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.

Insurance risk

The Company defines insurance risk as the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations.
Our exposure to insurance risk arises from:
- Underwriting/pricing;
- Insurance concentrations; and
- Reserving.

The Company manages insurance risk as follows:
- Analysing historical pricing and claims experience;
- Setting a tolerance to concentration risk;
- Monitoring and reviewing underwriting performance; and
- Conducting both an in-house and external actuarial review of our claims provisions, independent of our underwriting teams.

STRATEGIC REPORT (continued)

Risk management and principal risks and uncertainties (continued)

Credit risk

The Company defines credit risk as the risk of financial loss where a customer, counterparty or issuer fails to meet their obligations to the Company in accordance with agreed terms. The Company's exposure to credit risk results from financial transactions with securities issuers, debtors, brokers, policyholders, reinsurers and guarantors.

The Company manages credit risk as follows:

- Regular review of exposure limits and credit quality levels for approved counterparties in relation to deposits and investments; and
- Maximising the amount of reinsurance placed with highly rated and regarded counterparties, and limiting the concentration of exposures.

Group risk

The Company defines group risk as the risk 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 as follows:

- 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 on key Lloyd's Market bodies and within material QBE Group initiatives.

Market risk

The Company defines market risk of adverse impacts on earnings resulting from changes in market factors. Market factors include but are not limited to: interest rates, credit spreads, foreign exchange rates and equity prices.

The Company manages market risk as follows:

- Actively managing investment assets;
- Performing asset and liability management to actively manage our exposure to yield curve fluctuations;
- Maintaining a diversified portfolio; and
- Hedging residual non-functional currency net asset exposures.

Liquidity risk

The Company defines liquidity risk as the risk of insufficient liquid assets to meet liabilities as they fall due to policyholders and creditors or only being able to do so at excessive cost.

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.

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.

STRATEGIC REPORT (continued)

Solvency II and capital adequacy

The Company has been applying our Prudential Regulation Authority (PRA) approved internal capital model. 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

An established business continuity management framework is in place to ensure 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 15 March 2018 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 annual accounts of the Syndicate for the year ended 31 December 2017.

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 2017 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
15 March 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS' OF SYNDICATE 386

Report on the Syndicate annual accounts

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 2017 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, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the managing agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The managing agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

Reporting on other information (continued)

With respect to the Managing Agent's Report, we also considered whether the disclosures required by Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2017 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the managing agent for the syndicate annual accounts

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 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 SYNDICATE 386 (continued)

Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, 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
- certain disclosures of managing agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Andrew Moore (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2018

PROFIT AND LOSS ACCOUNT -
TECHNICAL ACCOUNT - GENERAL BUSINESS
for the year ended 31 December 2017

	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Earned premium, net of reinsurance					
Gross premiums written	3	357,417		328,080	
Outward reinsurance premiums		(31,177)		(59,346)	
Net premiums written			326,240		268,734
Change in the gross provision for unearned premiums	12	(6,656)		(1,241)	
Change in the provision for unearned premiums, reinsurers' share	12	(3,084)		3,490	
Change in the net provision for unearned premiums			(9,740)		2,249
Earned premium, net of reinsurance			316,500		270,983
Allocated investment return transferred from the non-technical account			17,688		22,122
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(212,879)		(236,811)	
Reinsurers' share		5,652		10,621	
Net claims paid		(207,227)		(226,190)	
Change in the provision for claims					
Gross amount	12	(8,561)		16,711	
Reinsurers' share	12	36,639		42,104	
Change in the net provision for claims		28,078		58,815	
Claims incurred, net of reinsurance			(179,149)		(167,375)
Net operating expenses	4		(98,993)		(89,545)
Standard personal expenses			(13,539)		(10,044)
Balance on the technical account for general business			42,507		26,141

The notes set out of pages 22 to 40 form an integral part of these annual accounts

PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT

for the year ended 31 December 2017

	Note	2017 £'000	Restated 2016 £'000
Balance on the general business technical account		42,507	26,141
Investment income	7(a)	28,407	24,546
Unrealised gains on investments		94,859	89,448
Investment expenses and charges	7(b)	(8,244)	(6,034)
Unrealised losses on investments		(97,334)	(85,838)
Investment return		17,688	22,122
Allocated investment return transferred to the general business technical account		(17,688)	(22,122)
Non-technical account foreign exchange gain		4,050	5,584
Profit for the financial year		46,557	31,725

The results above are derived from continuing operations.

The notes set out of pages 22 to 40 form an integral part of these annual accounts

STATEMENT OF INCOME AND MEMBERS' BALANCES
for the year ended 31 December 2017

	2017 £'000	2016 £'000
Members' balances as at 1 January	32,938	48,905
Profit for the financial year	46,557	31,725
Members' agent fees	(614)	(909)
Non-standard personal expenses	866	(25)
Distribution of profits	(54,270)	(46,758)
Members' balances as at 31 December	25,477	32,938

The notes set out of pages 22 to 40 form an integral part of these annual accounts

BALANCE SHEET
As at 31 December 2017

Assets	Note	2017 £'000	2016 £'000
Investments			
Other financial investments	8	841,090	885,932
Derivative financial instruments	9	11,708	9,366
		852,798	895,298
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	11,811	16,026
Claims outstanding	12	211,533	183,588
		223,344	199,614
Debtors			
Debtors arising out of direct insurance operations	13(i)	85,517	96,885
Debtors arising out of reinsurance operations	13(ii)	4,221	26,265
Other debtors	13(iii)	4,922	19,978
		94,660	143,128
Other assets			
Cash at bank and in hand		18,034	32,614
Overseas deposits	14	189,495	187,785
		207,529	220,399
Prepayments and accrued income			
Accrued interest and rent		4,214	1,897
Deferred acquisition costs		42,335	42,094
		46,549	43,991
Total assets		1,424,880	1,502,430

The notes set out of pages 22 to 40 form an integral part of these annual accounts

BALANCE SHEET
As at 31 December 2017

Liabilities	Note	2017 £'000	2016 £'000
Members' balances		25,477	32,938
Technical provisions			
Provision for unearned premiums	12	186,695	188,080
Claims outstanding	12	1,149,823	1,148,563
		1,336,518	1,336,643
Creditors			
Creditors arising out of direct insurance operations	19 (i)	12,567	20,488
Creditors arising out of reinsurance operations	19 (ii)	7,428	51,467
Derivative financial instruments	9	-	155
Other creditors including taxation and social security	20	32,209	50,472
		52,204	122,582
Accruals and deferred income		10,681	10,267
Total liabilities		1,424,880	1,502,430

These annual accounts on pages 16 to 40 were approved by the board of QBE Underwriting Limited on 15 March 2018 and signed on its behalf by:

D J Winkett
Director

The notes set out on pages 22 to 40 form an integral part of these annual accounts

STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	2017 £'000	Restated 2016 £'000
Cash flow from operating activities		
Operating profit	46,557	31,725
(Decrease) / increase in gross technical provisions	(124)	92,260
Increase in reinsurers' share of technical provisions	(23,730)	(61,299)
Decrease in debtors	45,909	77,880
(Decrease) / increase in creditors	(69,964)	29,712
Investment returns	(17,688)	(22,122)
Foreign exchange	24,024	(150,738)
Members' Agents Fees	(1,058)	(1,060)
Non-standard personal expenses	1,310	126
	5,236	(3,516)
Cash flows from investing activities		
Purchase of equity and debt instruments	(1,787,409)	(1,781,803)
Sale of equity and debt instruments	1,807,568	1,845,873
Purchase of derivatives	(171)	(71)
Sale of derivatives	167	34
Investment income received	20,163	18,511
Unrealised investment (loss) / gain	(2,475)	3,610
	37,843	86,154
Cash flow from financing activities		
Distribution of profits	(54,270)	(46,758)
	(54,270)	(46,758)
Movement in cash, portfolio investments and financing		
Cash and cash equivalents at the beginning of the year	220,399	153,772
Net (decrease) / increase in cash and cash equivalents	(11,191)	35,880
Foreign exchange movement on cash and cash equivalents	(1,679)	30,747
Cash and cash equivalents at the end of the year	207,529	220,399

The notes set out on pages 22 to 40 form an integral part of these annual accounts

NOTES TO THE ANNUAL ACCOUNTS
for the year ended 31 December 2017

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 2017 year of account and prior years of account.

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

(b) Basis of accounting for insurance

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

(i) Premiums written

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

(ii) Unearned premiums

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

(iii) Outwards reinsurance

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

(iv) Claims incurred

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

(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 2017

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 2017

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 2017

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, 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.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2017

3. Segmental information

2017

	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Third party liability	311,572	305,052	(189,490)	(98,812)	10,770	27,520
Reinsurance acceptances	45,845	45,709	(31,950)	(13,720)	(2,740)	(2,701)
Total	357,417	350,761	(221,440)	(112,532)	8,030	24,819

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

Operating expenses includes standard personal expenses and reinsurance related expenses.

All premiums were concluded in the UK.

Gross premium written by destination

	2017 £'000	2016 £'000
Europe - United Kingdom	129,425	106,404
Other Europe	11,151	9,719
America - North America	7,906	7,274
Other America	2,976	3,194
Asia	167	160
Worldwide	202,331	199,016
Other (including Africa, Oceania and Middle East)	3,461	2,313
	357,417	328,080

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2017

4. Net operating expenses

		2017 £'000	2016 £'000
Acquisition costs:	direct commission	57,299	46,225
	other	24,236	27,593
Change in deferred acquisition costs		(1,610)	(289)
Administrative expenses		19,068	16,016
Net operating expenses		98,993	89,545

Administrative expenses include auditors' remuneration:

Fees payable to the Syndicate's auditor for the audit of the Syndicate's annual accounts	191	178
Other services pursuant to legislation	142	129

5. Employees

The Syndicate did not directly incur staff costs during the year (2016 nil). All staff are employed by fellow subsidiary undertakings that recharge the Syndicate for the services provided by those staff.

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:

	2017 £'000	2016 £'000
Directors of the Managing Agent	341	319
Active Underwriter	52	72

Further information in respect of the Directors of QUL is provided in that company's annual report.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2017

7. Investment income, expenses and charges

(a) Investment income

	2017 £'000	Restated 2016 £'000
Income from investments	19,577	19,651
Gains on the realisation of investments	8,830	4,895
	28,407	24,546

(b) Investment expenses and charges

	2017 £'000	Restated 2016 £'000
Losses on the realisation of investments	7,761	5,090
Investment management expenses	483	944
	8,244	6,034

8. Other financial investments

Designated at fair value through profit and loss

	2017		2016	
	Cost £'000	Fair value £'000	Cost £'000	Fair value £'000
Shares and other variable yield securities and units in unit trusts	69,466	69,013	75,941	77,170
Debt securities and other fixed income securities	762,487	772,077	762,395	808,762
	831,953	841,090	838,336	885,932

The debt securities and other fixed income securities are listed on recognised exchanges, £31,820k of the shares and other variable yield securities and units in unit trusts are listed on recognised exchanges (2016 £45,823k).

9. Derivative financial instruments

	2017 £'000	2016 £'000
Foreign currency derivatives		
Derivative financial instrument – assets	11,708	9,366
Derivative financial instrument – liabilities	-	(155)

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 £320,362k (2016 £290,072k).

The forward foreign exchange derivatives outstanding at year end expire by 10 May 2018 (2016 25 January 2017).

During the year a gain of £8,699k (2016 loss £35,762k) relating to such contracts was recognised in the profit and loss non-technical account.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2017

9. Derivative financial instrument (continued)

Fixed income derivatives

During 2016, the Syndicate entered into fixed income derivative future contacts to provide a partial hedge for the fixed income portfolios within the Syndicate.

During 2016 a loss of £37k was included in the profit and loss non-technical account relating to these derivatives.

10. Valuation hierarchy

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

2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Overseas deposits	4,780	184,715	-	189,495
Variable yield securities and units in unit trusts	31,820	10,961	26,232	69,013
Debt securities and other fixed income securities	61,282	710,795	-	772,077
Derivative financial instrument – assets	-	11,708	-	11,708
	97,882	918,179	26,232	1,042,293

2016	Level 1 £'000	Level 2 £'000	Level 3 £'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

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 value is determined by using the current unit price as advised by the responsible entity, trustee or equivalent of the investment management scheme.

Level 3 Valuation techniques are applied in situations where any one or more significant valuation input is not based on observable market data. This includes infrastructure debt and unlisted assets, where prices are sourced from the investment manager who may use a combination of observable and comparable market prices where available, and carried book value where none exist.

Movements in level 3 investments	2017 £'000	2016 £'000
At 1 January	-	-
Purchases	26,764	-
Unrealised gains	(31)	-
Redemptions	(501)	-
At 31 December	26,232	-

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2017

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.

		2017		2016	
	Movement in variable %	**Profit / (loss) £'000**	**Equity £'000**	**Profit / (loss) £'000**	**Equity £'000**
US dollar	+10	(1,011)	(1,011)	(1,199)	(1,199)
	–10	1,011	1,011	1,199	1,199
Canadian dollar	+10	29	29	150	150
	–10	(29)	(29)	(150)	(150)
Australian dollar	+10	(51)	(51)	(23)	(23)
	–10	51	51	23	23
Euro	+10	1,794	1,794	(832)	(832)
	–10	(1,794)	(1,794)	832	832

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.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2017

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:

2017	Floating interest rate	Fixed interest rate maturing in 1 year or less	1 to 2 years	2 to 3 years	3 years over	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest bearing assets	119,393	130,219	166,037	134,249	135,029	684,927

2016	Floating interest rate	Fixed interest rate maturing in 1 year or less	1 to 2 years	2 to 3 years	3 years over	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest bearing assets	309,809	228,334	128,254	120,048	282,383	1,068,828

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 %	2017 Profit / (loss) £'000	2017 Equity £'000	2016 Profit / (loss) £'000	2016 Equity £'000
Interest rate movement – fixed interest securities	+0.5	(6,403)	(6,403)	(7,835)	(7,835)
	-0.5	5,460	5,460	6,900	6,900

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 2017

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.

		Financial impact	
	Movement in variable %	2017 Profit / (loss) and equity £'000	2016 Profit / (loss) and equity £'000
EURO STOXX	+20	4,724	5,316
	-20	(4,724)	(5,316)
Emerging market equities	+20	1,271	68
	-20	(1,271)	(68)

(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.

89.1% (2016 96.4%) 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. 98.1% (2016 97.2%) 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 £6,389k (2016 £6,807k) as collateral against credit risk.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2017

11. Financial risk (continued)

(ii) Credit risk (continued)

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

2017	Neither past due nor impaired £'000	Past due by Up to 3 Months £'000	3 to 6 Months £'000	6 Months to 1 year £'000	Greater than 1 year £'000	Total £'000
Other interest bearing investments	684,927	-	-	-	-	684,927
Other financial investments	363,692	-	-	-	-	363,692
Derivative financial instrument – assets	11,708	-	-	-	-	11,708
Other debtors	4,922	-	-	-	-	4,922
Debtors arising out of direct insurance operations	85,517	-	-	-	-	85,517
Debtors arising out of reinsurance operations	397	2,765	291	70	698	4,221
	1,151,163	2,765	291	70	698	1,154,987

2016	Neither past due nor impaired £'000	Past due by Up to 3 Months £'000	3 to 6 Months £'000	6 Months to 1 year £'000	Greater than 1 year £'000	Total £'000
Other interest bearing investments	1,068,828	-	-	-	-	1,068,828
Other financial investments	37,504	-	-	-	-	37,504
Derivative financial instrument – assets	9,366	-	-	-	-	9,366
Other debtors	19,978	-	-	-	-	19,978
Debtors arising out of direct insurance operations	96,885	-	-	-	-	96,885
Debtors arising out of reinsurance operations	23,755	1,194	24	-	1,292	26,265
	1,256,316	1,194	24	-	1,292	1,258,826

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2017

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 2017, the average duration of cash and fixed interest securities was 1.4 years (2016 1.6 years).

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

	2017		2016	
	Within 1 year £'000	Over 1 year £'000	Within 1 year £'000	Over 1 year £'000
Trade and other payables	52,204	-	122,427	-
Derivative financial instrument – liabilities	-	-	155	-
	52,204	-	122,582	-

The Syndicate has no significant concentration of liquidity risk.

12. Technical provisions

2017 Gross	Provision for unearned premium £'000	Claims outstanding £'000	Net £'000
At 1 January	(188,080)	(1,148,563)	(1,336,643)
Movement per technical account	(6,656)	(8,561)	(15,217)
Foreign exchange	8,041	7,301	15,342
At 31 December	(186,695)	(1,149,823)	(1,336,518)
Reinsurance			
At 1 January	16,026	183,588	199,614
Movement per technical account	(3,084)	36,639	33,555
Foreign exchange	(1,131)	(8,694)	(9,825)
At 31 December	11,811	211,533	223,344

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2017

12. Technical provisions (continued)

2016 Gross	Provision for unearned premium £'000	Claims outstanding £'000	Net £'000
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

13. Debtors

(i) Debtors arising out of direct insurance operations

	2017 £'000	2016 £'000
Due within one year		
Due from intermediaries	85,517	96,885

(ii) Debtors arising out of reinsurance operations

	2017 £'000	2016 £'000
Due within one year	4,221	26,265

(iii) Other debtors

	2017 £'000	2016 £'000
Unsettled investment trade debtors	4,751	19,956
Amounts due from Group undertakings	171	22
	4,922	19,978

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2017

14. Overseas deposits

	2017 £'000	2016 £'000
Additional Securities Limited overseas deposits	4,739	4,015
Australian Trust Funds	128,626	121,509
Canadian Margin Funds	37,346	41,056
Joint Asset Trust Funds	7,951	9,278
South African Trust Funds	10,833	11,927
	189,495	187,785

15. Outstanding claims – claims development

2017	2010 and prior £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	Total £'000
At end of year		94,810	97,716	84,618	89,568	79,313	106,556	96,379	
One year later		190,409	196,072	167,438	188,082	173,383	182,017		
Two years later		202,825	209,406	171,610	211,834	170,067			
Three years later		200,802	200,439	189,450	209,860				
Four years later		197,693	215,851	193,054					
Five years later		219,767	224,272						
Six years later		232,238							
Current estimate of net cumulative claims cost		232,238	224,272	193,054	209,860	170,067	182,017	96,379	
Cumulative net claims payments to date		(172,899)	(146,853)	(77,236)	(77,400)	(29,646)	(20,658)	(2,036)	
Net outstanding claims	157,131	59,339	77,419	115,818	132,460	140,421	161,359	94,343	938,290

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.

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 impact on profit assuming that there is no change to any of the other variables.

		Profit / (loss)	
			Restated
	Sensitivity	2017	2016
	%	£'000	£'000
Net claims outstanding	+5	37,883	38,599
	-5	(37,883)	(38,599)
Sterling to US dollar exchange rate	+10	1,165	3,814
	-10	(1,165)	(3,814)
Sterling to Australian dollar exchange rate	+10	9,053	11,438
	-10	(9,053)	(11,438)
Sterling to Euro exchange rate	+10	15,280	14,231
	-10	(15,280)	(14,231)
Sterling to Canadian dollar exchange rate	+10	11,516	10,118
	-10	(11,516)	(10,118)

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2017

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
2017	214,125	179,398	146,015	109,145	81,355	208,252	938,290
2016	211,263	183,790	149,420	113,917	84,296	222,289	964,975

19. Creditors

(i) Creditors arising out of direct insurance operations	2017 £'000	2016 £'000
Due within one year		
Due to intermediaries	12,567	20,488

(ii) Creditors arising out of reinsurance operations	2017 £'000	2016 £'000
Due within one year	7,428	51,467

20. Other creditors including taxation and social security

	2017 £'000	2016 £'000
Due within one year		
Unsettled investment trade creditors	9,697	33,616
Amounts due to group undertakings	7,860	3,521
Taxation and social security	3,013	2,584
Other creditors	11,639	10,646
Trade creditors	-	105
	32,209	50,472

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2017

21. 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 annual report for QBE Insurance Group Limited is 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.

T C W Ingram indirectly acquired a non-material economic interest as an underwriting line of £3.4k in Syndicate 386 for the underwriting year 2018.

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 QBE Insurance Group during the year. Inwards premiums totalling £577k (2016 £2,037k) were written with related QBE companies. All such contracts were written on normal market terms on an arm's length basis. At the year end, balances due from related QBE companies in respect of inwards reinsurance premium was £196k (2016 £1k).

Outwards reinsurance contracts with related QBE companies

The Syndicate has purchased reinsurance with companies within the QBE Group during the year. Outward premiums totalling £44,794k (2016 £33,778k) were placed with Equator Reinsurances Limited (Equator Re). 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 £106k (2016 £6,113k). At the year end, balances due from Equator Re in respect of the reinsurers' share of technical provisions was £15,573k (2016 £15,157k).

Profit commission

Profit commission is payable to the Managing Agent as per note 1(b) (xiii). During the year £11,639k was charged (2016 £7,931k). At the year-end £11,639k (2016 £10,646k) 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 £1,900k (2016 £2,113k). Nil is outstanding at the year end (2016 nil).

Administrative expenses

Total expenses recharged from QBE Partner Services (Europe) LLP in respect of services provided to the Syndicate amounted to £41,524k (2016 £41,541k). The balance outstanding at year end with QBE Partner Services (Europe) LLP is £7,715k (2016 £3,521k). The Corporate Member has advanced £144k (2016 £nil) in order to settle certain overseas tax liabilities which are settled from the Syndicate on behalf of the Corporate Member. There are no other transactions or arrangements to be disclosed.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2017

21. Related parties (continued)

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. The risks placed with the Syndicate are under normal market conditions and are in the interests of all the Names on the Syndicate.

22. Presentation of prior year comparatives

During the year the Syndicate has made the following changes in presentation:

In 2016, unrealised gains and losses were presented as a net unrealised gain on the non-technical profit and loss account. In 2017, the non-technical profit and loss account presents the unrealised gains and losses separately.

In 2016, the realised gains and losses were presented as a net realised loss on the non-technical profit and loss account within Investment expenses and charges. In 2017, the non-technical profit and loss account presents realised gains and losses separately between Investment income and Investment expenses and charges.

In 2016, member's agents fees, non- standard personal expenses, unrealised investments gain/(loss) and foreign exchange movement on cash and cash equivalents were separately disclosed within non-cash items on the statement of cash flows. In 2017, member's agents fees and non- standard personal expenses have been presented within cash flow from operating activities. Unrealised investments gain/(loss) have been presented within investing activities, and foreign exchange movement on cash and cash equivalents have been presented within movement in cash, portfolio investments and financing.

During the year the Syndicate has updated the methodology to estimate the impact of changes of key variables on the outstanding claims provision at Note 17. Previously the estimate excluded the impact of reinsurance recoveries due under certain reinsurance programs. The updated methodology includes reinsurance recoveries due under all reinsurance programs. This impacts the Sterling to US Dollar exchange rate sensitivity, where the 2016 disclosure of £5,682k has reduced to £3,814k.

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

2015 UNDERWRITING YEAR ACCOUNTS

UNDERWRITING YEAR - REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Managing Agent presents its report at 31 December 2017 for the 2015 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 2015 underwriting year was approved by the Board of Directors on 31 January 2018.

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 2017, 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)

2015 closed year of account

We are delighted to report a total profit to Names of 9.6% of capacity after standard personal expenses.

This result includes the anticipated impact of revising the statutory discount rate applied to certain UK personal injury claims (referred to as Ogden tables) from -0.75% to +0.25%, in line with latest guidance from the Ministry of Justice of an expected range of between 0% and 1%.

Gross written premium of £326,476k was down on original plan, due to continued difficult trading environment, and equated to £275,812k (net of brokerage and commission), or 78.3% utilisation of the Syndicate's £352,110k stamp capacity (de-empted from 2014 capacity of £413.0m).

Loss experience for the 2015 pure year was better than expectation, with a net (gross of commissions) ultimate loss ratio of 55.8% against a plan of 59.2%, producing a 2015 pure year underwriting profit (before expenses) of £83,261k.

All classes of business contributed significantly to the 2015 pure year underwriting profit (before expenses) as follows:

	£'000
International Casualty	29,327
UK and Ireland Liability	37,409
Professional Lines	16,525
	83,261

The 2014 and prior years produced a net loss of £10,679k, following worse than expected claims activity, particularly in Professional Indemnity.

This, coupled with an improved investment return and a profit on foreign exchange, after deduction of syndicate and Names expenses, has resulted in an excellent total profit to Names of £32,964k.

2016 and 2017 open years of account

Projected gross written premium of £336,617k for the 2016 pure year is marginally up on 2015, despite experiencing continued competitive market conditions. As detailed in last year's report, the year has witnessed greater frequency and size of large losses than anticipated with a projected net (gross of commissions) claims ratio of 63.9% against a plan of 59.5%, producing a mid-range profit to Names of 6.5% of capacity after standard personal expenses.

Pricing and market pressures continued into 2017, putting further pressure on gross written premium, presently projected at £330,793k

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.

On behalf of the Board of the Managing Agent

D J Winkett

QBE Underwriting Limited
London
15 March 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS' OF SYNDICATE 386 – 2015 CLOSED YEAR OF ACCOUNT

Report on the Syndicate underwriting year accounts

Opinion

In our opinion, Syndicate 386's syndicate underwriting year accounts for the 2015 year of account for the 36 months ended 31 December 2017 (the "syndicate underwriting year accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 and of its profit for the 2015 closed year of account;
- have been properly prepared in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland", 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); 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).

We have audited the syndicate underwriting year accounts included within the Annual Report (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017, the profit and loss account for the year ended 31 December 2017, the accounting policies, and the notes to the syndicate underwriting year accounts, which include other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.
Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate underwriting year accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate underwriting year accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the managing agent's use of the going concern basis of accounting in the preparation of the syndicate underwriting year accounts is not appropriate; or
- the managing agent has not disclosed in the syndicate underwriting year accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate underwriting year accounts and our auditors' report thereon. The managing agent is responsible for the other information. Our opinion on the syndicate underwriting year accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS' OF SYNDICATE 386 – 2015 CLOSED YEAR OF ACCOUNT (continued)

Reporting on other information (continued)

In connection with our audit of the syndicate underwriting year accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate underwriting year accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate underwriting year accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Managing Agent's Report, we also considered whether the disclosures required by Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2017 is consistent with the syndicate underwriting year accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

Responsibilities for the syndicate underwriting year accounts and the audit

Responsibilities of the managing agent for the syndicate underwriting year accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 43, the managing agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2015 closed year of account. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate underwriting year accounts, the managing agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the syndicate is unable to continue to realise its assets and discharge its liabilities in the ordinary course of business.

Auditors' responsibilities for the audit of the syndicate underwriting year accounts

Our objectives are to obtain reasonable assurance about whether the syndicate underwriting year accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate underwriting year accounts.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS' OF SYNDICATE 386 – 2015 CLOSED YEAR OF ACCOUNT (continued)

Responsibilities for the syndicate underwriting year accounts and the audit (continued)

Responsibilities of the managing agent for the syndicate underwriting year accounts

A further description of our responsibilities for the audit of the syndicate underwriting year accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 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.

Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), 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 underwriting year accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Andrew Moore (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2018

PROFIT AND LOSS ACCOUNT -
2015 UNDERWRITING YEAR TECHNICAL ACCOUNT - GENERAL BUSINESS

for the 36 months ended 31 December 2017

	Note	£'000	£'000
Syndicate allotted capacity			352,110
Earned premium, net of reinsurance			
Gross premiums written	2	326,476	
Outward reinsurance premiums		(25,408)	
Earned premium, net of reinsurance			301,068
Reinsurance to close premium received, net	3		698,535
Allocated investment return transferred from the non-technical account			22,992
Claims incurred, net of reinsurance			
Claims paid			
Gross amount			(210,645)
Reinsurers' share			5,647
Net claims paid			(204,998)
Reinsurance to close premium payable, net of reinsurance	4		(682,359)
Claims incurred, net of reinsurance			(887,357)
Net operating expenses	5		(95,913)
Standard personal expenses			(14,190)
Balance on the technical account - general business			25,135

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

The notes set out of pages 50 to 56 form an integral part of these underwriting year accounts

PROFIT AND LOSS ACCOUNT - 2015 UNDERWRITING YEAR NON - TECHNICAL ACCOUNT

for the 36 months ended 31 December 2017

	Note	£'000
Balance on the technical account - general business		25,135
Investment income	6(a)	31,519
Unrealised gains on investments		89,931
Investment expenses and charges	6(b)	(8,231)
Unrealised losses on investments		(90,227)
Investment return		22,992
Allocated investment return transferred to the technical account - general business		(22,992)
Non – technical account income		7,829
Profit for the underwriting year	11	32,964

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 50 to 56 form an integral part of these underwriting year accounts

BALANCE SHEET - 2015 UNDERWRITING YEAR

for the closed year of account as at 31 December 2017

	Note	£'000
Assets		
Investments		
Other financial investments	8	553,419
Debtors		
Debtors arising out of direct insurance operations	9	13,963
Reinsurance recoveries anticipated on gross reinsurance to close premium payable	4	169,665
Other assets		
Cash at bank and in hand		8,233
Overseas deposits	10	162,427
Prepayments and other accrued income		2,795
Total assets		910,502

	Note	£'000
Liabilities		
Amounts due to members	11	32,964
Reinsurance to close premium payable – gross amount	4	852,024
Creditors	12	18,277
Accruals and deferred income		7,237
Total liabilities		910,502

These underwriting year accounts on pages 47 to 56 were approved by the board of QBE Underwriting Limited on 15 March 2018 and signed on its behalf by:

D J Winkett

Director

The notes set out of pages 50 to 56 form an integral part of these underwriting year accounts

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 2015 year of account which has been closed by reinsurance to close as at 31 December 2017. Consequently the balance sheet represents the assets and liabilities of the 2015 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 2015 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 2015 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	278,066	(159,853)	(83,207)	(11,376)	23,630
Reinsurance acceptances	40,915	(26,953)	(11,554)	2,894	5,302
	318,981	(186,806)	(94,761)	(8,482)	28,932
Reinsurance to close	706,030	(875,863)	(1,152)	158,386	(12,599)
Total	1,025,011	(1,062,669)	(95,913)	149,904	16,333

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 £7,495k gross premium written, and £1,152k gross operating expenses relating to 2014 and prior underwriting years.

3. Reinsurance to close premium received

	£'000
Gross reinsurance to close premium received	855,025
Reinsurance recoveries anticipated	(156,490)
Reinsurance to close premium receivable, net of reinsurance	698,535

4. Reinsurance to close premium payable

	Reported £'000	IBNR £'000	Future premiums £'000	Total £'000
Gross reinsurance to close premium payable	629,728	222,484	(188)	852,024
Reinsurance recoveries anticipated	(116,105)	(53,519)	(41)	(169,665)
Reinsurance to close premium payable, net of reinsurance				682,359

5. Net operating expenses

	£'000
Acquisition costs – brokerage	50,664
Acquisition costs – other	28,946
Administrative expenses	16,303
	95,913

Administrative expenses include:

	£'000
Auditors' remuneration	
Fees payable to the Syndicate auditor for the audit of the 2015 accounts	187
Other services pursuant to legislation	133

6. Investment income, expenses and charges

(a) Investment income

	£'000
Income from investments	23,086
Gains on the realisation of investments	8,433
	31,519

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	563
Investment management expenses	7,668
	8,231

7. Analysis of result by year of account

	2014 and prior years of account £'000	2015 pure year of account £'000	Total £'000
Balance excluding investment return and operating expenses	(11,447)	123,693	112,246
Brokerage and commission on gross premium	(5,092)	(45,572)	(50,664)
	(16,539)	78,121	61,582
Allocated investment return transferred from the non-technical account			22,992
Net operating expenses excluding brokerage and commission			(45,249)
Standard personal expenses			(14,190)
Non – technical account income			7,829
			32,964

8. Other financial investments

	Cost £'000	Market value £'000
Shares and other variable yield securities and units in unit trusts	49,958	49,632
Debt securities and other fixed income securities	490,150	495,468
Other investments	-	8,319
	540,108	553,419

9. Debtors arising out of insurance operations

	£'000
Due within one year	
Due from intermediaries	3,411
Reinsurance recoveries	2,425
Other	8,127
	13,963

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	4,062
Australian Trust Funds	110,253
Canadian Margin Fund	32,011
Joint Asset Trust Funds	6,815
South African Trust Funds	9,286
	162,427

11. Amounts due to members

	£'000
Profit for the closed year of account	32,964
Due to members	32,964

12. Creditors

	£'000
Due within one year	
Arising out of direct insurance operations:	
Due to intermediaries	3,692
Arising out of reinsurance operations	(10,770)
Inter-year loan	7,359
Other	17,996
	18,277

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 and S W Sinclair are, or were during the underwriting year, non-executive Directors of related companies within the QBE European Operations division.

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.

NOTES TO THE UNDERWRITING YEAR ACCOUNTS (continued)

Forming part of the underwriting year accounts

13. Related parties (continued)

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 2015 year of account were £18,544k (2014 £23,019k).

Profit commission

Profit commission is payable to the Managing Agent as per note 1(h). During the period £8,469k was charged in respect of the 2015 year of account. At the end of the period, £8,320k (2014 £18,056k) 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 2015 year of account amounted to £2,113k. 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 2015 year of account amounted to £47,974k. At the end of the period, £272k was outstanding.

There are no other transactions or arrangements to be disclosed.

SEVEN YEAR SUMMARY

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

	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000
Gross premium written	442,678	443,771	449,256	332,559	335,172	328,080	357,417
Net earned premiums	377,265	378,701	375,663	359,352	323,567	270,983	316,500
Net claims	(102,746)	(165,493)	(177,152)	(205,271)	(173,751)	(167,375)	(179,149)
Acquisition costs	(87,049)	(89,228)	(97,381)	(93,021)	(89,184)	(73,529)	(79,925)
	187,470	123,980	101,130	61,060	60,632	30,079	57,426
Profit/(loss) on exchange	(4,540)	(12,316)	(45,451)	(2,791)	(4,243)	5,584	4,050
Other net operating expenses	(59,609)	(46,057)	(34,786)	(29,591)	(25,713)	(26,060)	(32,607)
Investment return	36,317	36,280	17,812	18,847	11,558	22,122	17,688
Profit for the financial year	159,638	101,887	38,705	47,525	42,234	31,725	46,557

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

	2009	2010	2011	2012	2013	2014	2015
Syndicate allocated capacity	£339.8m	£364.9m	£364.7m	£412.4m	£412.6m	£413.0m	£352.1m
Capacity utilised	127.1%	122.0%	123.9%	113.1%	100.4%	85.5%	92.7%
Number of underwriting members	1,123	1,147	1,155	1,193	1,215	1,220	1,210
Aggregate net premiums	£390.7m	£378.2m	£383.6m	£400.7m	£332.8m	£303.5m	£301.1m
Net capacity utilised	115.0%	103.7%	105.2%	97.2%	80.7%	73.5%	85.5%
Technical account ratio	35.1%	23.5%	17.7%	7.7%	22.0%	14.7%	5.0%

Result for an illustrative share of £10,000

	2009 £	2010 £	2011 £	2012 £	2013 £	2014 £	2015 £
Gross premiums	12,711	12,197	12,395	11,308	10,039	8,547	9,272
Net premiums	11,499	10,366	10,517	9,718	8,067	7,348	8,550
Reinsurance to close from earlier account	21,281	18,592	17,342	14,902	14,979	18,294	19,839
Net claims	(5,433)	(5,129)	(4,994)	(4,884)	(1,759)	(5,345)	(5,822)
Reinsurance to close	(20,370)	(18,131)	(17,152)	(15,443)	(16,482)	(16,955)	(19,379)
Profit/(loss) on exchange	418	(129)	(735)	(513)	-	-	-
Syndicate operating expenses	(2,939)	(2,699)	(2,788)	(2,912)	(2,598)	(2,086)	(2,724)
Balance on technical account	4,456	2,870	2,190	868	2,207	1,256	464
Investment income and gains less losses, less expenses and charges	1,097	917	615	469	(90)	711	875
	5,553	3,787	2,805	1,337	2,117	1,967	1,339
Illustrative personal expenses for a traditional Name							
Managing agent's fee	(60)	(60)	(60)	(60)	(60)	(60)	(60)
Contribution to Lloyd's Central Fund	(54)	(55)	(53)	(24)	(42)	(37)	(38)
Profit commissions	(1,077)	(723)	(528)	(241)	(395)	(367)	(241)
Lloyd's subscription	(54)	(55)	(53)	(47)	(42)	(37)	(38)
	(1,245)	(893)	(694)	(372)	(539)	(501)	(377)
Profit after illustrative profit commission and personal expenses	4,308	2,894	2,110	965	1,578	1,466	962

Note:

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

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