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QBE Casualty Syndicate 386 Annual report 2018

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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
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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 2018.

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). Together with other underwriting entities within QBE EO, the Syndicate continued to provide an integrated casualty offering during 2018, leveraging QBE EO's extensive distribution capability and economies of scale in the cost of reinsurance protection.

Business written by the Syndicate comprises: 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.

For Lloyd's planning and performance monitoring reporting, classes of business are defined as: International Casualty, Professional Lines and UK & Ireland Liability.

The Syndicate has a continued emphasis on its customer value proposition, with a focus on customer requirements to deliver their business ambitions.

International Casualty

The Syndicate has a strong reputation as a leader in international liability business, with the account comprising approximately 40% of overall gross written premium. The team underwrites a broad-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 totals approximately 21% of overall gross written premium and encompasses risks in the construction business, technology business and miscellaneous and traditional professions, including a significant book of solicitors' business.

UK and Ireland Liability

This account totals approximately 39% of overall gross written premium. The team offers a comprehensive product capability to its clients, underwriting traditional lines including: employers' liability, public and products liability, and products guarantee for construction and offshore accounts.

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 2018 relative to the previous year:

	2018 £000	2017 £000
Gross written premium	350,624	357,417
Net earned premiums	314,324	316,500
Net claims	(173,086)	(179,149)
Acquisition costs	(79,637)	(79,925)
Other net operating expenses	(36,442)	(32,607)
Net underwriting profit	25,159	24,819
Investment return	8,086	17,688
Non-technical account (charges) / income	(2,103)	4,050
Total profit for the year	31,142	46,557
Claims ratio	55.1%	56.6%
Combined operating ratio	92.0%	92.2%

Other net operating expenses include standard personal expenses.

The Active Underwriter comments

I am pleased to report a profitable result for 2018, with a total profit for the year of £31,142k (2017 £46,557k) and a combined ratio of 92.0% (2017 92.2%).

2018 commenced with a high degree of uncertainty including: the Ogden discount rate; the unknown impact to the market of hurricanes Harvey, Irma and Maria (HIM); and significant political uncertainty. Whilst the post-HIM rate uplift was lower than anticipated, this was less relevant for Syndicate 386 classes, which achieved rate increases ahead of plan, particularly in the International Liability and Professional Indemnity classes. Overall gross written premium of £350,624k is down 1.9% on previous (2017 £357,417k), reflecting the continued competitive market conditions witnessed in 2017 albeit diluted by a weaker sterling relative to the major trading currencies.

Both the net underwriting profit of £25,159k (2017 £24,819k) and the combined operating ratio of 92.0% are consistent with the previous year, reflecting an improved net ultimate loss ratio of 55.1% (2017 56.6%) verses a plan of 61.5%. This was despite adverse large loss experience in the International Casualty portfolio, particularly Australia and New Zealand.

Acquisition costs were consistent with previous at 25.3% of net premium, however net operating expenses increased to 11.6%, reflecting the Syndicate's share of an increased cost base, including those in respect of QBE's new legal entity in Brussels. Investment return of £8,086k is down on previous (2017 £17,688k). The non-technical account loss of £2,103k (2017 £4,050k profit) principally comprised a foreign exchange loss arising from the revaluation of non-monetary balances.

The Syndicate's reserving philosophy remains unchanged from previous and EY have been engaged to provide independent projections to support the Statement of Actuarial Opinion (SAO) to be issued to Lloyd's.

STRATEGIC REPORT (continued)

Outlook

The global political uncertainty prevalent at the start of 2019, remains largely unchanged from that of 12 months ago, from the protectionist strategies of the major powers to the continued issues surrounding Brexit. However, there are positive early rate indicators for 2019, as alternative capital markets struggle to re-load following another year of large catastrophe loss. This, coupled with increased performance oversight by Lloyd's, has seen an overall increase in specialty insurance rates in the London market and a consequent negotiating power shift in underwriters' favour for the first time in several years. The Syndicate will seek to exceed its stated business plan rates in most of its product lines, particularly within Professional Lines, where performance in recent years, has been particularly challenging across the market.

Following in-depth and constructive engagement with Lloyd's, the Syndicate's 2019 business plan represents no material change from 2018 and its' stamp capacity remains static at £317,000k. The Syndicate's 2019 reinsurance programme cost and structure is materially unchanged from 2018, except for the non-renewal of the Divisional Large Risk and Cat (DLRC) reinsurance cover, which has the potential to introduce greater volatility.

With regards to Brexit, Lloyd's Brussels subsidiary (LBS) will enter into an Outsourcing Agreement with QBE, allowing the Syndicate to underwrite on behalf of LBS. In this capacity QBE will be an outsourced underwriting service provider to LBS. Under the terms of the Outsourcing Agreement business will be reinsured back to the syndicate less RI commission. It is possible that where costs do increase, our customers may instruct us to change to our company platform to mitigate their costs.

As we move towards 2020, considerable energies will continue to be expended in ensuring our post-Brexit platform meets our regulatory and customer needs, with an additional focus on operational efficiencies and cost control.

The management and administration of the underwriting protocols represents a rising cost burden to the Syndicate and one which is expected to increase following the introduction of LBS. Consequently, we will be seeking an alternative solution to the protocols with a view to their ultimate removal by the end of 2019. We will discuss our proposals with third party capital once formulated, however in the interim existing protocols will remain in place.

Investment policy

QBE European operations 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 emerging and developed market equities, emerging market and 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 2018 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 average return for the year was 1.2% (2017 2.0%)

Portfolio currency	2018 Average funds £'000	2018 Average return %	2018 Target return %	2017 Average funds £'000	2017 Average return %	2017 Target return %
Australian dollar	137,865	2.7	2.7	168,767	1.8	2.4
Canadian dollar	315,714	2.0	2.0	318,546	0.7	1.1
Euro	222,510	(1.4)	2.0	194,262	2.6	4.0
UK pound sterling	224,449	(0.1)	1.7	226,654	0.9	1.0
US dollar	97,986	5.1	4.0	106,481	5.3	3.7
South African rand	10,768	8.4	7.8	11,749	8.4	8.1

The benchmark target for investment portfolios is an absolute return yield, agreed for each currency on an annual basis by Board of QBE Underwriting Limited. Combined asset class targets for each currency agreed for each financial year are shown above.

Following a year that saw a return of market volatility, trade war concerns between the US and China and continued Brexit uncertainty, central bank monetary policy normalisation continued against a backdrop of economic stabilisation. The US Federal Reserve and the Bank of Canada increased policy rates, while the ECB confirmed it would stop net asset purchases by the end of the year. However, associated tightening of financial conditions, coupled with some weakness in economic data and elevated geopolitical concerns led to a rapid reappraisal of future rate expectations across markets. The decline in yields was particularly sharp in US short maturity fixed income assets, as the market surprisingly started to price in the possibility that the Fed might need to ease policy in the near future. Growth Asset markets experienced considerable volatility and divergence of performance throughout the year, with the final quarter especially challenging for investors. US equity and high yield credit markets had been strong performers, despite the rate hikes by the US Federal Reserve during the year. However later in the year, the flatter yield curve, a dramatic retreat in oil prices and ongoing escalation of trade concerns were some of the catalysts for a market wide sell off that reversed much of the previous gains for these asset classes.

The US dollar denominated investment holdings outperformed their currency target for the year, reflecting the performance of US investment markets, however the Syndicates Euro and Sterling denominated investment holdings underperformed their respective currency targets, with investment markets in those jurisdictions being impacted by both weaknesses in economic data and political uncertainty. The overall investment return for the Syndicate at 1.2% (2017 2.0%) was behind the weighted annual target return of 2.3% (2017 2.2%).

The Syndicate's fixed income portfolios continued to be managed conservatively during the year, with average duration maintained around 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 (QBE EO) of QBE Insurance Group Limited (QBE Group). The corporate governance framework is managed at QBE EO level.

During 2018, 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. 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 Board seeks to adopt practices recommended by the Code (which was updated in July 2018), where practical and relevant.

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 June 2018, the QBE EO Boards, undertook a Board Effectiveness Review. The Review was conducted by an external provider, 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.

In light of the implementation of the Senior Managers & Certification Regime in December 2018, the Company has adopted requisite new and updated policies and approved a Management Responsibilities Map which describes the management and governance arrangements of the Company.

The main QBE EO Boards and Board Committees met regularly during the year with strong attendance from all members. The Board of the Company met 12 times during 2018.

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 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 the Company are understood and met.

The Board is chaired by Tim Ingram and comprises four executive Directors and four independent non-executive Directors, all of whom are members of the jointly constituted Board Committees. All the non-executive Directors are considered to be independent of management and free from any relationship that could materially interfere with the exercise of independent judgement.

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

Succession planning is undertaken in conjunction with QBE Group and supported by the Remuneration and Nomination Committee.

STRATEGIC REPORT (continued)

The Board of QBE Underwriting Limited (continued)

Board Committees

The Board of the Company, EO plc and the other PRA regulated companies in QBE EO, 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
- Investment Committee
- Remuneration and Nomination Committee
- Risk and Capital Committee

Principal risks and uncertainties of the syndicates and the Company

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

The main risks are regularly reported and discussed at the QBE EO Risk and Capital Committee (RCC) through the Own Risk and Solvency Assessment. A summary of the main risk categories and risk mitigation techniques for the company 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 and economic requirements.

Group and Lloyd's 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 using the following:
- challenge and oversight of independent non-executive Directors on the Company Board;
- contractual arrangements in place for material services provided by other QBE Group divisions and companies;
- the QBE Group services framework which governs the procurement, monitoring and review of services provided to the Syndicates and the Company by the wider QBE Group;
- monitoring the Company's key financial exposures to the QBE Group; and
- involvement of QBE EO individuals within all material QBE Group initiatives impacting the Syndicates and the Company's operations.

Liquidity risk

The Company defines liquidity risk as the risk of holding insufficient liquid assets to meet liabilities as they fall due to 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; and
- matching assets and liabilities in our major currency positions.

STRATEGIC REPORT (continued)

Principal risks and uncertainties of the syndicates and the Company (continued)

Operational risk

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

The Company manages operational risk using the following:
- actively monitoring our key controls, processes and systems;
- conducting scenario reviews to identify and quantify potential exposures for mitigation; and
- maintaining effective segregation of duties, access controls, governance and reconciliation procedures.

Compliance risk

The Company defines compliance risk as the risk of legal or regulatory penalties, financial loss or impacts and non-financial loss or impacts (including reputational damage) resulting from a breach of obligations. Obligations refers to those in legislation, regulation, industry codes and standards, internal polices and ethical and business standards.

The Company manages compliance risk using the following:
- actively monitoring our key controls, processes and systems;
- conducting scenario reviews to identify and quantify potential exposures for mitigation;
- monitoring of internal / external fraud and improper business practices; and
- maintaining effective segregation of duties, access controls, governance and reconciliation procedures.

Solvency II and capital adequacy

The Syndicates managed by the Company have applied QBE EO's Prudential Regulation Authority (PRA) approved internal capital model from 1 January 2016. 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 is designed to ensure 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 Board of Directors on 15 March 2019 and signed on its behalf by:

D J Winkett
Director

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 2018.

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 9.

Internal audit

An internal audit department provides assurance to the Audit Committee as to the effectiveness of internal systems and controls, makes recommendations for improvement and monitors progress towards completion via management action plans. Internal audit also 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. 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 2018 of which the auditors are unaware; and
- the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of, and to establish that the Syndicate's auditors are aware of, any relevant audit information.

Independent auditors

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

By order of the Board of the Managing Agent,

D J Winkett
Director

QBE Underwriting Limited
London
15 March 2019

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 2018 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.

We have audited the syndicate annual accounts included within the Annual Report (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018, the profit and loss account for the year then ended, the statement of income and members' balances, the statement of cash flows, the accounting policies, and the notes to the syndicate annual accounts, which include other explanatory information.

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

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

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.

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

Reporting on other information (continued)

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.

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 2018 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 10, 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.

Thomas Robb (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2019

PROFIT AND LOSS ACCOUNT -
TECHNICAL ACCOUNT - GENERAL BUSINESS
for the year ended 31 December 2018

	Note	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Earned premium, net of reinsurance					
Gross premiums written	3	350,624		357,417	
Outward reinsurance premiums		(35,068)		(31,177)	
Net premiums written			315,556		326,240
Change in the gross provision for unearned premiums	12	1,231		(6,656)	
Change in the provision for unearned premiums, reinsurers' share	12	(2,463)		(3,084)	
Change in the net provision for unearned premiums			(1,232)		(9,740)
Earned premium, net of reinsurance			314,324		316,500
Allocated investment return transferred from the non-technical account			8,086		17,688
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(235,214)		(212,879)	
Reinsurers' share		21,276		5,652	
Net claims paid		(213,938)		(207,227)	
Change in the provision for claims					
Gross amount	12	(47,779)		(8,561)	
Reinsurers' share	12	88,631		36,639	
Change in the net provision for claims		40,852		28,078	
Claims incurred, net of reinsurance			(173,086)		(179,149)
Net operating expenses	4		(101,662)		(98,993)
Standard personal expenses			(14,417)		(13,539)
Balance on the technical account for general business			33,245		42,507

The notes set out of pages 21 to 41 form an integral part of these annual accounts

PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Balance on the general business technical account		33,245	42,507
Investment income	7(a)	24,641	28,407
Unrealised gains on investments		120,124	94,859
Investment expenses and charges	7(b)	(7,495)	(8,244)
Unrealised losses on investments		(129,184)	(97,334)
Investment return		8,086	17,688
Allocated investment return transferred to the general business technical account		(8,086)	(17,688)
Non-technical account foreign exchange (loss) / gain		(2,103)	4,050
Profit for the financial year		31,142	46,557

The results above are derived from continuing operations.

There are no recognised gains or losses for the current and preceding year other than those included in the profit and loss account above and therefore no statement of recognised gains and losses has been presented.

The notes set out of pages 21 to 41 form an integral part of these annual accounts

STATEMENT OF INCOME AND MEMBERS' BALANCES
for the year ended 31 December 2018

	2018 £'000	2017 £'000
Members' balances as at 1 January	25,477	32,938
Profit for the financial year	31,142	46,557
Members' agent fees	(591)	(614)
Non-standard personal expenses	111	866
Distribution of profits	(32,964)	(54,270)
Members' balances as at 31 December	23,175	25,477

The notes set out of pages 21 to 41 form an integral part of these annual accounts

BALANCE SHEET
As at 31 December 2018

Assets	Note	2018 £'000	2017 £'000
Investments			
Other financial investments	8	830,664	841,090
Derivative financial instruments	9	933	11,708
		831,597	852,798
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	10,142	11,811
Claims outstanding	12	302,771	211,533
		312,913	223,344
Debtors			
Debtors arising out of direct insurance operations	13(i)	84,784	85,517
Debtors arising out of reinsurance operations	13(ii)	14,683	4,221
Other debtors	13(iii)	10,425	4,922
		109,892	94,660
Other assets			
Cash at bank and in hand		14,085	18,034
Overseas deposits	14	174,257	189,495
		188,342	207,529
Prepayments and accrued income			
Accrued interest and rent		5,067	4,214
Deferred acquisition costs		40,471	42,335
		45,538	46,549
Total assets		1,488,282	1,424,880

The notes set out of pages 21 to 41 form an integral part of these annual accounts

BALANCE SHEET
As at 31 December 2018

Liabilities	Note	2018 £'000	2017 £'000
Members' balances		23,175	25,477
Technical provisions			
Provision for unearned premiums	12	188,245	186,695
Claims outstanding	12	1,192,346	1,149,823
		1,380,591	1,336,518
Creditors			
Creditors arising out of direct insurance operations	19 (i)	19,912	12,567
Creditors arising out of reinsurance operations	19 (ii)	14,314	7,428
Other creditors including taxation and social security	20	40,095	32,209
		74,321	52,204
Accruals and deferred income		10,195	10,681
Total liabilities		1,488,282	1,424,880

These annual accounts on pages 15 to 41 were approved by the board of QBE Underwriting Limited on 15 March 2019 and signed on its behalf by:

D J Winkett
Director

The notes set out on pages 21 to 41 form an integral part of these annual accounts

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	2018 £'000	2017 £'000
Cash flow from operating activities		
Operating profit	31,142	46,557
Increase / (decrease) in gross technical provisions	44,073	(124)
Increase in reinsurers' share of technical provisions	(89,569)	(23,730)
(Increase) / decrease in debtors	(14,221)	45,909
Increase / (decrease) in creditors	21,631	(69,964)
Investment returns	(8,086)	(17,688)
Foreign exchange	21,368	24,024
Members' Agents Fees	(910)	(1,058)
Non-standard personal expenses	430	1,310
	5,858	5,236
Cash flows from investing activities		
Purchase of equity and debt instruments	(1,425,259)	(1,787,409)
Sale of equity and debt instruments	1,432,814	1,807,568
Purchase of derivatives	(137)	(171)
Sale of derivatives	268	167
Investment income received	17,146	20,163
Unrealised investment loss	(9,060)	(2,475)
	15,772	37,843
Cash flow from financing activities		
Distribution of profits	(32,964)	(54,270)
	(32,964)	(54,270)
Movement in cash, portfolio investments and financing		
Cash and cash equivalents at the beginning of the year	207,529	220,399
Net decrease in cash and cash equivalents	(11,334)	(11,191)
Foreign exchange movement on cash and cash equivalents	(7,853)	(1,679)
Cash and cash equivalents at the end of the year	188,342	207,529

The notes set out on pages 21 to 41 form an integral part of these annual accounts

NOTES TO THE ANNUAL ACCOUNTS
for the year ended 31 December 2018

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 2018 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 unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns which reflects underlying risk exposures.

(iii) Outwards reinsurance

Outwards reinsurance premiums written relate to business ceded during the year, including an estimate of any adjustment premiums payable, together with any differences between estimates in the prior years and that actually ceded. Outwards premiums are recognised as earned over the period of the policy having regard to the incidence of risk. Policies that respond with reference to the attachment point are earned in line with the related inwards written premiums.

(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.

(v) Claims provisions and related reinsurance recoveries

Provisions are made 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.

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 2018

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.

In accordance with accounting regulations, discounting of outstanding claims is permitted in certain circumstances. For the Syndicate this includes discounting of outstanding reserves in respect of liabilities relating to periodical payment orders.

(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

Acquisition costs (which include commission costs) are the costs associated with obtaining and recording insurance contracts. Acquisition costs are capitalised when they relate to the acquisition of new business or renewal of existing business and are referred to as deferred acquisition costs. These costs are amortised on the same basis as the earning pattern of the premium, over the period of the insurance contract to which they relate. At the reporting date, deferred acquisition costs represent the capitalised costs that relate to the unearned premium. Acquisition costs are deferred in recognition of their future benefit and are measured at the lower of cost and recoverable amount.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

1. Accounting policies (continued)

(c) 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. Open 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.

(d) Cash at bank and in hand

Cash comprises cash at bank for use by the Syndicate in the management of its short term commitments.

(e) Investments

(i) Other financial investments and overseas deposits

Other financial investments and overseas deposits comprise shares and other variable yield securities, units in unit trusts, debt securities, other fixed income securities, loans and deposits with credit institutions, and funds held in overseas deposits which are subject to Lloyd's trust fund arrangements. These are managed on a fair value basis in accordance with the Syndicate's investment strategy. The Syndicate has elected to measure all financial investments and overseas deposits 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. Units in unit trusts, including unlisted property investments, are stated at fair value using current unit prices as advised by the responsible entity, trustee or equivalent of the investment management scheme. Overseas deposits are stated at fair value based on quoted prices in active markets for the same instruments and 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. Other unlisted investments are carried at the Directors' estimate of the current fair value, 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.

Other financial investments and overseas deposits are derecognised when the right to receive future cash flows from the assets has expired, or when the Syndicate has transferred substantially all the risks and rewards of ownership.

(ii) Derivative financial instruments

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.

(f) Debtors

Debtors comprise amounts receivable in the normal course of business. Debtors are initially recognised at transaction price, and where applicable are subsequently measured at amortised cost using the effective interest rate method. The recoverability of these assets is assessed at each balance date and appropriate provision made to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty credit risk and the contractual terms of the contract.

(g) Creditors

Creditors comprise amounts due in the normal course of business. Creditors are initially recognised at transaction price, and where applicable are subsequently measured at amortised cost using the effective interest rate method. Amounts owed to group undertakings are unsecured, interest free and payable on demand, except where specific loan agreements exist prescribing the term and other features of the loan.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

1. Accounting policies (continued)

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) Critical accounting estimates and judgements

The Syndicate makes estimates and judgments in respect of the reported amounts of certain assets and liabilities. These estimates and judgments are determined by qualified and experienced employees with reference to historical data and reasoned expectations of future events, and are continually updated. Actual results may differ from these estimates.

The following are the critical judgements that the Syndicate have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Outstanding claims provisions

The Syndicate's net outstanding claims provision comprises:

- the gross estimate of expected future claims payments; and
- amounts recoverable from reinsurers based on the gross estimate;

Gross estimate

The provision for expected future payments includes claims reported but not yet paid; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER); and estimated claims handling costs, being the direct and indirect expenses incurred in the settlement of claims.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2018

1. Accounting policies (continued)

(l) Critical accounting estimates and judgements (continued)

Gross estimate (continued)

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Syndicate, where more information about the claims is generally available. Liability and other long tail classes of business, where claims settlement may not happen for many years after the event giving rise to the claim, typically display greater variability between initial estimates and final settlement due to delays in reporting claims and uncertainty in respect of court awards and future claims inflation. Claims in respect of property and other short tail classes are typically reported and settled sooner after the claim event, giving rise to more certainty. The estimation techniques and assumptions used in determining the gross estimate are described below.

The Syndicate's process for establishing the gross estimate involves extensive consultation with internal and external actuaries, claim managers, underwriters and other senior management. This process includes quarterly in-house claims review meetings attended by senior divisional and management and detailed review by external actuaries at least annually. The determination of the amounts that the Syndicate will ultimately pay for claims arising under insurance and reinsurance contracts involves a number of critical assumptions. Some of the uncertainties impacting these assumptions are as follows:

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs for long tail insurance classes due to the longer period of time that elapses before a definitive determination of the ultimate claims cost can be made;
- incidence of catastrophic events close to the balance sheet date;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages; and
- social and economic trends, for example price and wage inflation and interest rates.

Gross estimates for each class of business are determined by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected estimates are based on a judgmental consideration of the results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and the expected term to settlement of the class. Projections are based on both historical experience and external benchmarks where relevant.

Estimates are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from reinsurers based on the gross estimate.

Assets arising from contracts with reinsurers

Assets arising from reinsurance recoveries under contracts with the Syndicate's reinsurers are determined using the same methods described above. The recoverability of these assets is assessed at each balance date and appropriate provisions made to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty credit risk and the contractual terms of the reinsurance contract.

2. Capital

Each syndicate in Lloyd's is required to carry out a self-assessment of the capital it requires, the Solvency Capital Requirement (SCR). This is required to reflect the level of capital needed to ensure that the syndicate will remain solvent at the point where all of the liabilities have run-off in 99.5% of future foreseeable scenarios.

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

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2018

2. Capital (continued)

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.

3. Segmental information

2018

	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Third party liability	296,215	296,355	(231,765)	(99,380)	52,067	17,277
Reinsurance acceptances	54,409	55,500	(51,228)	(16,699)	20,309	7,882
Total	350,624	351,855	(282,993)	(116,079)	72,376	25,159

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

Operating expenses includes standard personal expenses and reinsurance related expenses.

All premiums were concluded in the UK.

Gross premium written by destination

	2018 £'000	2017 £'000
Europe - United Kingdom	140,399	129,425
Other Europe	11,373	11,151
America - North America	8,499	7,906
Other America	4,662	2,976
Asia	236	167
Worldwide	180,274	202,331
Other (including Africa, Oceania and Middle East)	5,181	3,461
	350,624	357,417

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

4. Net operating expenses

		2018 £'000	2017 £'000
Acquisition costs:	direct commission	51,152	57,299
	other	26,129	24,236
Change in deferred acquisition costs		2,368	(1,610)
Administrative expenses		22,025	19,068
Reinsurance commission revenue		(12)	-
Net operating expenses		101,662	98,993

Administrative expenses include auditors' remuneration:

Remuneration receivable by the Syndicate's auditor for the auditing of these financial statements	161	191
Other services pursuant to legislation	146	142

5. Employees

The Syndicate did not directly incur staff costs during the year (2017 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:

	2018 £'000	2017 £'000
Directors of the Managing Agent	289	341
Active Underwriter	96	52

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 2018

7. Investment income, expenses and charges

(a) Investment income

	2018 £'000	2017 £'000
Income from investments	22,462	19,577
Gains on the realisation of investments	2,179	8,830
	24,641	28,407

(b) Investment expenses and charges

	2018 £'000	2017 £'000
Losses on the realisation of investments	7,404	7,761
Investment management expenses	91	483
	7,495	8,244

8. Other financial investments

Designated at fair value through profit and loss

	2018		2017	
	Cost £'000	Fair value £'000	Cost £'000	Fair value £'000
Shares and other variable yield securities and units in unit trusts	130,838	125,187	69,466	69,013
Debt securities and other fixed income securities	705,718	705,473	762,487	772,077
Deposits with credit institutions	4	4	-	-
	836,560	830,664	831,953	841,090

The debt securities and other fixed income securities are listed on recognised exchanges, £49,247k of the shares and other variable yield securities and units in unit trusts are listed on recognised exchanges (2017 £31,820k).

9. Derivative financial instruments

	2018 £'000	2017 £'000
Foreign currency derivatives		
Derivative financial instrument – assets	933	11,708

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 £234,100k (2017 buy £320,362k).

The forward foreign exchange derivatives outstanding at year end all expire by 29 October 2019 (2017 10 May 2018).

During the year a loss of £295k (2017 gain £8,699k) 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 2018

10. Valuation hierarchy

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

2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Overseas deposits	86,189	88,068	-	174,257
Deposits with credit institutions	4	-	-	4
Variable yield securities and units in unit trusts	96,264	3,114	25,809	125,187
Debt securities and other fixed income securities	179,674	525,799	-	705,473
Derivative financial instrument – assets	-	933	-	933
	362,131	617,914	25,809	1,005,854

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

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	2018 £'000	2017 £'000
At 1 January	26,232	-
Purchases	8,871	26,764
Redemptions	(8,475)	(31)
Unrealised losses	(819)	(501)
At 31 December	25,809	26,232

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

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. The basis for this sensitivity analysis is the residual foreign currency exposures at the balance sheet date.

	Movement in variable %	2018 Profit / (loss) and equity £'000	Restated 2017 Profit / (loss) and equity £'000
US dollar	+10	756	102
	-10	(756)	(102)
Canadian dollar	+10	1,229	1,541
	-10	(1,229)	(1,541)
Australian dollar	+10	953	1,083
	-10	(953)	(1,083)
Euro	+10	953	3,703
	-10	(953)	(3,703)

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 2018

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:

2018	Floating interest rate £'000	Fixed interest rate maturing in 1 year or less £'000	1 to 2 years £'000	2 to 3 years £'000	3 years over £'000	Total £'000
Interest bearing assets	152,682	104,742	219,025	175,709	276,223	928,381

Restated 2017	Floating interest rate £'000	Fixed interest rate maturing in 1 year or less £'000	1 to 2 years £'000	2 to 3 years £'000	3 years over £'000	Total £'000
Interest bearing assets	171,400	186,925	238,336	192,707	193,827	983,195

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 %	2018 Profit / (loss) and equity £'000	2017 Profit / (loss) and equity £'000
Interest rate movement – fixed interest securities	+0.5	(8,703)	(6,403)
	-0.5	6,820	5,460

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 2018

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	
		2018	2017
	Movement in variable %	Profit / (loss) and equity £'000	Profit / (loss) and equity £'000
EURO STOXX	+20	6,395	4,724
	-20	(6,395)	(4,724)
Emerging market equities	+20	3,537	1,271
	-20	(3,537)	(1,271)

(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.

89.7% (2017 89.1%) of total fixed interest and cash investments are with counterparties having a Standard & Poor'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 and debtors is also exposed to credit risk. 99.7% (2017 98.1%) 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 £5,030k (2017 £6,389k) as collateral against credit risk.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

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.

2018	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	928,381	-	-	-	-	928,381
Other financial investments	90,626	-	-	-	-	90,626
Derivative financial instrument – assets	933	-	-	-	-	933
Other debtors	10,425	-	-	-	-	10,425
Debtors arising out of direct insurance operations	77,811	2,528	1,068	1,074	2,303	84,784
Debtors arising out of reinsurance operations	1,088	13,405	-	30	160	14,683
	1,109,264	15,933	1,068	1,104	2,463	1,129,832

Restated 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	983,195	-	-	-	-	983,195
Other financial investments	65,424	-	-	-	-	65,424
Derivative financial instrument – assets	11,708	-	-	-	-	11,708
Other debtors	4,922	-	-	-	-	4,922
Debtors arising out of direct insurance operations	73,121	3,033	2,417	2,345	4,601	85,517
Debtors arising out of reinsurance operations	1,981	1,588	195	47	410	4,221
	1,140,351	4,621	2,612	2,392	5,011	1,154,987

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2018

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 2018, the average duration of cash and fixed interest securities was 2.4 years (2017 1.4 years).

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

	2018		2017	
	Within 1 year £'000	Over 1 year £'000	Within 1 year £'000	Over 1 year £'000
Creditors	74,321	-	52,204	-
	74,321	-	52,204	-

The Syndicate has no significant concentration of liquidity risk.

12. Technical provisions

2018 Gross	Provision for unearned premium £'000	Claims outstanding £'000	Net £'000
At 1 January	186,695	1,149,823	1,336,518
Movement per technical account	(1,231)	47,779	46,548
Foreign exchange	2,781	(5,256)	(2,475)
At 31 December	188,245	1,192,346	1,380,591
Reinsurance			
At 1 January	11,811	211,533	223,344
Movement per technical account	(2,463)	88,631	86,168
Foreign exchange	794	2,607	3,401
At 31 December	10,142	302,771	312,913

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2018

12. Technical provisions (continued)

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

13. Debtors

(i) Debtors arising out of direct insurance operations

	2018 £'000	2017 £'000
Due within one year		
Due from intermediaries	84,784	85,517

(ii) Debtors arising out of reinsurance operations

	2018 £'000	2017 £'000
Due within one year	14,683	4,221

(iii) Other debtors

	2018 £'000	2017 £'000
Unsettled investment trade debtors	10,400	4,751
Amounts due from Group undertakings	25	171
	10,425	4,922

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

14. Overseas deposits

	2018 £'000	2017 £'000
Additional Securities Limited overseas deposits	5,233	4,739
Australian Trust Funds	116,772	128,626
Canadian Margin Funds	36,363	37,346
Joint Asset Trust Funds	7,324	7,951
South African Trust Funds	8,565	10,833
	174,257	189,495

15. Outstanding claims – claims development

2018	2010 and prior £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	Total £'000
At end of year		94,785	97,704	84,163	89,564	79,259	106,380	96,382	96,789	
One year later		190,252	195,938	167,392	187,936	173,345	181,866	168,190		
Two years later		202,740	209,070	171,843	211,461	170,010	182,057			
Three years later		200,770	200,112	189,303	209,287	168,234				
Four years later		197,364	215,381	192,585	216,933					
Five years later		219,931	223,314	181,823						
Six years later		231,187	220,496							
Seven years later		222,822								
Current estimate of net cumulative claims cost		222,822	220,496	181,823	216,933	168,234	182,057	168,190	96,789	
Cumulative net claims payments to date		(189,883)	(174,882)	(110,700)	(108,349)	(56,350)	(47,506)	(13,138)	(3,591)	
Net outstanding claims	136,630	32,939	45,614	71,123	108,584	111,884	134,551	155,052	93,198	889,575

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

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2018

15. Outstanding claims – claims development (continued)

The Syndicate writes business in currencies other than Pound Sterling. The translation of outstanding claims denominated in foreign currencies gives rise to foreign exchange movements which have no direct bearing on the development of the underlying claims. To eliminate this distortion, claims liabilities have been retranslated to the Pound Sterling at constant rate of exchange for each reporting year. All estimates of net cumulative claims cost and cumulative claims payments for the seven 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)	
	Sensitivity %	2018 £'000	2017 £'000
Net claims outstanding	+5	36,028	37,883
	-5	(36,028)	(37,883)
Sterling to US dollar exchange rate	+10	(2,768)	1,165
	-10	2,768	(1,165)
Sterling to Australian dollar exchange rate	+10	8,511	9,053
	-10	(8,511)	(9,053)
Sterling to Euro exchange rate	+10	16,927	15,280
	-10	(16,927)	(15,280)
Sterling to Canadian dollar exchange rate	+10	11,004	11,516
	-10	(11,004)	(11,516)

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2018

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
2018	179,073	163,558	136,778	106,332	78,903	224,931	889,575
2017	214,125	179,398	146,015	109,145	81,355	208,252	938,290

19. Creditors

(i) Creditors arising out of direct insurance operations	2018 £'000	2017 £'000
Due within one year		
Due to intermediaries	19,912	12,567

(ii) Creditors arising out of reinsurance operations	2018 £'000	2017 £'000
Due within one year	14,314	7,428

20. Other creditors including taxation and social security

	2018 £'000	2017 £'000
Due within one year		
Unsettled investment trade creditors	15,065	9,697
Amounts due to group undertakings	5,422	7,860
Taxation and social security	3,772	3,013
Other creditors	15,836	11,639
	40,095	32,209

21. Financial assets and liabilities

The assets and liabilities of the Syndicate, excluding deferred acquisition costs, unearned premiums, gross and net technical provisions and members' balances, are financial assets and liabilities. The Directors consider the carrying value of the financial assets and liabilities to be equal to their fair value.

22. Related parties

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

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

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

The consolidated annual report for QBE Insurance Group Limited is available from QUL's registered office.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

22. Related parties (continued)

Directors' interests

All of the executive Directors listed on page 2 hold, or held in the year, executive directorships of companies within QBE European operations. 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, non-voting 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 £869k (2017 £577k) 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 were £1,079k (2017 £998k). At the year end there was a £8,527k (2017 £9,694k) share of technical provisions.

Outwards reinsurance contracts with related QBE companies

The syndicate has purchased reinsurance with companies within the QBE Group during the year. Outward premiums totalling £34,692k (Restated 2017 £30,718k) were placed with Equator Reinsurances Limited (Equator Re). All such contracts are written on normal market terms on an arm's length basis.

At the year end, balances due from Equator Re in respect of the reinsurers' share of technical provisions were £186,719k (Restated 2017 £104,398k).

Profit commission

Profit commission is payable to the Managing Agent as per note 1(k). During the year £12,516k was charged (2017 £11,639k). At the year-end £15,837k (2017 £11,639k) 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 (2017 £1,900k). Nil is outstanding at the year end (2017 nil).

Administrative expenses

Total expenses recharged from QBE Partner Services (Europe) LLP in respect of services provided to the Syndicate amounted to £46,725k (2017 £41,524k). The balance outstanding at year end with QBE Partner Services (Europe) LLP is £5,397k (2017 £7,715k). The Corporate Member has advanced £nil (2017 £144k) 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.

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.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2018

23. Restatement of prior year comparatives

(i) Currency risk

The Syndicate has restated the prior year currency risk sensitivity note to include unearned premium and deferred insurance costs within the monetary net asset position upon which the currency risk sensitivity calculation is based. The impact of this change is shown below:

	Movement in variable %	Adjustment 2017 Profit / (loss) and equity £'000
US dollar	+10	1,113
	-10	(1,113)
Canadian dollar	+10	1,512
	-10	(1,512)
Australian dollar	+10	1,134
	-10	(1,134)
Euro	+10	1,909
	-10	(1,909)

There has been no impact to the profit and loss account or the balance sheet from this restatement.

(ii) Interest rate risk

The Syndicate has restated the prior year interest rate risk note to include certain assets which were not previously identified as being exposed to interest rate risk. The total interest bearing assets in the prior year have increased by £298,268k. There has been no impact to the profit and loss account or the balance sheet from this restatement.

(iii) Credit risk note

Connected with the interest rate risk restatement above, the Syndicate has made a corresponding reclassification of 'Other interest bearing investments' and 'Other financial investments' within the Credit risk note.

The presentation of Debtors arising out of direct insurance operations and Debtors arising out of reinsurance operations has been restated to conform with current year presentation.

The impact of these changes is shown below:

		Past due by				
Adjustment 2017	Neither past due nor impaired £'000	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	298,268	-	-	-	-	298,268
Other financial investments	(298,268)	-	-	-	-	(298,268)
Debtors arising out of direct insurance operations	(12,396)	3,033	2,417	2,345	4,601	-
Debtors arising out of reinsurance operations	1,584	(1,177)	(96)	(23)	(288)	-
	(10,812)	1,856	2,321	2,322	4,313	-

There has been no impact to the profit and loss account or the balance sheet from this restatement.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

23. Restatement of prior year comparatives (continued)

(iv) Related parties

Outwards reinsurance contracts with related QBE companies

Following a review of underlying source data, the Syndicate has restated the outward reinsurance premiums purchased from related QBE companies (decreased by £14,076k) and the balances due in respect of reinsurers' share of technical provisions where the reinsurer is a related QBE company (increased by £88,825k). There has been no impact to the profit and loss account or the balance sheet from this restatement.

2016 UNDERWRITING YEAR ACCOUNTS

UNDERWRITING YEAR - REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Managing Agent presents its report at 31 December 2018 for the 2016 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 2016 underwriting year was approved by the Board of Directors on 01 February 2019.

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 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). Together with other underwriting entities within QBE EO, the Syndicate continued to provide an integrated casualty offering, leveraging EO's extensive distribution capability and economies of scale in the cost of reinsurance protection.

Business written by the Syndicate comprises: 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.

For Lloyd's planning and performance monitoring reporting, classes of business are defined as: International Casualty, Professional Lines and UK & Ireland Liability.

The Syndicate has a continued emphasis on its customer value proposition, with a focus on customer requirements to deliver their business ambitions.

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

2016 closed year of account

We are delighted to report a total profit to Names of £31,299k or 8.9% of capacity after standard personal expenses prior to members' agents' fees, and £30,389k or 8.6% of capacity after.

Gross written premium of £341,222k was up on original plan of £338,500k, due to a weaker sterling rate of exchange relative to that planned. This equated to £292,397k (net of brokerage and commission), or 83.0% utilisation of the Syndicate's £352,164k stamp capacity.

Loss experience for the 2016 pure year was better than expectation, with a net (gross of commissions) loss ratio of 58.8% against a plan of 60.5%, producing a 2016 pure year underwriting profit of £24,367k.

All classes of business contributed to the 2016 pure year underwriting profit as follows:

	£'000
International Casualty	681
UK and Ireland Liability	10,987
Professional Lines	12,699
	24,367

The 2015 and prior years developed broadly in line with expectation, producing a modest net loss of £1,261k.

This, coupled with an improved investment return, reduced by a loss on foreign exchange, has resulted in an excellent total profit to Names of £30,389k.

2017 and 2018 open years of account

Projected gross written premium of £345,838k for the 2017 pure year is marginally up on 2016, albeit down on plan of £350,900k. Ultimate net loss projections are now better than anticipated, with a projected net claims ratio of 56.4% versus a plan of 64.2%, producing a mid-range profit to Names of 13.1% of capacity after standard personal expenses prior to members' agents' fees.

Pricing and market pressures continued into 2018. In addition, gross premium income for the year has been negatively impacted by circa £20m due to Lloyd's coverholder rules for all EU/EEA located risks, requiring existing binding authorities to be terminated, or cancelled and replaced with effect from 31 December 2018. As a consequence the projected gross written premium of £313,995k is down on plan of £352,200k.

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
Director

QBE Underwriting Limited
London
15 March 2019

INDEPENDENT AUDITORS’ REPORT TO THE MEMBERS OF SYNDICATE 386 – 2016 CLOSED YEAR OF ACCOUNT

Report on the audit of the syndicate underwriting year accounts

Opinion

In our opinion, Syndicate 386’s syndicate underwriting year accounts for the 2016 year of account for the 3 years ended 31 December 2018 (the “syndicate underwriting year accounts”):

- give a true and fair view of the state of the syndicate’s affairs as at 31 December 2018 and of its profit for the 2016 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 2018, the profit and loss account for the year ended 31 December 2016, 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

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 for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 386 – 2016 CLOSED YEAR OF ACCOUNT (continued)

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.

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 The 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 2018 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 44, 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 2016 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 – 2016 CLOSED YEAR OF ACCOUNT (continued)

Responsibilities for the syndicate underwriting year accounts and the audit
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.

Thomas Robb (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2019

PROFIT AND LOSS ACCOUNT - 2016 UNDERWRITING YEAR TECHNICAL ACCOUNT - GENERAL BUSINESS

for the 36 months ended 31 December 2018

	Note	£'000	£'000
Syndicate allotted capacity			352,164
Earned premium, net of reinsurance			
Gross premiums written	2	341,222	
Outward reinsurance premiums		(36,353)	
Earned premium, net of reinsurance			304,869
Reinsurance to close premium received, net	3		682,055
Allocated investment return transferred from the non-technical account			8,634
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(244,210)	
Reinsurers' share		23,929	
Net claims paid		(220,281)	
Reinsurance to close premium payable, net of reinsurance	4	(635,876)	
Claims incurred, net of reinsurance			(856,157)
Net operating expenses	5		(89,868)
Standard personal expenses			(12,606)
Balance on the technical account - general business			36,927

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

The notes set out of pages 51 to 57 form an integral part of these underwriting year accounts

PROFIT AND LOSS ACCOUNT -
2016 UNDERWRITING YEAR NON - TECHNICAL ACCOUNT

for the 36 months ended 31 December 2018

	Note	£'000
Balance on the technical account - general business		36,927
Investment income	6(a)	23,089
Unrealised gains on investments		107,262
Investment expenses and charges	6(b)	(7,013)
Unrealised losses on investments		(114,704)
Investment return		8,634
Allocated investment return transferred to the technical account - general business		(8,634)
Non – technical account charges		(5,628)
Result before members' agents' fees		31,299
Members' agents' fees		(910)
Profit for the underwriting year	11	30,389

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 51 to 57 form an integral part of these underwriting year accounts

BALANCE SHEET -
2016 UNDERWRITING YEAR

for the closed year of account as at 31 December 2018

	Note	£'000
Assets		
Investments	8	429,430
Debtors	9	161,842
Reinsurance recoveries anticipated on gross reinsurance to close premium payable	4	249,025
Other assets		
Cash at bank and in hand		6,426
Overseas deposits	10	148,550
Prepayments and other accrued income		2,620
Total assets		997,893
Liabilities		
Amounts due to members	11	29,182
Reinsurance to close premium payable – gross amount	4	884,901
Creditors	12	75,702
Accruals and deferred income		8,108
Total liabilities		997,893

These underwriting year accounts on pages 48 to 57 were approved by the board of QBE Underwriting Limited on 15 March 2019 and signed on its behalf by:

D J Winkett
Director

The notes set out of pages 51 to 57 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 2016 year of account which has been closed by reinsurance to close as at 31 December 2018. Consequently the balance sheet represents the assets and liabilities of the 2016 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 2016 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 in foreign currencies other than the reinsurance to close are translated into sterling 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.

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the balance sheet date. Exchange differences are included in the underwriting year non-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) Cash at bank and in hand

Cash comprises cash at bank for use by the Syndicate in the management of its short term commitments.

(e) Investments

(i) Other financial investments and overseas deposits

Other financial investments and overseas deposits comprise shares and other variable yield securities, units in unit trusts, debt securities, other fixed income securities, loans and deposits with credit institutions, and funds held in overseas deposits which are subject to Lloyd's trust fund arrangements. These are managed on a fair value basis in accordance with the Syndicate's investment strategy. The Syndicate has elected to measure all financial investments and overseas deposits 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. Units in unit trusts, including unlisted property investments, are stated at fair value using current unit prices as advised by the responsible entity, trustee or equivalent of the investment management scheme. Overseas deposits are stated at fair value based on quoted prices in active markets for the same instruments and 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. Other unlisted investments are carried at the Directors' estimate of the current fair value, 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.

Other financial investments and overseas deposits are derecognised when the right to receive future cash flows from the assets has expired, or when the Syndicate has transferred substantially all the risks and rewards of ownership.

NOTES TO THE UNDERWRITING YEAR ACCOUNTS (continued)

Forming part of the underwriting year accounts

1. Accounting policies (continued)

(e) Investments (continued)

(ii) Derivative financial instruments

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.

(f) Investment income

Investment income 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 income 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 income has been wholly allocated to the technical account as all investments relate to the technical account.

(g) 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.

(h) 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.

NOTES TO THE UNDERWRITING YEAR ACCOUNTS (continued)

Forming part of the underwriting year accounts

1. Accounting policies (continued)

(i) 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 2016 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	286,288	(181,247)	(81,322)	5,913	29,632
Reinsurance acceptances	52,586	(40,062)	(13,665)	2,307	1,166
	338,874	(221,309)	(94,987)	8,220	30,798
Reinsurance to close	684,403	(908,786)	5,119	229,365	10,101
Total	1,023,277	(1,130,095)	(89,868)	237,585	40,899

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

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

c) All premiums are concluded in the UK.

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

e) Gross premium written equals gross premium earned.

f) The underwriting year accounts include £2,348k gross premium written, and £5,107k gross operating expenses relating to 2015 and prior underwriting years.

3. Reinsurance to close premium received

	£'000
Gross reinsurance to close premium received	853,137
Reinsurance recoveries anticipated	(171,082)
Reinsurance to close premium receivable, net of reinsurance	682,055

4. Reinsurance to close premium payable

	Reported £'000	IBNR £'000	Future premiums £'000	Total £'000
Gross reinsurance to close premium payable	675,830	207,579	1,492	884,901
Reinsurance recoveries anticipated	(165,737)	(76,345)	(6,943)	(249,025)
Reinsurance to close premium payable, net of reinsurance	510,093	131,234	(5,451)	635,876

NOTES TO THE UNDERWRITING YEAR ACCOUNTS (continued)

Forming part of the underwriting year accounts

5. Net operating expenses

	£'000
Acquisition costs – brokerage	(48,825)
Acquisition costs – other	(25,263)
Administrative expenses	(15,792)
Reinsurers commissions and profit participations	12
	(89,868)

Administrative expenses include:

	£'000
Auditors' remuneration	
Fees payable to the syndicate auditor for the audit of the 2016 accounts	176
Other services pursuant to legislation	139

6. Investment income, expenses and charges

(a) Investment income

	£'000
Income from investments	19,778
Gains on the realisation of investments	3,311
	23,089

(b) Investment expenses and charges

	£'000
Losses on the realisation of investments	6,820
Investment management expenses	193
	7,013

7. Analysis of result by year of account

	2015 and prior years of account £'000	2016 pure year of account £'000	Total £'000
Balance excluding investment return and operating expenses	4,982	125,785	130,767
Brokerage and commission on gross premium	(490)	(48,335)	(48,825)
	4,492	77,450	81,942
Allocated investment return transferred from the non-technical account			8,634
Net operating expenses excluding brokerage and commission			(41,043)
Standard personal expenses			(12,606)
Non – technical account income			(5,628)
Members' agents' fees			(910)
			30,389

NOTES TO THE UNDERWRITING YEAR ACCOUNTS (continued)

Forming part of the underwriting year accounts

8. Investments

	Cost £'000	Market value £'000
Shares and other variable yield securities and units in unit trusts	83,810	80,190
Debt securities and other fixed income securities	345,551	345,420
Deposits with credit institutions	4	4
Other investments	-	3,816
	429,365	429,430

9. Debtors

	£'000
Due within one year	
Due from intermediaries	2,657
Inter-year loan	128,589
Reinsurance recoveries	22,199
Other	8,397
	161,842

10. Overseas deposits

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

	£'000
Additional Securities Limited overseas deposits	4,461
Australian Trust Funds	99,546
Canadian Margin Fund	30,999
Joint Asset Trust Funds	6,244
South African Trust Funds	7,300
	148,550

11. Amounts due to members

	£'000
Cash calls made	(1,207)
Profit for the closed year of account	30,389
Due to members	29,182

Amounts are stated after the deduction of members' agents' fees

NOTES TO THE UNDERWRITING YEAR ACCOUNTS (continued)

Forming part of the underwriting year accounts

12. Creditors

	£'000
Due within one year	
Arising out of direct insurance operations:	
Due to intermediaries	42,092
Arising out of reinsurance operations	8,338
Other	25,272
	75,702

13. Financial assets and liabilities

The assets and liabilities of the closing year of the Syndicate are financial assets and liabilities. The Directors consider the carrying value of the financial assets and liabilities to be equal to their fair value.

14. 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 QBE European operations.

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.

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 2016 year of account were £21,570k.

Profit commission

Profit commission is payable to the Managing Agent as per note 1(i). During the period £7,825k was charged in respect of the 2016 year of account. At the end of the period, £12,477k 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 2016 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 2016 year of account amounted to £40,938k. At the end of the period, nil 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:

	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000
Gross premium written	443,771	449,256	332,559	335,172	328,080	357,417	350,624
Net earned premiums	378,701	375,663	359,352	323,567	270,983	316,500	314,324
Net claims	(165,493)	(177,152)	(205,271)	(173,751)	(167,375)	(179,149)	(173,086)
Acquisition costs	(89,228)	(97,381)	(93,021)	(89,184)	(73,529)	(79,925)	(79,637)
	123,980	101,130	61,060	60,632	30,079	57,426	61,601
Profit/(loss) on exchange	(12,316)	(45,451)	(2,791)	(4,243)	5,584	4,050	(2,103)
Other net operating expenses	(46,057)	(34,786)	(29,591)	(25,713)	(26,060)	(32,607)	(36,442)
Investment return	36,280	17,812	18,847	11,558	22,122	17,688	8,086
Profit for the financial year	101,887	38,705	47,525	42,234	31,725	46,557	31,142

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

	2010	2011	2012	2013	2014	2015	2016
Syndicate allocated capacity	£364.9m	£364.7m	£412.4m	£412.6m	£413.0m	£352.1m	£352.2m
Capacity utilised	122.0%	123.9%	113.1%	100.4%	85.5%	92.7%	96.9%
Number of underwriting members	1,147	1,155	1,193	1,215	1,220	1,210	1,254
Aggregate net premiums	£378.2m	£383.6m	£400.7m	£332.8m	£303.5m	£301.1m	£304.9m
Net capacity utilised	103.7%	105.2%	97.2%	80.7%	73.5%	85.5%	86.6%
Technical account ratio	23.5%	17.7%	7.7%	22.0%	14.7%	5.0%	12.0%

Result for an illustrative share of £10,000

	2010 £	2011 £	2012 £	2013 £	2014 £	2015 £	2016 £
Gross premiums	12,197	12,395	11,308	10,039	8,547	9,272	9,689
Net premiums	10,366	10,517	9,718	8,067	7,348	8,550	8,657
Reinsurance to close from earlier account	18,592	17,342	14,902	14,979	18,294	19,839	19,368
Net claims	(5,129)	(4,994)	(4,884)	(1,759)	(5,345)	(5,822)	(6,255)
Reinsurance to close	(18,131)	(17,152)	(15,443)	(16,482)	(16,955)	(19,379)	(18,056)
Profit/(loss) on exchange	(129)	(735)	(513)	-	-	-	-
Syndicate operating expenses	(2,699)	(2,788)	(2,912)	(2,598)	(2,086)	(2,724)	(2,552)
Balance on technical account	2,870	2,190	868	2,207	1,256	464	1,162
Investment income and gains less losses, less expenses and charges	917	615	469	(90)	711	875	85
	3,787	2,805	1,337	2,117	1,967	1,339	1,247
Illustrative personal expenses for a traditional Name							
Managing agent's fee	(60)	(60)	(60)	(60)	(60)	(60)	(60)
Contribution to Lloyd's Central Fund	(55)	(53)	(24)	(42)	(37)	(38)	(33)
Profit commissions	(723)	(528)	(241)	(395)	(367)	(241)	(222)
Lloyd's subscription	(55)	(53)	(47)	(42)	(37)	(38)	(43)
	(893)	(694)	(372)	(539)	(501)	(377)	(358)
Profit after illustrative profit commission and personal expenses	2,894	2,110	965	1,578	1,466	962	889

Note:

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

2 These figures exclude members' agents' fees.

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