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**QBE Syndicate 2999** Annual report 2014

# ANNUAL REPORT
*for the year ended 31 December 2014*

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# MANAGING AGENCY – CORPORATE INFORMATION

### Directors

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

### Former directors who served during part of the year

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

* non-executive directors

### Company secretary

S M Boland

### Registered office

Plantation Place
30 Fenchurch Street
London
EC3M 3BD

### Independent auditors

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

# STRATEGIC REPORT

The directors of QBE Underwriting Limited (QUL), the Managing Agent for Syndicate 2999, present their Strategic report for the Syndicate for the year ended 31 December 2014.

## Background

Syndicate 2999 is an umbrella syndicate which in 2014 comprised four trading units, or sub-syndicates. Colin O'Farrell and Jonathan Parry continued as joint Active Underwriters. The sub-syndicates and associated classes of business were as follows:

| Sub-syndicate | Classes of business |
|---|---|
| 566 | Reinsurance: property; aviation; casualty treaty; personal accident; and marine |
| 1036 | Marine insurance: hull; energy; liability; specie; cargo; war; and political risks |
| 1886 | Non-marine: general liability; professional and financial lines; motor; specialty; and marine liability |
| 5555 | Aviation insurance: general aviation; airlines; products; and airports |

## Business review, key performance indicators, and future developments

For the 2014 financial year Syndicate 2999 produced a combined operating ratio of 74.0% (2013 80.7%) and a total profit for the financial year of £208.5 million (2013 £169.0 million):

| | 2014 Total £000 | 2013 Total £000 |
|---|---|---|
| Gross written premium | 887,618 | 1,118,132 |
| Net earned premiums | 724,604 | 805,434 |
| Net claims | (290,421) | (366,702) |
| Acquisition costs | (180,512) | (218,729) |
| Profit/(Loss) on exchange | 473 | (1,512) |
| Other net operating expenses | (65,913) | (63,431) |
| Net underwriting profit | 188,231 | 155,060 |
| Investment return | 20,241 | 13,945 |
| Profit for the financial year | 208,472 | 169,005 |
| Claims ratio | 40.1% | 45.5% |
| Combined operating ratio | 74.0% | 80.7% |

## The Active Underwriters' comment as follows:

We are delighted to report a strong result for 2014, producing a combined operating ratio of 74.0% (2013 80.7%). This was despite continued challenging market conditions and excess capacity across most markets.

Syndicate 2999's gross written premium is down, including the impact of re-engineering the international property portfolio; a reduction in the level of inwards reinsurance due to challenging market conditions; decreases in marine & energy from inadequate pricing and; overall strengthening of GBP; the cessation of Aviation; and overall competitive market conditions resulting in the loss of poorer performing risks as underwriting nerve and discipline was maintained.

The Syndicate's underwriting result is broadly consistent with 2013, primarily due to good catastrophe and large loss experience on inwards reinsurance and marine & energy classes, coupled with reserve surplus releases from favourable prior year development. This has resulted in an overall net loss ratio of 40.1% (2013 45.5%), for which all sub-syndicates (excluding Syndicate 5555) have contributed strongly.

## STRATEGIC REPORT (continued)

### Outlook

Following another year of below average large loss and catastrophe incidents, the rating and market environment for 2015 is expected to remain challenging across all product lines, with an overall rate movement of circa -5% planned for the year. The material reduction in 2014 underwriting year GWP and subsequent underutilisation of the Syndicate's Lloyd's capacity, has driven a 10.4% de-emption in capacity from £1,060m to £950m for the 2015 year.

However, the QBE brand and the Syndicate's product and geographic diversification continues to help insulate the syndicate with early indications from the January renewal season that both rate and overall premium volumes remain in line with expectation. As a consequence, underwriters remain confident that the planned GWP growth over 2014 of circa 5% remains achievable for 2015.

Meanwhile underwriting discipline, improved client engagement and relationship management remain key focus areas for 2015 as we continue to build our industry specialism capability (underwriting risk management and claims) to respond more effectively to clients demands and maximise opportunities within selective industry segments. In support of this we have made several high profile underwriting hires and promoted from within to further strengthen those areas which experienced staff departures in 2014 (particularly International Casualty) and we are working hard to ensure that both new and existing staff enjoy a stimulating and rewarding environment.

### Investment policy

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

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

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

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

The Syndicate operates a policy to minimise foreign exchange risk by holding monetary assets in foreign currencies in order to match monetary liabilities in such currencies where size is deemed material. This reduces the risk of significant currency imbalances occurring within the syndicate. Any remaining material monetary foreign currency exposure is hedged using foreign exchange derivatives in order to minimise foreign exchange risk.

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### Investment performance

The total investment returns achieved for each financial year are set out below. These include income earned on funds which are not managed by the investment manager, such as short term liquid deposits and certain regulatory overseas deposits managed directly by Lloyd's. The combined average return for the year was 1.5% (2013 1.0%).

## STRATEGIC REPORT (continued)

### Investment performance (continued)

| Portfolio currency | 2014 Average funds ’000 | 2014 Average return % | 2014 Target return % | 2013 Average funds ’000 | 2013 Average return % | 2013 Target return % |
|---|---|---|---|---|---|---|
| Australian dollar | 126,528 | 4.5 | 2.4 | 146,114 | 3.0 | 2.7 |
| Canadian dollar | 606,591 | 1.5 | 1.5 | 513,710 | 1.7 | 1.2 |
| Euro | 152,752 | 1.0 | 0.8 | 152,637 | 0.4 | 0.7 |
| Sterling | 82,103 | 0.8 | 1.1 | 57,954 | 0.7 | 1.9 |
| US dollar | 1,475,384 | 1.3 | 2.3 | 1,474,102 | 0.6 | 0.7 |
| S African rand | 166,210 | 6.0 | 5.5 | 146,522 | 5.1 | 5.8 |

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

Australian dollar, Canadian dollar and Euro currency investment returns outperformed their respective currency targets for the year. Other currencies underperformed against target, specifically US dollar currency investments due to under deployment of target fund allocation to growth assets. As a result, overall performance for the Syndicate was below the annual weighted target return of 2.0% (2013 1.0%).

During 2014, the Syndicate’s fixed income portfolios continued to be managed conservatively with average duration of less than one year. As a result of the investment manager’s cautious stance, the Syndicate incurred no credit defaults or write downs in any of its fixed interest portfolios.

### Corporate governance

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

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

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

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

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

## STRATEGIC REPORT (continued)

### Corporate governance (continued)

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

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

### QBE Underwriting Limited

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

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

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

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

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

### Board Committees

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

QBE EO's key Committees comprise:

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

### Audit Committee

Chairman Malcolm McCaig

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

## STRATEGIC REPORT (continued)

### Corporate governance (continued)

### Executive Committee

Chairman Richard Pryce

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

### Investment Committee

Chairman David Winkett

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

### Remuneration and Nomination Committee

Chairman Wai-Fong Au

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

### Risk and Capital Committee

Chairman Stuart Sinclair

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

### Risk management

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

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

### Risk management overview

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

## STRATEGIC REPORT (continued)

### Risk management (continued)

### Risk management strategy

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

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

### Solvency II

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

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

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

### Risk management culture

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

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

### Risk appetite and tolerance

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

It is managed:

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

## STRATEGIC REPORT (continued)

### Risk management (continued)

### Risk management framework

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

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

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

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

### Capital allocation

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

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

### Key risks

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

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

### Strategic risk

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

QBE EO mitigates strategic risk using the following:

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

## STRATEGIC REPORT (continued)

### Risk management (continued)

### Key risks (continued)

### Insurance risk

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

QBE EO mitigates insurance risk using the following:

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

### Credit risk

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

QBE EO mitigates credit risk using the following:

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

### Group risk

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

QBE EO mitigates group risk using the following:

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

### Market risk

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

QBE EO mitigates market risk using the following:

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

## STRATEGIC REPORT (continued)

### Risk management (continued)

### Key risks (continued)

### Liquidity risk

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

QBE EO mitigates liquidity risk using the following:

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

### Operational risk

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

QBE EO mitigates operational risk using the following:

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

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

### Business continuity management

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

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

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

**T C W Ingram**
Director
QBE Underwriting Limited
London

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of QBE Underwriting Limited (QUL), the Managing Agent for Syndicate 2999, present the Syndicate's annual report and audited annual accounts for the year ended 31 December 2014.

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

### Principal activities

Please refer to Strategic report on page 3.

### Business review and future developments

Please refer to Strategic report on page 3.

### Solvency II

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

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

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

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

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

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

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

### Corporate governance

Please refer to our Strategic report on page 5.

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

### Risk management

Please refer to the Strategic report on page 7.

### Internal audit

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

### Relationship with Managing Agent

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

### Directors

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

### Statement of Managing Agent's responsibilities

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

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

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

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

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

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

## REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

### Statement of disclosure of information to auditors

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

- so far as the director is aware, there is no relevant audit information 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, on and to establish that the Syndicate's auditors are aware of any relevant audit information.

### Independent auditors

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

By order of the Board of the Managing Agent,

D J Winkett
Director
QBE Underwriting Limited
London
6 March 2015

# INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2999

## Report on the syndicate annual accounts

### Our Opinion

In our opinion the syndicate annual accounts, defined below:

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

### What we have audited

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

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

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

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

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

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

### Other matters on which we are required to report by exception

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

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

We have no exceptions to report arising from this responsibility.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2999 (continued)

### Responsibilities for the syndicate annual accounts and the audit

### Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 13 the Managing Agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

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

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

### What an audit of syndicate annual accounts involves

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

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

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

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

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

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

### Note:

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

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

## PROFIT AND LOSS ACCOUNT - TECHNICAL ACCOUNT – GENERAL BUSINESS

*for the year ended 31 December 2014*

| | Note | 2014 £'000 | 2014 £'000 | 2013 £'000 | 2013 £'000 |
|---|---|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | | | |
| Gross premiums written | 3 | | | | |
| - Continuing operations | | 874,768 | | 1,118,051 | |
| - Discontinued operations | | 12,850 | | 81 | |
| | | 887,618 | | 1,118,132 | |
| Outward reinsurance premiums | | (214,285) | | (314,091) | |
| Net premiums written | | | 673,333 | | 804,041 |
| Change in the gross provision for unearned premiums | | 63,947 | | 662 | |
| Change in the provision for unearned premiums, reinsurers' share | | (12,676) | | 731 | |
| | | | 51,271 | | 1,393 |
| **Earned premiums, net of reinsurance** | | | 724,604 | | 805,434 |
| **Allocated investment return transferred from the non-technical account** | | | 20,241 | | 13,945 |
| **Claims incurred, net of reinsurance** | | | | | |
| Claims paid | | | | | |
| Gross amount | | (555,429) | | (590,672) | |
| Reinsurers' share | | 195,010 | | 221,211 | |
| | | (360,419) | | (369,461) | |
| Change in the provision for claims | | | | | |
| Gross amount | | 206,412 | | 128,041 | |
| Reinsurers' share | | (136,414) | | (125,282) | |
| | | 69,998 | | 2,759 | |
| **Claims incurred, net of reinsurance** | | | (290,421) | | (366,702) |
| **Net operating expenses** | 5 | | (245,952) | | (283,672) |
| **Balance on technical account for general business** | | | | | |
| - Continuing operations | | 199,379 | | 164,252 | |
| - Discontinued operations | | 9,093 | | 4,753 | |
| **Balance on the technical account for general business** | | | 208,472 | | 169,005 |

The notes set out of pages 22 to 37 form an integral part of these financial statements

## PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT

*for the year ended 31 December 2014*

| | Note | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Balance on the general business technical account** | | 208,472 | 169,005 |
| Investment income | 8(a) | 23,474 | 25,732 |
| Unrealised gains on investments | | 4,184 | - |
| Investment expenses and charges | 8(b) | (7,417) | (7,364) |
| Unrealised losses on investments | | - | (4,423) |
| **Investment return** | | 20,241 | 13,945 |
| Allocated investment return transferred to the general business technical account | | (20,241) | (13,945) |
| **Split of profit for the financial year** | | | |
| - Continuing operations | | 199,379 | 164,252 |
| - Discontinued operations | | 9,093 | 4,753 |
| **Profit for the financial year** | 13 | 208,472 | 169,005 |

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.

There are no other differences between the profit for the financial year stated above and their historical cost equivalents.

The notes set out of pages 22 to 37 form an integral part of these financial statements

## BALANCE SHEET
*as at 31 December 2014*

| Assets | Note | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Investments** | | | |
| Other financial investments | 9(a) | 1,409,908 | 1,371,780 |
| **Reinsurers' share of technical provisions** | | | |
| Provision for unearned premiums | | 68,859 | 81,535 |
| Claims outstanding | | 468,064 | 585,603 |
| | | 536,923 | 667,138 |
| **Debtors** | | | |
| Debtors arising out of direct insurance operations | 11(i) | 289,354 | 343,057 |
| Debtors arising out of reinsurance operations | 11(ii) | 160,124 | 175,055 |
| Other debtors | | 7,601 | 953 |
| | | 457,079 | 519,065 |
| **Other assets** | | | |
| Cash at bank and in hand | | 44,556 | 36,072 |
| Overseas deposits | 12 | 144,736 | 166,374 |
| | | 189,292 | 202,446 |
| **Prepayments and accrued income** | | | |
| Accrued interest and rent | | 5,839 | 5,183 |
| Deferred acquisition costs | | 98,227 | 110,166 |
| Other prepayments and accrued income | | 1,151 | 893 |
| | | 105,217 | 116,242 |
| **Total assets** | | 2,698,419 | 2,876,671 |

The notes set out of pages 22 to 37 form an integral part of these financial statements

## BALANCE SHEET

*As at 31 December 2014*

| Liabilities | Note | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| Member's balance | 13 | 156,674 | 77,571 |
| **Technical provisions** | | | |
| Provision for unearned premiums | | 460,304 | 523,364 |
| Claims outstanding | | 1,861,785 | 2,021,915 |
| | | 2,322,089 | 2,545,279 |
| **Creditors** | | | |
| Creditors arising out of direct insurance operations | 14(i) | 41,442 | 64,244 |
| Creditors arising out of reinsurance operations | 14(ii) | 147,152 | 171,157 |
| Other creditors including taxation and social security | | 25,896 | 12,302 |
| | | 214,490 | 247,703 |
| **Accruals and deferred income** | | 5,166 | 6,118 |
| **Total liabilities** | | 2,698,419 | 2,876,671 |

These annual accounts on pages 17 to 37 were approved by the Board of QBE Underwriting Limited on 6 March 2015 and were signed on its behalf by:

**D J Winkett**
Director

The notes set out of pages 22 to 37 form an integral part of these financial statements

## STATEMENT OF CASH FLOWS
*for the year ended 31 December 2014*

| | Note | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | | 112,429 | 148,318 |
| **Transfer to members in respect of underwriting participations** | | | |
| Distribution of profits | 13 | (98,657) | (71,656) |
| Open year profit release | | (30,764) | - |
| | | (16,992) | 76,662 |
| **Cash flows were invested as follows:** | | | |
| Increase/(decrease) in cash holdings | 15 | 6,941 | (5,525) |
| Decrease in overseas deposits | 15 | (20,989) | (11,541) |
| Net portfolio investment | 15 / 16 | (2,944) | 93,728 |
| | | (16,992) | 76,662 |

## RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | Note | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| Operating profit on ordinary activities | | 208,472 | 169,005 |
| Realised/unrealised investment(gain)/losses | 15 | (41,966) | 45,637 |
| Decrease in net technical provisions | | (92,975) | (65,217) |
| (Increase)/decrease in debtors | | 73,011 | 83,622 |
| Increase/(decrease) in creditors | | (34,165) | (82,484) |
| Other | | 52 | (2,245) |
| **Net cash inflow from operating activities** | | 112,429 | 148,318 |

The notes set out of pages 22 to 37 form an integral part of these financial statements

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

## 1. Accounting policies

### (a) Basis of preparation

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

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

The directors of the managing agent have prepared the annual accounts on the basis that the Syndicate will continue to write business. The ability of the Syndicate to meet its obligations as they fall due is underpinned by the support provided by 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.

#### (iii) Outwards reinsurance

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

#### (iv) Claims incurred

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

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

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

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

## NOTES TO THE ANNUAL ACCOUNTS (continued)

*for the year ended 31 December 2014*

### 1. Accounting policies (continued)

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

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

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

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

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

#### (vi) Unexpired risks provision

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

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

#### (vii) Acquisition costs

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

### (c) 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 member during the year are included in the balance sheet under the heading “member’s balance”.

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

## NOTES TO THE ANNUAL ACCOUNTS (continued)

*for the year ended 31 December 2014*

### 1. Accounting policies (continued)

### (d) Financial assets

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

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

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

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

### (e) 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.

### (f) Foreign currency transactions

The functional currency of the Syndicate is UK pounds 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 items which are maintained at historic rates. Unclosed foreign exchange derivatives are marked to market at year end date.

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

### (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.

### (h) Profit commission

Profit commission is recognised on the basis of the annual accounting result for each year of account, and charged to the Syndicate as incurred.

No profit commission has been charged by the managing agent.

## NOTES TO THE ANNUAL ACCOUNTS (continued)

*for the year ended 31 December 2014*

### 2. Capital

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

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

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

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

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

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

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

## NOTES TO THE ANNUAL ACCOUNTS (continued)

*for the year ended 31 December 2014*

### 3. Segmental information

| 2014 | Gross premium written £'000 | Gross premium earned £'000 | Gross claims incurred £'000 | Gross operating expenses £'000 | Reinsurance balance £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Accident and health | 16,383 | 16,695 | (3,737) | (5,460) | (1,866) | 5,632 |
| Motor (third party liability) | 8,919 | 9,071 | (3,529) | (3,420) | (1,150) | 972 |
| Marine, aviation and transport | 96,712 | 114,679 | (38,082) | (28,823) | (28,835) | 18,939 |
| Fire and other damage to property | 154,109 | 189,989 | (93,561) | (57,051) | (22,942) | 16,435 |
| Third party liability | 186,093 | 193,460 | (58,870) | (58,700) | (28,289) | 47,601 |
| Credit and suretyship | 29,992 | 27,601 | (3,807) | (7,760) | (7,448) | 8,586 |
| Miscellaneous | (3) | (3) | 522 | (32) | (35) | 452 |
| | 492,205 | 551,492 | (201,064) | (161,246) | (90,565) | 98,617 |
| Reinsurance acceptances | 395,413 | 400,073 | (147,953) | (100,695) | (61,811) | 89,614 |
| Total | 887,618 | 951,565 | (349,017) | (261,941) | (152,376) | 188,231 |

| 2013 | Gross premium written £'000 | Gross premium earned £'000 | Gross claims incurred £'000 | Gross operating expenses £'000 | Reinsurance balance £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Accident and health | 19,745 | 20,451 | (6,703) | (8,855) | (2,268) | 2,625 |
| Motor (third party liability) | 9,664 | 9,592 | (4,663) | (4,167) | 1,172 | 1,934 |
| Marine, aviation and transport | 125,871 | 137,893 | (27,467) | (25,077) | (53,780) | 31,569 |
| Fire and other damage to property | 181,859 | 196,675 | (74,242) | (55,890) | (39,605) | 26,938 |
| Third party liability | 234,567 | 228,923 | (127,992) | (84,965) | (8,845) | 7,121 |
| Credit and suretyship | 27,284 | 22,178 | (10,084) | (4,774) | (5,146) | 2,174 |
| Miscellaneous | (106) | (106) | (667) | (1,060) | (281) | (2,114) |
| | 598,884 | 615,606 | (251,818) | (184,788) | (108,753) | 70,247 |
| Reinsurance acceptances | 519,248 | 503,188 | (210,813) | (109,975) | (97,587) | 84,813 |
| Total | 1,118,132 | 1,118,794 | (462,631) | (294,763) | (206,340) | 155,060 |

The reinsurance balance represents the credit/(charge) to the technical account from the aggregate of all items relating to reinsurance outwards.

Operating expenses includes standard personal expenses.

The geographical analysis of gross premiums written by destination of risk is as follows:

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Europe: United Kingdom | 45,321 | 45,077 |
| Other | 15,440 | 23,917 |
| North America | 197,660 | 228,999 |
| Other (including worldwide) | 629,197 | 820,139 |
| | 887,618 | 1,118,132 |

All premiums were concluded in the UK.

## NOTES TO THE ANNUAL ACCOUNTS (continued)

*for the year ended 31 December 2014*

### 4. Significant changes in prior years' claims provisions

During the year there was a positive net run-off contribution of £36,411,000 (2013 £45,805,000), of which the main contributors were third party liability, £9,020,000 and marine, aviation and transport £3,590,000 (2013 marine, aviation and transport £7,492,000 and other damage to property £10,507,000). There was a positive development on reinsurance acceptances of £26,795,000 (2013 £25,109,000).

### 5. Net operating expenses

| | 2014<br>£'000 | 2013<br>£'000 |
|---|---|---|
| Acquisition costs: direct commission | 122,043 | 165,002 |
| other | 62,479 | 67,595 |
| Changes in deferred acquisition costs | 11,978 | (2,777) |
| Administrative expenses | 65,913 | 63,431 |
| Reinsurance commission revenue | (15,988) | (11,091) |
| (Profit) / loss on exchange | (473) | 1,512 |
| | 245,952 | 283,672 |

**Administrative expenses include auditors' remuneration:**

| | 2014<br>£'000 | 2013<br>£'000 |
|---|---|---|
| Fees payable to the Syndicate's auditor for the audit of the Syndicate's annual accounts | 267 | 260 |
| Other services pursuant to legislation | 305 | 301 |

### 6. Employees

All staff are employed by QBE Management Services (UK) Limited (QMSUK), a wholly owned subsidiary of QBE Insurance Group Limited.

| Total employee costs recharged to the Syndicate for the year were: | 2014<br>£'000 | 2013<br>£'000 |
|---|---|---|
| Wages and salaries | 46,703 | 52,722 |
| Social security costs | 6,088 | 7,054 |
| Other pension costs | 3,335 | 4,070 |
| | 56,126 | 63,846 |

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

| | 2014<br>Number | 2013<br>Number |
|---|---|---|
| Underwriting | 190 | 200 |
| Claims | 49 | 101 |
| Administration | 236 | 224 |
| | 475 | 525 |

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

### 7. Directors' emoluments

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Directors of the Managing Agent | 3,430 | 3,283 |
| Active Underwriters | 1,985 | 1,836 |

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

### 8. Investment income, expenses and charges

### (a) Investment income

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Income from investments | 23,474 | 25,732 |
| | 23,474 | 25,732 |

### (b) Investment expenses and charges

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Losses on the realisation of investments | 5,867 | 5,881 |
| Investment management expenses | 1,550 | 1,483 |
| | 7,417 | 7,364 |

### 9. Other financial investments

### (a) Designated at fair value through profit and loss

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Cost £'000 | Fair value £'000 | Cost £'000 | Fair value £'000 |
| Shares and other variable yield securities and units in unit trusts | 104,011 | 108,562 | 5,850 | 5,850 |
| Debt securities and other fixed income securities | 1,294,809 | 1,291,127 | 1,359,509 | 1,356,364 |
| Deposits with credit institutions | 9,625 | 9,625 | - | - |
| Derivatives (note 9(b)) | - | 594 | - | 9,566 |
| | 1,408,445 | 1,409,908 | 1,365,359 | 1,371,780 |

The debt securities and other fixed income securities are listed on recognised exchanges. £63,078,000 of the shares and other variable yield securities and units in unit trusts are listed on recognised exchanges (2013 Nil).

## NOTES TO THE ANNUAL ACCOUNTS (continued)

*for the year ended 31 December 2014*

### 9. Other financial investments (continued)

### (b) Derivative financial instruments

| Fair value | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Foreign currency derivatives** | | |
| Other financial investments – derivatives (note 9(a)) | 594 | 9,566 |
| Other creditors | (11,268) | (1,805) |

**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. Derivatives outstanding at the balance sheet date include foreign exchange contracts to buy the net equivalent of £453,068,000 (2013 £534,203,000).

The forward foreign exchange derivatives outstanding at year end expired by 30 January 2015 (2013 31 January 2014).

During the year a loss of £14,094,000 (2013 profit of £14,846,000), relating to such contracts was recognised. This is included in the net foreign exchange gain of £472,000 (2013 loss £1,512,000) in the profit and loss technical account.

**Exchange traded equity derivatives**

The Company entered into equity derivative contracts in order to protect the equity portfolios within the Company from the risk of downside movements in the share markets.

During the year a loss of £800,000 (2013 nil) was included in the profit and loss non-technical account relating to these derivatives.

Contractual amounts for exchange traded equity derivatives outstanding at the balance sheet date were £56,961,000 (2013 nil). These are due to expire by March 2015.

**Fixed income derivatives**

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

During the year, a loss of £71,000 (2013 nil) was included in the profit and loss non-technical account relating to these derivatives.

There were no fixed income derivatives outstanding at the balance sheet date (2013 nil).

## NOTES TO THE ANNUAL ACCOUNTS (continued)

*for the year ended 31 December 2014*

### 9. Other financial investments (continued)

### (c) Valuation hierarchy

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

| 2014 | Level 1 £'000 | Level 2 £'000 | Total £'000 |
|---|---|---|---|
| Overseas deposits | 83,214 | 61,522 | 144,736 |
| Deposits with credit institutions | 9,625 | - | 9,625 |
| Variable yield securities and units in unit trusts | 71,732 | 36,830 | 108,562 |
| Debt securities and other fixed income securities | 302,562 | 988,565 | 1,291,127 |
| Derivatives | - | 594 | 594 |
| | 467,133 | 1,087,511 | 1,554,644 |

| 2013 | Level 1 £'000 | Level 2 £'000 | Total £'000 |
|---|---|---|---|
| Overseas deposits | - | 166,374 | 166,374 |
| Variable yield securities and units in unit trusts | 5,850 | - | 5,850 |
| Debt securities and other fixed income securities | 427,554 | 928,810 | 1,356,364 |
| Derivatives | - | 9,566 | 9,566 |
| | 433,404 | 1,104,750 | 1,538,154 |

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

Level 2 Valuation is based on quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data, for example, consensus pricing using broker quotes and valuation models with observable input. For unlisted property, fair value is determined by using current unit price as advised by the responsible entity, trustee, or equivalent, of the investment management scheme.

## NOTES TO THE ANNUAL ACCOUNTS (continued)

*for the year ended 31 December 2014*

### 10. Financial risk

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

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

### (i) Market risk

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

#### Currency risk

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

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

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

| | | 2014 | | 2013 | |
|---|---|---|---|---|---|
| | **Movement in variable %** | **Profit / (loss) £'000** | **Equity £'000** | **Profit / (loss) £'000** | **Equity £'000** |
| US dollar | +10 | (892) | (892) | (1,692) | (1,692) |
| | –10 | 892 | 892 | 1,692 | 1,692 |
| Australian dollar | +10 | 3,353 | 3,353 | 295 | 295 |
| | –10 | (3,353) | (3,353) | (295) | (295) |
| Japanese Yen | +10 | (704) | (704) | (207) | (207) |
| | –10 | 704 | 704 | 207 | 207 |
| Euro | +10 | 1,056 | 1,056 | 192 | 192 |
| | –10 | (1,056) | (1,056) | (192) | (192) |

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

## NOTES TO THE ANNUAL ACCOUNTS (continued)

*for the year ended 31 December 2014*

### 10. Financial risk (continued)

### (i) Market risk (continued)

**Interest rate risk**

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

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

| 2014 | Floating interest rate £'000 | Fixed interest rate maturing in 1 year or less £'000 | 1 to 2 years £'000 | 2 to 3 years £'000 | 3 years over £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Interest bearing assets | 494,448 | 518,960 | 133,159 | 299,575 | 53,104 | 1,499,246 |

| 2013 | Floating interest rate £'000 | Fixed interest rate maturing in 1 year or less £'000 | 1 to 2 years £'000 | 2 to 3 years £'000 | 3 years over £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Interest bearing assets | 421,833 | 716,777 | 345,353 | 65,637 | 15,060 | 1,564,660 |

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

| | Movement in variable % | 2014 Profit / (loss) £'000 | 2014 Equity £'000 | 2013 Profit / (loss) £'000 | 2013 Equity £'000 |
|---|---|---|---|---|---|
| Interest rate movement – fixed interest securities | +0.5 | (5,100) | (5,100) | (4,227) | (4,227) |
| | -0.5 | 4,744 | 4,744 | 3,469 | 3,469 |

The 2013 comparative is restated to reflect a change in movement from 1.5% to 0.5%.

## NOTES TO THE ANNUAL ACCOUNTS (continued)

*for the year ended 31 December 2014*

### 10. 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. Exchange traded futures contracts used to provide the hedges are not perfectly correlated to the composition of the underlying equity fund. As at 31 December 2014, there were no unsettled equity hedge instruments though their effects have been incorporated within the profit and loss for the year.

| | | Financial impact | |
|---|---|---|---|
| | Movement in variable % | 2014 Profit / (loss) and equity £'000 | 2013 Profit / (loss) and equity £'000 |
| USD – S&P500 | +20 | 8,701 | - |
| | -20 | (8,701) | - |

#### Property price risk

Property price risk is the risk that the fair value of property will fluctuate because of changes in market prices. The Syndicate is exposed to property price risk indirectly through investments in unlisted property trusts in key developed markets.

| | | Financial impact | |
|---|---|---|---|
| | Movement in variable % | 2014 Profit / (loss) and equity £'000 | 2013 Profit / (loss) and equity £'000 |
| United States | +10 | 3,683 | - |
| | -10 | (3,683) | - |

## NOTES TO THE ANNUAL ACCOUNTS (continued)

*for the year ended 31 December 2014*

### 10. Financial risk (continued)

### (i) Market risk (continued)

### (ii) Credit risk

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

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

97.6% (2013 99.2%) of total fixed interest and cash investments are with counterparties having a Moody's rating of A or better. The Syndicate does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings. The Syndicate only uses derivatives in highly liquid markets.

The reinsurers' share of claims outstanding is also exposed to credit risk. 95.7% (2013 99.2%) of the balance is with reinsurers with an S&P rating of "A-"or greater.

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

| | **2014 £'000** | **2013 £'000** |
|---|---|---|
| Cash | 44,556 | 36,072 |
| Other interest bearing investments | 1,454,690 | 1,528,588 |
| Derivatives | 594 | 9,566 |
| Other debtors | 7,601 | 953 |
| | 1,507,441 | 1,575,179 |

### (iii) Liquidity risk

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

At 31 December 2014, the average duration of cash and fixed interest securities was 0.9 years (2013 0.6 years).

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

| | **2014** | | **2013** | |
|---|---|---|---|---|
| | **Within 1 year £'000** | **Over 1 year £'000** | **Within 1 year £'000** | **Over 1 year £'000** |
| Trade and other payables | 214,490 | - | 247,703 | - |
| Derivative financial instruments | (11,268) | - | (1,805) | - |
| | 203,222 | - | 245,898 | - |

The Syndicate has no significant concentration of liquidity risk.

## NOTES TO THE ANNUAL ACCOUNTS (continued)

*for the year ended 31 December 2014*

### 11. Debtors

### (i) Debtors arising out of direct insurance operations

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Due within one year** | | |
| Due from policyholders | 1,183 | 1,128 |
| Due from intermediaries | 287,224 | 341,615 |
| **Due after one year** | | |
| Due from intermediaries | 947 | 314 |
| | 289,354 | 343,057 |

### (ii) Debtors arising out of reinsurance operations

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Due within one year | 157,541 | 174,715 |
| Due after one year | 2,583 | 340 |
| | 160,124 | 175,055 |

### 12. Overseas deposits

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

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Joint Asset Trust Funds | 11,295 | 10,928 |
| Canadian Margin Fund | 46,646 | 45,696 |
| Kentucky Trust Funds | 3,351 | 3,327 |
| Australian Trust Funds | 56,109 | 69,525 |
| South African Trust Funds | 10,363 | 8,543 |
| ASL Overseas deposit | 14,981 | 25,488 |
| Additional Securities Illinois deposit | 1,991 | 2,867 |
| | 144,736 | 166,374 |

### 13. Reconciliation of member's balance

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| At 1 January | 77,571 | (17,533) |
| Profit for the financial year | 208,472 | 169,005 |
| Payments out of profit to member's personal reserve funds | (98,657) | (71,656) |
| Other non standard personal expenses | 52 | (2,245) |
| Open year profit release | (30,764) | - |
| At 31 December | 156,674 | 77,571 |

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

### 14. Creditors

### (i) Creditors arising out of direct insurance operations

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **Due within one year** | | |
| Due to policyholders | 1,003 | 1,023 |
| Due to intermediaries | 40,439 | 63,221 |
| | 41,442 | 64,244 |

### (ii) Creditors arising out of reinsurance operations

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Due within one year | 147,152 | 171,157 |
| | 147,152 | 171,157 |

### 15. Movement in opening and closing portfolio investments net of financing

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Net cash inflow for the year: | | |
| Increase/(Decrease) in cash holdings | 6,941 | (5,525) |
| Increase/(Decrease) in overseas deposits | (20,989) | (11,541) |
| Net portfolio investment | (2,944) | 93,728 |
| Movement arising from cash flows | (16,992) | 76,662 |
| Changes in market value and exchange rates | 41,966 | (45,637) |
| Total movement in portfolio investments, net of financing | 24,974 | 31,025 |
| At 1 January, net of financing | 1,574,226 | 1,543,201 |
| At 31 December, net of financing | 1,599,200 | 1,574,226 |

### Movement in cash, portfolio investments and financing

| | 1 January 2014 £'000 | Cash flow £'000 | Reclass £'000 | Changes to market value and currencies £'000 | At 31 December 2014 £'000 |
|---|---|---|---|---|---|
| Cash at bank and in hand | 36,072 | 6,941 | (9,625) | 11,168 | 44,556 |
| Overseas deposits | 166,374 | (20,989) | - | (649) | 144,736 |
| Shares and other variable yield securities and units in unit trusts | 5,850 | 95,452 | - | 7,260 | 108,562 |
| Debt securities and other fixed income securities | 1,356,364 | (98,396) | - | 33,159 | 1,291,127 |
| Deposits with credit institution | - | - | 9,625 | - | 9,625 |
| Derivatives | 9,566 | - | - | (8,972) | 594 |
| Total cash, portfolio investments and financing | 1,574,226 | (16,992) | - | 41,966 | 1,599,200 |

## NOTES TO THE ANNUAL ACCOUNTS (continued)

*for the year ended 31 December 2014*

### 16. Cash flows invested in portfolio investments

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Purchase of shares and other variable yield securities | (266,078) | (321,732) |
| Purchase of debt securities and other fixed income securities | (2,748,959) | (1,978,784) |
| Sale of shares and other variable yield securities | 170,626 | 331,567 |
| Sale of debt securities and other fixed income securities | 2,847,355 | 1,875,221 |
| | 2,944 | (93,728) |

### 17. Related parties

The managing agent of the Syndicate, QUL, and the corporate member, QBE Corporate Limited, that provides capital to the Syndicate, are wholly owned subsidiaries of their ultimate parent company, QBE Insurance Group Limited.

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

#### Directors' interests

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

#### Inter-syndicate transactions

In certain instances the Syndicate has underwritten reinsurances of QBE's other managed syndicate. The premiums paid are not material either 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 at arm's length.

#### Inwards reinsurance contracts with related QBE companies

In certain instances the Syndicate has underwritten inwards reinsurance business from companies within the QBE Insurance Group during the year. Inwards premiums totalling £6,252,000 (2013 £5,108,000) were written in the year with related QBE companies. All such contracts are written on normal market terms on an arm's length basis. Balances remained outstanding for the year of £3,000 (2013 £107,000). At the year end there was a £13,091,000 (2013 £124,000) share of technical provisions.

#### Outwards reinsurance contracts with related QBE companies

The Syndicate has purchased reinsurance with companies within the QBE Insurance Group during the year. Outward premiums totalling £31,380,000 (2013 £61,199,000) were placed with QBE related companies. All such contacts are written on normal market terms on an arm's length basis. Reinsurance recoveries received in respect of reinsurance recoverable from related QBE companies amounted to £12,439,000 (2013 £1,727,000). Balances due from related QBE companies in respect of reinsurers' share of technical provisions were £85,569,000 (2013 £119,651,000).

#### Administrative expenses

Total expenses recharged from QBE Management Services (UK) Limited in respect of services provided to the Syndicate amounted to £110,292,000 (2013 £111,403,000). The balance remaining at year end is £11,195,000 (2013 £10,497,000).

#### Service companies

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

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