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QBE Syndicate 2999 Annual report 2015

ANNUAL REPORT
for the year ended 31 December 2015

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MANAGING AGENCY – CORPORATE INFORMATION

Directors

W-F Au*
P A Dodridge
T C W Ingram*
M G McCaig*
C R O'Farrell
R V Pryce
S W Sinclair*
D J Winkett

Former directors who served during part of the year

I D Beckerson	Resigned 29 June 2015
D J Clayden	Resigned 29 June 2015
C K Curtis	Resigned 31 May 2015
J Gordon	Resigned 29 June 2015
D S Hall	Resigned 29 June 2015
J W Parry	Resigned 29 June 2015

* non-executive directors

Company secretary

E Felton Smith	Appointed 29 June 2015

Registered office

Plantation Place
30 Fenchurch Street
London
EC3M 3BD

Independent auditors

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

STRATEGIC REPORT

The directors of QBE Underwriting Limited, the Managing Agent for QBE Syndicate 2999 (the Syndicate), present their Strategic report for the Syndicate for the year ended 31 December 2015.

Background

The Syndicate is an umbrella syndicate which in 2015 comprised three trading units. Colin O'Farrell and Jonathan Parry continued as joint Active Underwriters. Following the cessation of Aviation 5555 for the 2014 year, the trading units and associated classes of business for 2015 are as follows:

Trading Unit	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 P&I

Business review, key performance indicators, and future developments

	2015 Total £000	Restated* 2014 Total £000
Gross written premium	991,391	887,618
Net earned premiums	679,867	724,604
Net claims	(285,413)	(290,421)
Acquisition costs	(191,655)	(180,512)
Non technical account income/charges	(4,167)	(26,872)
Other net operating expenses	(72,170)	(65,913)
Net underwriting profit	126,462	160,886
Investment return	22,922	20,241
Profit for the financial year	149,384	181,127
Claims ratio	42.0%	40.1%
Combined operating ratio	81.4%	77.8%

*Comparative balances have been restated following conversion to FRS 102. Refer to note 1 of the accounting policies for further information.

The Active Underwriters' comment as follows:

We are delighted to report a strong result for 2015, producing a combined operating ratio of 81.4% (2014 77.8%) and profit for the financial year of £149,384,000 (2014 £181,127,000). This was despite continued challenging market conditions and excess capacity across most markets.

Following a reduction in the Syndicate's gross written premium for 2014 (due to previously reported portfolio reengineering and remedial action), 2015 is showing a 11.7% GWP growth over 2014. This was due to: delivery on growth initiatives including the Syndicate's Canadian and Property D&F portfolios; stronger prior year earn out than expected and; exchange rate differences. Overall however the trading environment proved difficult across all product lines, with an actual rate experience below plan for the year.

In addition to a low incidence of catastrophe losses, the year benefited from a significant favourable prior year reserve development within the Marine, Energy and long-tail inward reinsurance portfolios, together with better than expected attritional development on International Property binders.

STRATEGIC REPORT (continued)

Outlook

Following another year of below average large loss and catastrophe incidents, the rating and market environment for 2016 is expected to remain challenging across all product lines, with an overall negative rate movement anticipated for the year.

Whilst the QBE brand and the Syndicate's product and geographic diversification will continue to help insulate the syndicate, the increasingly difficult macro environment, including sharp falls in commodity prices and financial market instability, will make delivery of 2016 plan increasingly difficult.

Underwriting discipline and balancing retention and new business with acceptable margin remain the biggest challenges to achieving plan. Improved client engagement and relationship management remain key focus areas as we continue to build our industry specialism capability (underwriting risk management and claims) to respond more effectively to client's demands and maximise opportunities within selective industry segments.

We will also continue to pursue new opportunities via QBE's network of overseas offices, in addition to considering all distribution channel opportunities including, where appropriate, broker facilities.

Investment policy

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

Syndicate investments are primarily held in fixed income bonds and money market instruments; with modest exposure to growth assets including developed market equities and investment funds in unlisted property, high yield debt and emerging market equities. 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 other 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. Any remaining material monetary foreign currency exposure is hedged using foreign exchange derivatives in order to minimise foreign exchange risk.

Investment performance

The total investment returns achieved for each financial year are set out below. These include income earned on funds which are not managed by the investment manager, such as short term liquid deposits and certain regulatory overseas deposits managed directly by Lloyd's. The combined average return for the year was 1.6% (2014 1.5%).

STRATEGIC REPORT (continued)

Investment performance (continued)

Portfolio currency	2015 Average funds ’000	2015 Average return %	2015 Target return %	2014 Average funds ’000	2014 Average return %	2014 Target return %
Australian dollar	132,972	2.5	2.8	126,528	4.5	2.4
Canadian dollar	683,000	1.3	1.3	606,591	1.5	1.5
Euro	150,987	0.3	0.4	152,752	1.0	0.8
Sterling	228,618	0.3	1.1	82,103	0.8	1.1
US dollar	1,176,150	2.3	1.8	1,475,384	1.3	2.3
S African rand	174,848	5.4	6.6	166,210	6.0	5.5

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.

During the second half of 2015 investment markets experienced increased volatility caused by slowing growth in the Chinese economy and falling oil and commodities prices. The majority of the Syndicate’s currency investment returns underperformed against their respective currency targets for the year, with other currencies in line with targets. The US dollar portfolio outperformed its target for the year as a result of a strong contribution from unlisted property funds. Overall performance for the Syndicate was above the annual weighted target return of 1.5% (2014 2.0%).

During 2015, 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 or the Company), a subsidiary of QBE European Operations plc, which is the holding company for the European Operations division (QBE EO) of QBE Insurance Group Limited (QBE Group). The corporate governance framework is managed at QBE EO division level.

Recognising the importance of seeking continuous improvement in the output and value of the system of corporate governance, QBE Underwriting Limited implemented several enhancements to its corporate governance structure during 2015, continuing to reflect relevant regulatory and legal requirements, including the Lloyd’s governance standards. As a member of the QBE Group, the Company is not bound by the UK Corporate Governance Code. However, as a matter of best practice, the Company’s Board seeks to comply with the Code, where practical and relevant.

Key areas of focus during 2015 were: (i) the changes to the structure of Boards and Committees following the Board effectiveness review undertaken at the end of 2014; and (ii) the implementation of the changes mandated by the Senior Insurance Managers Regime (‘SIMR’). These resulted in: (i) a rebalancing of the Board of the Company so that the executive membership was reduced; (ii) the reset of the QBE European Operations Executive Committee as an Executive Management Board (‘EMB’) with an increased remit in respect of operational matters previously considered by the QBE Underwriting Limited Board; (iii) the refresh of Committee Terms of Reference and Board Charters including appropriate tailoring of matters reserved to Boards to reflect the wider role of the EMB; and (iv) the approval of requisite Governance Maps by the Company Board.

Other enhancements in 2015 included: (i) the reset of the membership of the Risk & Capital Committee to include all non-executive directors as members; (ii) the establishment of a Risk & Capital working group to enhance efficiency by allowing an executive review of matters to be considered by the Risk & Capital Committee; and (iii) the appointment of the Company’s General Counsel as Company Secretary, providing enhanced support and advice to the Chairman and the Boards.

STRATEGIC REPORT (continued)

Corporate governance (continued)

The Boards considered and approved a process for approval of Solvency II Pillar 3 regulatory submissions, which included the constitution of a Disclosure Management Group, reporting to the EMB and taking responsibility for reviewing and monitoring verification of narrative and qualitative reporting by the Company.

A Board away day was held in May, providing the opportunity for a deeper focus on strategy (with presentations from senior management). 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 main Company's Boards and Board Committees met regularly during the year with strong attendance from all members. The Board of the Company met thirteen times during 2015.

QBE Underwriting Limited

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

The Board comprises four executive directors and four non-executive directors, and is chaired by Tim Ingram (non-executive director).

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 the Company's results in a strong and balanced leadership team to set and monitor the strategy and values of the Company.

There were 6 changes to the Board of QBE Underwriting Limited during the year which are noted 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.

QBE Underwriting Limited has four non-executive directors who are all members of the Audit Committee and the Risk and Capital 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 judgment.

Board Committees

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

QBE EO's key Committees comprise:
- Audit Committee
- Executive Management Board
- Investment Committee
- Remuneration and Nomination Committee
- Risk and Capital Committee

STRATEGIC REPORT (continued)

Risk management and principal risks and uncertainties

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

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

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

Strategic risk

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

The Company manages strategic risk using the following:

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

Credit risk

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

The Company manages credit risk using the following:

- We regularly review our exposure limits and credit quality levels for approved counterparties in relation to deposits and investments.

Group risk

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

The Company manages group risk using the following:

- 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 QBE Group.

Liquidity risk

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

The Company manages liquidity risk using the following**:**

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

STRATEGIC REPORT (continued)

Risk management and principal risks and uncertainties (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. 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.

The Company manages operational risk using the following:

- We actively monitor our key processes and systems;
- 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.

Solvency II and capital allocation

The Prudential Regulation Authority (PRA) pre-approved the Society of Lloyd's Solvency II internal capital model application in December 2015.

Acting on behalf of the syndicates, the Company has defined its internal model as 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.

We use the internal model to help assess our risk and calculate the appropriate level of risk-based capital to allocate to risks to which we are exposed. The assessment of risk-based capital enables us to make decisions that involve quantitative risk reward trade-offs. The allocation of risk-based capital helps ensure that the level of risk we take is commensurate with the required returns and is within the approved risk appetite and tolerance.

Business continuity management

A business continuity management framework ensures that the Company is resilient and able to respond effectively to incidents that threaten business continuity, including any material failures in significant outsourcing arrangements . It also ensures that the impact of any major disruption is minimised.

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

This Strategic Report was approved by the QBE Underwriting Limited Board of directors on 14 March 2016 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 2015.

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 8.

Internal audit

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

Relationship with Managing Agent

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

Statement of Managing Agent's responsibilities

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

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

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

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

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

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

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Statement of disclosure of information to auditors

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

- so far as the director is aware, there is no 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
14 March 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2999

Report on the Syndicate annual accounts

Our Opinion

In our opinion, the Syndicate annual accounts:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited

The Syndicate annual accounts for the year ended 31 December 2015, included within the Annual Report, comprise:

- the balance sheet as at 31 December 2015;
- the profit and loss account for the year then ended;
- the statement of income and members balances;
- the statement of cash flows;
- reconciliation of operating profit to net cash inflow from operating activities;
- the accounting policies; and
- the notes to the Syndicate annual accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the Syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland," as modified by the requirements of Schedule 2 of The Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), and the disclosure requirements of Schedule 3 to The Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005)., and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

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

In our opinion the information given in the Managing Agent's Report for the financial year for which the Syndicate annual accounts are prepared is consistent with the Syndicate annual accounts.

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 9, the Managing Agent is responsible for the preparation of the Syndicate annual accounts and for being satisfied that they give a true and fair view.

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

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

What an audit of Syndicate annual accounts involves

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

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

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

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

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

Andrew Moore (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 March 2016

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 2015

	Note	£'000	2015 £'000	£'000	Restated 2014 £'000
Continuing operations					
Earned premiums, net of reinsurance					
Gross premiums written	3	990,459		874,768	
Outward reinsurance premiums		(247,390)		(204,649)	
Net premiums written			743,069		670,119
Change in the gross provision for unearned premiums		(49,216)		36,398	
Change in the provision for unearned premiums, reinsurers' share		(16,247)		(7,859)	
			(65,463)		28,539
Earned premiums, net of reinsurance			677,606		698,658
Allocated investment return transferred from the non-technical account			22,922		20,241
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(461,264)		(509,445)	
Reinsurers' share		203,384		181,078	
		(257,880)		(328,367)	
Change in the provision for claims					
Gross amount		(15,338)		169,192	
Reinsurers' share		(22,466)		(127,934)	
		(37,804)		41,258	
Claims incurred, net of reinsurance			(295,684)		(287,109)
Net operating expenses	5		(260,371)		(231,425)
Balance on the technical account for general business			144,473		200,365

The notes set out of pages 20 to 39 form an integral part of these financial statements

PROFIT AND LOSS ACCOUNT - TECHIICAL ACCOUNT - GENERAL BUSINESS

for the year ended 31 December 2015

	Note	£'000	2015 £'000	£'000	Restated 2014 £'000
Discontinued operations					
Earned premiums, net of reinsurance					
Gross premiums written	3	932		12,850	
Outward reinsurance premiums		103		(9,636)	
Net premiums written			1,035		3,214
Change in the gross provision for unearned premiums		3,507		27,549	
Change in the provision for unearned premiums, reinsurers' share		(2,281)		(4,817)	
			1,226		22,732
Earned premiums, net of reinsurance			2,261		25,946
Allocated investment return transferred from the non-technical account			-		-
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(25,486)		(45,984)	
Reinsurers' share		5,263		13,932	
		(20,223)		(32,052)	
Change in the provision for claims					
Gross amount		40,770		37,220	
Reinsurers' share		(10,276)		(8,479)	
		30,494		28,741	
Claims incurred, net of reinsurance			10,271		(3,311)
Net operating expenses	5		(3,454)		(15,001)
Balance on the technical account for general business			9,078		7,634

The notes set out of pages 20 to 39 form an integral part of these financial statements

PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT

for the year ended 31 December 2015

	Note	2015 £'000	Restated 2014 £'000
Balance on the general business technical account		153,551	207,999
Investment income	8(a)	24,601	23,474
Unrealised gains on investments		-	4,184
Investment expenses and charges	8(b)	(1,652)	(7,417)
Unrealised losses on investments		(27)	-
Investment return		22,922	20,241
Allocated investment return transferred to the general business technical account		(22,922)	(20,241)
Non technical account income/charges		(4,167)	(26,872)
Profit for the financial year		149,384	181,127

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 20 to 39 form an integral part of these financial statements

STATEMENT OF INCOME AND MEMBERS BALANCES

for the year ended 31 December 2015

	2015 £'000	Restated 2014 £'000
Members balances as at 1 January	148,548	96,790
Profit for the financial year	149,384	181,127
Payments out of profit to members' personal reserve funds	(135,165)	(98,657)
Other non standard personal expenses	1,854	52
Open year profit release	(2,621)	(30,764)
Members balances as at 31 December	162,000	148,548

The notes set out of pages 20 to 39 form an integral part of these financial statements

BALANCE SHEET

as at 31 December 2015

Assets	Note	2015 £'000	Restated 2014 £'000
Investments			
Other financial investments	9	1,464,685	1,413,048
Derivative financial instrument - assets	10	5,342	594
		1,470,027	1,413,642
Reinsurers' share of technical provisions			
Provision for unearned premiums		51,751	71,778
Claims outstanding	15	441,215	468,064
		492,966	539,842
Debtors			
Debtors arising out of direct insurance operations	13(i)	346,497	289,354
Debtors arising out of reinsurance operations	13(ii)	206,380	160,124
Other debtors		694	7,601
		553,571	457,079
Other assets			
Cash at bank and in hand		25,192	40,821
Overseas deposits	14	132,909	144,736
		158,101	185,557
Prepayments and accrued income			
Accrued interest and rent		3,664	5,839
Deferred acquisition costs		114,177	100,314
Other prepayments and accrued income		854	1,151
		118,695	107,304
Total assets		2,793,360	2,703,424

The notes set out of pages 20 to 39 form an integral part of these financial statements

BALANCE SHEET
As at 31 December 2015

Liabilities	Note	2015 £'000	Restated 2014 £'000
Members' balance		162,000	148,548
Technical provisions			
Provision for unearned premiums		511,546	473,302
Claims outstanding	15	1,854,463	1,861,785
		2,366,009	2,335,087
Creditors			
Creditors arising out of direct insurance operations	19(i)	79,651	41,442
Creditors arising out of reinsurance operations	19(ii)	146,938	147,152
Derivative financial instrument - liability	10	5,327	11,268
Other creditors including taxation and social security	20	31,087	14,628
		263,003	214,490
Accruals and deferred income		2,348	5,299
Total liabilities		2,793,360	2,703,424

These annual accounts on pages 13 to 39 were approved by the Board of QBE Underwriting Limited on 14 March 2016 and were signed on its behalf by:

D J Winkett

Director

The notes set out of pages 20 to 39 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
for the year ended 31 December 2015

	Note	2015 £'000	Restated 2014 £'000
Cash flow from operating activities			
Operating profit		149,384	181,127
Increase / (decrease) in gross technical provisions		30,922	(184,023)
(Increase) / decrease in reinsurers' share of technical provisions		46,876	124,275
(Increase) / decrease in debtors		(107,883)	66,820
Increase / (decrease) in creditors		45,562	(33,859)
Investment returns		(22,922)	(20,241)
		141,939	134,099
Cash flows from investing activities			
Purchase of equity and debt instruments		(3,465,204)	(3,015,326)
Sale of equity and debt instruments		3,419,860	3,018,581
Purchase of derivatives		5	289
Sale of derivatives		651	(601)
Investment income received		22,895	24,425
		(21,793)	27,368
Cash flow from financing activities			
Distribution profit		(135,165)	(98,657)
Open year profit release		(2,621)	(30,764)
		(137,786)	(129,421)
Movement in cash, portfolio investments and financing			
Cash and cash equivalents at the beginning of the year		185,557	202,446
Net increase / (decrease) in cash and cash equivalents		(27,456)	(16,889)
Cash and cash equivalents at the end of the year		158,101	185,557

	2015 £'000	Restated 2014 £'000
Non-cash flow activities		
Unrealised gains/losses & MV adjustments	(27)	(49,885)
Investment revaluation	(7,815)	-
FX movement on cash and cash equivalents	(3,828)	898
Non-standard personal expenses	1,854	52

NOTES TO THE ANNUAL ACCOUNTS
for the year ended 31 December 2015

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'').

This is the first set of annual accounts to be prepared by the Syndicate in accordance with FRS 102 and FRS 103.

FRS 102 is based on International Financial Reporting Standards (IFRS) for Small and Medium size entities (SME), and is generally similar to previous UK GAAP, whilst FRS 103 is broadly in line with the ABI SORP previously adopted by the Syndicate.

When preparing these annual accounts, management has amended certain accounting and valuation methods applied in the previous UK GAAP annual accounts and the comparative figures have been restated to reflect these adjustments.

I. Under FRS 103, all assets and liabilities arising from insurance contracts are treated as monetary items, and such items originating in foreign currency are therefore translated at the balance sheet exchange rate. Under the previous UK GAAP, deferred acquisition costs and unearned premium were treated as non-monetary items, and were not retranslated at the balance sheet date.

II. FRS 103 requires additional disclosures in regards to:

- "Outstanding claims, claims development tables by underwriting year";
- "Impact of changes of key variables on the outstanding claims provision"; and
- "Maturity profile of net outstanding claims".

Details of the transition to FRS 102 and FRS 103 are disclosed in note 22.

These annual accounts incorporate all transactions committed to by the 2015 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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2015

1. Accounting policies (continued)

(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.

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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2015

1. Accounting policies (continued)

(b) Basis of accounting for insurance (continued)

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

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.

(viii) Foreign currency

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

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

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

(ix) Financial assets

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

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

Listed investments are stated at fair value using current or recent bid prices where available. In the absence of an active market, current or recent bid prices for similar instruments may be used to estimate fair value. Unlisted investments are carried at the directors' estimate of the current fair value, except as stated below.

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

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

(x) Investment income

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

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

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2015

1. Accounting policies (continued)

(c) Basis of accounting

(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 member 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 the member on underwriting results.

(ii) 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.

(iii) 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.

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 Risk and 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 members' FAL to meet liquidity requirements or to settle losses.

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

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2015

3. Segmental information

2015	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Accident and health	17,200	15,525	(4,830)	(7,224)	(1,351)	2,120
Motor (third party liability)	13,828	12,283	(10,123)	(4,614)	7,445	4,991
Marine, aviation and transport	217,722	224,045	(110,204)	(44,881)	(51,237)	17,723
Fire and other damage to property	124,007	120,585	(40,703)	(45,364)	(13,465)	21,053
Third party liability	294,795	267,375	(145,123)	(79,569)	3,533	46,216
Credit and suretyship	34,730	17,623	(11,244)	(8,912)	1,518	(1,015)
Miscellaneous	-	-	(1,295)	(2)	(145)	(1,442)
	702,282	657,436	(323,522)	(190,566)	(53,702)	89,646
Reinsurance acceptances	289,109	288,246	(137,796)	(87,690)	(21,777)	40,983
Total	991,391	945,682	(461,318)	(278,256)	(75,479)	130,629
Total continuing operations	990,459	941,243	(476,602)	(274,802)	(68,288)	121,551
Total discontinued operations	932	4,439	15,284	(3,454)	(7,191)	9,078

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)	(5,470)	(1,866)	5,622
Motor (third party liability)	8,919	9,071	(3,529)	(3,426)	(1,150)	966
Marine, aviation and transport	141,137	159,066	(39,321)	(36,635)	(51,068)	32,042
Fire and other damage to property	109,684	145,602	(92,322)	(49,394)	(709)	3,177
Third party liability	186,093	193,460	(58,870)	(58,806)	(28,289)	47,495
Credit and suretyship	29,992	27,601	(3,807)	(7,774)	(7,448)	8,572
Miscellaneous	(3)	(3)	522	(32)	(35)	452
	492,205	551,492	(201,064)	(161,537)	(90,565)	98,326
Reinsurance acceptances	395,413	400,073	(147,953)	(100,877)	(61,811)	89,432
Total	887,618	951,565	(349,017)	(262,414)	(152,376)	187,758
Total continuing operations	874,768	911,166	(340,253)	(247,413)	(143,376)	180,124
Total discontinued operations	12,850	40,399	(8,764)	(15,001)	(9,000)	7,634

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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2015

3. Segmental information (continued)

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

	2015 £'000	2014 £'000
Europe: United Kingdom	57,442	45,321
Other	19,151	15,440
North America	233,965	197,660
Other (including worldwide)	680,833	629,197
	991,391	887,618
Total continuing operations	990,459	874,768
Total discontinued operations	932	12,850

All premiums were concluded in the UK.

4. Reconciliation of movement in net outstanding claims provision

	2015			2014		
	Gross £'000	Reinsurance £'000	Net £'000	Gross £'000	Reinsurance £'000	Net £'000
At 1 January	1,861,785	(468,064)	1,393,721	2,021,915	(585,603)	1,436,312
Incurred claims recognised in the statement of comprehensive income	461,318	(175,905)	285,413	349,017	(58,597)	290,420
Claims payments	(486,750)	208,647	(278,103)	(555,429)	195,010	(360,419)
Foreign exchange	18,110	(5,893)	12,217	46,282	(18,874)	27,408
At 31 December	1,854,463	(441,215)	1,413,248	1,861,785	(468,064)	1,393,721

5. Net operating expenses

	2015 £'000	2014 £'000
Acquisition costs: direct commission	167,346	122,043
other	56,197	62,479
Changes in deferred acquisition costs	(17,457)	11,978
Administrative expenses	72,170	65,914
Reinsurance commission revenue	(14,431)	(15,988)
	263,825	246,426
Total continuing operations	260,371	231,425
Total discontinued operations	3,454	15,001

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2015

5. Net operating expenses (continued)

Administrative expenses include auditors' remuneration:

	2015 £'000	2014 £'000
Fees payable to the Syndicate's auditor for the audit of the Syndicate's annual accounts	285	267
Other services pursuant to legislation	307	305

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:	2015 £'000	2014 £'000
Wages and salaries	49,430	46,703
Social security costs	5,893	6,088
Other pension costs	3,339	3,335
	58,662	56,126

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

	2015 Number	2014 Number
Underwriting	189	190
Claims	49	49
Administration	212	236
	450	475

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:

	2015 £'000	2014 £'000
Directors of the Managing Agent	2,688	3,430
Active Underwriters	945	1,985

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

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2015

8. Investment income, expenses and charges

(a) Investment income

	2015 £'000	2014 £'000
Income from investments	21,552	23,474
Net gain on the realisation of investments	3,049	-
	24,601	23,474

(b) Investment expenses and charges

	2015 £'000	2014 £'000
Net losses on the realisation of investments	-	5,867
Investment management expenses	1,652	1,550
	1,652	7,417

9. Other financial investments

Designated at fair value through profit and loss

	2015		Restated 2014	
	Cost £'000	Fair value £'000	Cost £'000	Fair value £'000
Shares and other variable yield securities and units in unit trusts	105,170	110,375	104,011	108,562
Debt securities and other fixed income securities	1,355,975	1,351,787	1,294,809	1,291,126
Deposits with credit institutions	2,523	2,523	13,360	13,360
	1,463,668	1,464,685	1,412,180	1,413,048

The debt securities and other fixed income securities are listed on recognised exchanges. £55,765,983 of the shares and other variable yield securities and units in unit trusts are listed on recognised exchanges (2014 £71,731,727).

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2015

10. Derivative financial instruments

Fair value	2015 £'000	Restated 2014 £'000
Foreign currency derivatives		
Derivative financial instrument – assets	5,342	594
Derivative financial instrument – liabilities	(5,327)	(11,268)

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 £340,564,972 (2014 £453,068,000).

The forward foreign exchange derivatives outstanding at year end expired by 29 January 2016 (2014 30 January 2015).

During the year a gain of £13,270,000 (2014 loss of £14,094,000), relating to such contracts was recognised. This is included in the net foreign exchange loss of £7,117,000 (2014 gain £472,000) in the profit and loss technical account.

Exchange traded equity derivatives

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

During the year a gain of £759,000 (2014 loss £800,000) 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 £35,347,000 (2014 £56,961,000). These are due to expire by March 2016 (2014 March 2015).

Fixed income derivatives

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

During the year, a loss of £15,000 (2014 loss £71,000) was included in the profit and loss non-technical account relating to these derivatives.

Contractual amounts for fixed income derivatives outstanding at the balance sheet date were £49,891,000 (2014 Nil). These are due to expire by September 2016 (2014 Nil).

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2015

11. Valuation hierarchy

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

2015	Level 1 £'000	Level 3 £'000	Total £'000
Overseas deposits	94,402	38,507	132,909
Deposits with credit institutions	2,523	-	2,523
Variable yield securities and units in unit trusts	55,766	54,609	110,375
Debt securities and other fixed income securities	211,806	1,139,981	1,351,787
Derivatives	-	5,342	5,342
	364,497	1,238,439	1,602,936

2014	Level 1 £'000	Level 3 £'000	Total £'000
Overseas deposits	110,037	34,699	144,736
Deposits with credit institutions	13,360	-	13,360
Variable yield securities and units in unit trusts	71,732	36,830	108,562
Debt securities and other fixed income securities	302,561	988,565	1,291,126
Derivatives	-	594	594
	497,690	1,060,688	1,558,378

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

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	2015 £'000	2014 £'000
At 1 January	1,060,688	964,103
Purchases	1,623,172	1,245,036
Disposals	(1,437,743)	(1,170,046)
FX on Realised gains recognised in profit or loss	(13,849)	(25,726)
Unrealised gains	6,171	47,321
At 31 December	1,238,439	1,060,688

12. 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.

		2015		2014	
	Movement in variable %	Profit / (loss) £'000	Equity £'000	Profit / (loss) £'000	Equity £'000
US dollar	+10	1,580	1,580	(892)	(892)
	–10	(1,580)	(1,580)	892	892
New Zealand dollar	+10	(278)	(278)	(212)	(212)
	–10	278	278	212	212
Euro	+10	153	153	1,056	1,056
	–10	(153)	(153)	(1,056)	(1,056)
Japanese Yen	+10	(99)	(99)	(704)	(704)
	–10	99	99	704	704

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 2015

12. Financial risk (continued)

(i) Market risk (continued)

Interest risk (continued)

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

2015	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	540,066	537,804	108,125	186,491	158,266	1,530,752

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

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 %	2015 Profit / (loss) £'000	2015 Equity £'000	2014 Profit / (loss) £'000	2014 Equity £'000
Interest rate movement – fixed interest securities	+0.5	(5,264)	(5,264)	(5,001)	(5,001)
	-0.5	4,714	4,714	4,654	4,654

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2015

12. 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 2015, contractual amounts for exchange traded equity derivatives outstanding at the balance sheet date were £35,347,000 (2014 £56,961,000).

		Financial impact	
	Movement in variable %	2015 Profit / (loss) and equity £'000	2014 Profit / (loss) and equity £'000
USD – S&P 500	+20	13,008	8,701
	-20	(13,008)	(8,701)
Emerging market equities	+20	1,568	-
	-20	(1,568)	-

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 %	2015 Profit / (loss) and equity £'000	2014 Profit / (loss) and equity £'000
United States	+10	2,776	3,683
	-10	(2,776)	(3,683)

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2015

12. Financial risk (continued)

(ii) Credit risk

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

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

99.2% (2014 97.6%) 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. 95.01% (2014 95.7%) 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 £33,607,000 as collateral against credit risk.

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

	2015 £'000	2014 £'000
Other interest bearing investments	1,530,752	1,499,246
Other financial investments	92,034	99,359
Derivative financial instrument – assets	5,342	594
Other debtors	694	7,601
Debtors arising out of direct insurance operations	346,497	289,354
Debtors arising out of reinsurance operations	206,380	160,124
	2,181,699	2,056,278

(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 2015, the average duration of cash and fixed interest securities was 0.8 years (2014 0.9 years).

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

	2015		2014	
	Within 1 year £'000	Over 1 year £'000	Within 1 year £'000	Over 1 year £'000
Trade and other payables	257,676	-	203,222	-
Derivative financial instruments	5,327	-	11,268	-
	263,003	-	214,490	-

The Syndicate has no significant concentration of liquidity risk.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2015

13. Debtors

(i) Debtors arising out of direct insurance operations

	2015 £'000	2014 £'000
Due within one year		
Due from policyholders	958	1,183
Due from intermediaries	344,321	287,224
Due after one year		
Due from intermediaries	1,218	947
	346,497	289,354

(ii) Debtors arising out of reinsurance operations

	2015 £'000	2014 £'000
Due within one year	205,224	157,541
Due after one year	1,156	2,583
	206,380	160,124

14. Overseas deposits

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

	2015 £'000	2014 £'000
Joint Asset Trust Funds	10,034	11,295
Canadian Margin Fund	47,586	46,646
Kentucky Trust Funds	3,004	3,351
Australian Trust Funds	50,138	56,109
South African Trust Funds	7,515	10,363
ASL Overseas deposit	12,512	14,981
Additional Securities Illinois deposit	2,120	1,991
	132,909	144,736

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2015

15. Outstanding claims – claims development

2015	2010 and prior £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	Total £'000
At end of year		312,454	265,207	201,177	168,147	182,751	
One year later		521,300	438,054	384,020	337,760	-	
Two years later		521,230	473,722	415,040	-	-	
Three years later		508,165	448,342	-	-	-	
Four years later		489,631	-	-	-	-	
Current estimate of net cumulative claims cost		489,631	448,342	415,040	337,760	182,751	
Cumulative net claims payments to date		(349,103)	(276,072)	(184,698)	(82,097)	(11,573)	
Net outstanding claims	443,267	140,528	172,270	230,342	255,663	171,178	1,413,248

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

The Syndicate writes business in currencies other than Pound Sterling. The translation of outstanding claims denominated in foreign currencies gives rise to foreign exchange movements which have no direct bearing on the development of the underlying claims. To eliminate this distortion, claims liabilities have been retranslated to the Pound Sterling at constant rate of exchange for each reporting year. All estimates of net cumulative claims cost and cumulative claims payments for the 5 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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2015

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

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

	Sensitivity %	Profit/(Loss) 2015 £'m	2014 £'m
Net claims outstanding	+5	56,353	54,704
	-5	(56,353)	(54,704)
Sterling to US dollar exchange rate	+10	58,929	60,809
	-10	(58,929)	(60,809)
Sterling to Australian Dollar exchange rate	+10	3,557	2,061
	-10	(3,557)	(2,061)
Sterling to Euro exchange rate	+10	7,156	7,221
	-10	(7,156)	(7,221)
Sterling to Canadian exchange rate	+10	11,848	11,861
	-10	(11,848)	(11,861)

18. Maturity profile of net outstanding claims

	1 year or less £'m	1 to 2 years £'m	2 to 3 years £'m	3 to 4 years £'m	4 to 5 years £'m	Over 5 years £'m	Total £'m
2015	426,222	274,387	189,417	133,614	95,917	293,692	1,413,248
2014	429,767	271,201	184,281	131,284	95,030	282,159	1,393,721

19. Creditors

(i) Creditors arising out of direct insurance operations

	2015 £'000	2014 £'000
Due within one year		
Due to policyholders	814	1,003
Due to intermediaries	78,837	40,439
	79,651	41,442

(ii) Creditors arising out of reinsurance operations

	2015 £'000	2014 £'000
Due within one year	146,927	147,152
Due after one year	11	-
	146,938	147,152

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2015

20. Other creditors including taxation and social security

	2015 £'000	2014 £'000
Due within one year		
Unsettled investment trade creditors	4,506	-
Amounts due to group undertakings	22,901	11,849
Taxation and social security	3,244	2,779
Other creditors	436	-
	31,087	14,628

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2015

21. Related parties

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

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

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

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

Directors' interests

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

Inter-syndicate transactions

In certain instances the Syndicate has underwritten reinsurances of QBE's other managed syndicate. The premiums paid are not material 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 £11,232,000 (2014 £6,252,000) 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 outstanding at the year end total £nil (2014 £3,000). At the year end there was a £11,318,000 (2014 £13,091,000) share of technical provisions.

Outwards reinsurance contracts with related QBE companies

The Syndicate has purchased reinsurance from companies within the QBE Insurance Group during the year. Outward premiums totalling £126,725,000 (2014 £31,380,000) 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 £46,385,000 (2014 £12,439,000). Balances due from related QBE companies in respect of reinsurers' share of technical provisions were £46,873,000 (2014 £85,569,000).

On 31 December 2015, the Managing Agent signed a commutation agreement in respect of two significant reinsurance contracts, covering a proportion of business written between 2008 and 2013. The contracts were commuted at the discounted value of the reinsurance asset held on the balance sheet. The consideration of £37,698,000 was received on 4 February 2016.

Administrative expenses

Total expenses recharged from QBE Partner Services (Europe) LLP in respect of services provided to the Syndicate amounted to £114,864,000 (2014 £110,292,000) during 2014 expenses were recharged by QBE Management Services (UK) Limited. The balance outstanding at year end with QBE Partner Services (Europe) LLP is £13,184,000 (2014 £11,195,000). There are no other transactions or arrangements to be disclosed.

Service companies

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

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2015

22. Transition to FRS 102 and FRS 103

This is the first year that the Syndicate has presented its results under FRS 102. The date of transition to FRS 102 was 1 January 2014. Under FRS 102, the Syndicate is also required to apply FRS 103 "Insurance Contracts".

During 2014 the Company exited from certain businesses and classified them as discontinued operations. The comparative results in the profit and loss – technical account have been reclassified so as to present discontinued operations in a columnar format.

On adoption of FRS 102 the Syndicate has changed the presentation of the cash flow statement, the new format presents cash flow under three main subheadings, operating activities, investing activities and financing activities. The prior year comparative has also been restated to conform with this new presentation.

On adoption of FRS 102 the Company has classified the forward foreign exchange contracts as derivative financial asset / liabilities and present them on a separate line within the balance sheet. In prior years the derivative financial asset / liabilities were presented within other financial investments / other creditors. There has been no impact to the profit and loss account or the value of net assets from this change in presentation.

Under FRS 103, all assets and liabilities arising from insurance contracts are treated as monetary items, and such items originating in foreign currency are therefore translated at the balance sheet exchange rate. Under the previous UK GAAP, deferred acquisition costs and unearned premium were treated as non-monetary items, and not retranslated at the balance sheet date. This affects their carrying value, and therefore the balance sheet total. The resulting difference is treated as a foreign exchange difference.

Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 December 2014 and the members' balances as at 1 January 2014 and 31 December 2014 between the previous UK GAAP and FRS 102.

(a) Reconciliation of profit for the year ended 31 December 2014 under previous UK GAAP to that under FRS 102 and FRS 103

Profit for the financial year	**2014 £'000**
UK GAAP as previous reported	208,472
Non technical account income/charges	(26,872)
Reversal of loss on exchange	(473)
FRS 102	181,127

(b) Reconciliation of total equity under previous UK GAAP to that under FRS 102 and FRS 103

Members' balances	**1 Jan 2014 £'000**	**31 Dec 2014 £'000**
UK GAAP as previous reported	77,571	156,674
Non technical account income/charges – prior years	19,219	19,219
Non technical account income/charges	-	(26,872)
Reversal of loss on exchange	-	(473)
FRS 102	96,790	148,548

There are no tax effects in these Syndicate accounts.

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