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QBE Syndicate 2999 Annual report 2016

QBE Syndicate 2999

Annual Report

31 December 2016

ANNUAL REPORT
for the year ended 31 December 2016

MANAGING AGENCY – CORPORATE INFORMATION

Directors

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

* non-executive Directors

Former Directors who served during part of the year

P A Dodridge Resigned 19 December 2016

Company secretary

E Felton Smith

Registered office

Plantation Place
30 Fenchurch Street
London
EC3M 3BD

Independent auditors

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

STRATEGIC REPORT

The Directors of QBE Underwriting Limited, the Managing Agent for QBE Syndicate 2999 (the Syndicate), present their Strategic report for the Syndicate for the year ended 31 December 2016.

Background

The Syndicate comprises 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 for 2016 are 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 P&I
5555	QBE programme solutions

Business review, key performance indicators, and future developments

	2016 Total £000	Restated 2015 Total £000
Gross written premium	1,072,650	991,391
Net earned premiums	701,869	679,867
Net claims	(445,816)	(298,546)
Acquisition costs	(201,012)	(191,655)
Non technical account charges	(22,034)	(4,167)
Other net operating expenses	(69,230)	(72,170)
Net underwriting (loss) / profit	(36,223)	113,329
Investment return	25,600	22,922
(Loss) / profit for the financial year	(10,623)	136,251
Claims ratio	63.5%	43.9%
Combined operating ratio	105.2%	83.3%

The Active Underwriters' comment as follows:

The 2016 financial year has produced a combined operating ratio of 105.2% year (2015: 83.3%).

The net underwriting loss of £36,223k includes the anticipated impact of the recent announcement from the Ministry of Justice, reducing the statutory discount rate applied to certain UK personal injury claims (referred to as Ogden tables) to -0.75%. This impact primarily arose from sub-Syndicate 566's casualty treaty account.

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

STRATEGIC REPORT (continued)

Active Underwriters' comment (continued)

Despite continued challenging market conditions, particularly with regards sourcing profitable new business, the Syndicate achieved gross written premium growth of 8% relative to 2015. This was predominantly due to a significantly weaker sterling, assisted by a continued focus on strategic growth areas, coupled with increased retention levels as our commitment to building meaningful and sustainable relationships bears fruit. Actual rate experience for the year was -5.0% versus -4.8% planned, as most product lines struggled to achieve rate, particularly: Professional Lines; UK Liability and; Natural Resources.

In line with the rest of the industry, Syndicate 2999 experienced an increase in large risk and catastrophe claims incidence during 2016. Although less than our annual allowances, catastrophe claims costs were materially higher than 2015 which was especially benign.

Excluding the impact of the statutory discount rate change, the Syndicate achieved a profitable result, attributable to the diversity of the account, in that it was delivered despite some parts of the business having a difficult year, and reflects the high quality leadership in core areas.

Sub-syndicate 566 produced a strong result (excluding the impact of Ogden), despite the adverse effect of large and CAT claims in the year, including Canadian wildfires, New Zealand earthquakes and Hurricane Matthew. Sub-syndicate 1036 also performed well and in spite of continued pressures in the natural resources industry.

Sub-syndicate 1886 however was impacted by property losses, including those associated with the Canadian wildfires and Louisiana floods. In addition the professional liability account suffered claims experience worse than expected, requiring reserve strengthening, particularly due to the incidence of several large claims.

Sub-syndicate 5555 also produced a loss as gross written premium fell materially short of anticipated levels.

Outlook

Whilst large loss experience has been worse than planned for the Syndicate, catastrophe experience for both the Syndicate and the market was broadly in line with expectation. This, combined with continued excess capacity, is likely to see pricing pressures maintained across most product lines and geographies. Overlay the prevailing global political uncertainty, we foresee a particularly demanding year ahead.

The Syndicate will remain focused on further improving an already very strong business. In this regard, several ongoing operational projects are expected to deliver additional benefits in 2017 and beyond.

Our approach to new business will be careful and considered but we expect to see even more value from our extended distribution during 2017. Our commitment to underwriting excellence and preserving margins remains central to our success. Regardless of market conditions we will not waiver from this principle as it is now more important than ever.

Investment policy

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

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

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

STRATEGIC REPORT (continued)

Investment policy (continued)

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

The Syndicate operates a policy to minimise foreign exchange risk by holding monetary assets in foreign currencies in order to match monetary liabilities in such currencies where size is deemed material. Any remaining material monetary foreign currency exposure is hedged using foreign exchange derivatives in order to minimise foreign exchange risk.

Investment performance

The total investment returns achieved for each financial year are set out below. These include income earned on funds which are not managed by the investment manager, such as short term liquid deposits and certain regulatory overseas deposits managed directly by Lloyd's. The combined currency total return for the year was 1.6% (2015 1.6%).

Portfolio currency	2016 Average funds '000	2016 Average return %	2016 Target return %	2015 Average funds '000	2015 Average return %	2015 Target return %
Australian dollar	151,914	2.7	2.0	132,972	2.5	2.8
Canadian dollar	796,529	1.4	0.9	683,000	1.3	1.3
Euro	154,103	1.3	0.6	150,987	0.3	0.4
Sterling	186,072	2.0	0.8	228,618	0.3	1.1
US dollar	1,102,603	1.4	2.4	1,176,150	2.3	1.8
S African rand	152,483	8.5	8.6	174,848	5.4	6.6

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

During 2016 most asset classes performed well, supported by monetary policy and continued economic expansion. Geopolitical surprise dominated the second half of the year following the UK's 'Brexit' vote in June and the election of Donald Trump as US President in November. Earlier strong returns in developed market bonds were pared back in the last quarter as global yields rose and investors switched attention to riskier assets. The majority of the Syndicate's currency investment returns outperformed their respective currency targets for the year, however rising US fixed income yields had a material impact on the Syndicate's primary currency and as a result overall performance for the Syndicate was slightly below the annual weighted target return of 1.7% (2015 1.5%).

During 2016, the Syndicate's fixed income portfolios continued to be managed conservatively with average duration of between one and two years. Through the investment manager's cautious stance, the Syndicate has not incurred any credit defaults or write downs in any of its fixed interest portfolios.

Corporate governance

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

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

STRATEGIC REPORT (continued)

Corporate governance (continued)

Key changes to the corporate governance structure during the year were:
(i) The establishment of a Compliance Management Group to support the Risk and Capital Committee (RCC) in providing co-ordinated oversight and monitoring of the Company's adherence to its Compliance Framework in meeting its legal and regulatory responsibilities;

(ii) The establishment of a Brexit Steering Group to provide oversight, direction and guidance to support the Boards in responding to the United Kingdom's exit from the European Union;

(iii) The disbanding of the Solvency II Steering Group (previously a sub-group of the RCC), the Company having received approval from the PRA to the use of the Internal Model in December 2015 and subsequent work in respect of other Solvency II related matters having been concluded or, where relevant, being now undertaken within other areas of the formal corporate governance structure; and

(iv) The formalisation of the Risk & Capital Group ('RCG') as a formal sub-group of the RCC. The RCG was established in 2015 to provide executive support, and filter information flow, to the RCC. Given its importance in the structure, in February 2016 it was determined that the RCG should become a formal sub-group of the RCC.

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

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

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

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

The Board of QBE Underwriting Limited

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

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

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

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

STRATEGIC REPORT (continued)

The Board of QBE Underwriting Limited (continued)

QBE Underwriting Limited has four non-executive Directors, including the Chairman of the Company, all of whom are members of the Audit Committee. All the non-executive Directors are considered to be independent of management and free from any relationship that could materially interfere with the exercise of the independent judgement.

Board Committees

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

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

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 RCC through the Own Risk and Solvency Assessment (ORSA). A summary of the main risk categories and risk mitigation techniques is outlined below.

Strategic risk

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

The Company manages strategic risk using the following:
- Considering strategic options in light of the impact on return volatility and capital requirements of the syndicates; and
- Planning and monitoring capital levels of the syndicates on an ongoing basis, with reference to regulatory, rating agency and economic requirements.

Credit risk

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

The Company manages credit risk using the following:
- Regularly reviewing our exposure limits and credit quality levels for approved counterparties in relation to deposits and investments;

STRATEGIC REPORT (continued)

Risk management and principal risks and uncertainties (continued)

Group risk

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

The Company manages group risk using the following:

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

Liquidity risk

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

The Company manages liquidity risk using the following:

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

Operational risk

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

The Company manages operational risk using the following:

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

Solvency II and capital adequacy

The Company has been applying the Prudential Regulation Authority (PRA) approved Society of Lloyd's Solvency II internal capital model from 1 January 2016. Acting on behalf of the syndicates, the internal model is an integrated framework to support its objectives by managing risk and capital across the syndicates' business. The internal model has broad scope including: capital modelling; risk identification; mitigation; assessment and monitoring, and is used in the day to day operation of the Company.

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

STRATEGIC REPORT (continued)

Business continuity management

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

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

This Strategic Report was approved by the QBE Underwriting Limited Board of Directors on 13 March 2017 and signed on its behalf by:

D J Winkett

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 2016.

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

Strategic report

The strategic report, which includes details of the Syndicate's principal activities, development, performance and KPI's, risk management framework and governance structure, is set out on pages 3 to 9.

Internal audit

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

Relationship with Managing Agent

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

Statement of Managing Agent's responsibilities

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

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

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

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

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

The Directors of the Managing Agent are responsible for the maintenance and integrity of the company's website 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
13 March 2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2999

Report on the Syndicate annual accounts

Our Opinion

In our opinion, Syndicate 2999's Syndicate annual accounts (the "Syndicate annual accounts"):

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited

The Syndicate annual accounts for the year ended 31 December 2016, included within the Annual Report, comprise:

- the balance sheet as at 31 December 2016;
- the profit and loss account for the year then ended;
- the statement of income and members balances ;
- the statement of cash flows;
- the accounting policies; and
- the notes to the Syndicate annual accounts, which include other explanatory information**.**

The financial reporting framework that has been applied in the preparation of the Syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Opinion on 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 10, 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 2017

PROFIT AND LOSS ACCOUNT -
TECHNICAL ACCOUNT - GENERAL BUSINESS
for the year ended 31 December 2016

	Note	£'000	2016 £'000	£'000	Restated 2015 £'000
Continuing operations					
Earned premiums, net of reinsurance					
Gross premiums written	3	1,073,614		990,459	
Outward reinsurance premiums		(271,261)		(247,390)	
Net premiums written			802,353		743,069
Change in the gross provision for unearned premiums		(98,739)		(49,216)	
Change in the provision for unearned premiums, reinsurers' share		4,994		(16,247)	
			(93,745)		(65,463)
Earned premiums, net of reinsurance			708,608		677,606
Allocated investment return transferred from the non-technical account			25,600		22,922
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(484,930)		(461,264)	
Reinsurers' share		101,212		203,384	
		(383,718)		(257,880)	
Change in the provision for claims					
Gross amount		(114,454)		(15,338)	
Reinsurers' share		30,337		(35,599)	
		(84,117)		(50,937)	
Claims incurred, net of reinsurance			(467,835)		(308,817)
Net operating expenses	4		(269,895)		(260,371)
Balance on the technical account for general business			(3,522)		131,340

The notes set out of pages 21 to 41 form an integral part of these financial statements

PROFIT AND LOSS ACCOUNT - TECHNICAL ACCOUNT - GENERAL BUSINESS

for the year ended 31 December 2016

	Note	£'000	2016 £'000	£'000	Restated 2015 £'000
Discontinued operations					
Earned premiums, net of reinsurance					
Gross premiums written	3	(964)		932	
Outward reinsurance premiums		(5,641)		103	
Net premiums written			(6,605)		1,035
Change in the gross provision for unearned premiums		28		3,507	
Change in the provision for unearned premiums, reinsurers' share		(162)		(2,281)	
			(134)		1,226
Earned premiums, net of reinsurance			(6,739)		2,261
Allocated investment return transferred from the non-technical account			-		-
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(26,861)		(25,486)	
Reinsurers' share		2,816		5,263	
		(24,045)		(20,223)	
Change in the provision for claims					
Gross amount		35,998		40,770	
Reinsurers' share		10,066		(10,276)	
		46,064		30,494	
Claims incurred, net of reinsurance			22,019		10,271
Net operating expenses	4		(347)		(3,454)
Balance on the technical account for general business			14,933		9,078

The notes set out of pages 21 to 41 form an integral part of these financial statements

PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT

for the year ended 31 December 2016

	Note	2016 £'000	Restated 2015 £'000
Balance on the general business technical account		11,411	140,418
Investment income	7(a)	27,814	24,601
Investment expenses and charges	7(b)	(610)	(1,652)
Unrealised losses on investments		(1,604)	(27)
Investment return		25,600	22,922
Allocated investment return transferred to the general business technical account		(25,600)	(22,922)
Non technical account charges		(22,034)	(4,167)
(Loss) / profit for the financial year		(10,623)	136,251

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 21 to 41 form an integral part of these financial statements

STATEMENT OF INCOME AND MEMBERS BALANCES
for the year ended 31 December 2016

	2016 £'000	Restated 2015 £'000
Members balances as at 1 January	148,867	148,548
(Loss) / profit for the financial year	(10,623)	136,251
Payments out of profit to members' personal reserve funds	(179,273)	(135,165)
Other non standard personal expenses	(345)	1,854
Open year profit release	-	(2,621)
Members balances as at 31 December	(41,374)	148,867

The notes set out of pages 21 to 41 form an integral part of these financial statements

BALANCE SHEET
as at 31 December 2016

Assets	Note	2016 £'000	Restated 2015 £'000
Investments			
Other financial investments	8	1,540,581	1,464,685
Derivative financial instrument - assets	9	15,124	2,387
		1,555,705	1,467,072
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	59,400	51,751
Claims outstanding	12	550,808	428,480
		610,208	480,231
Debtors			
Debtors arising out of direct insurance operations	13(i)	442,801	346,497
Debtors arising out of reinsurance operations	13(ii)	180,727	206,380
Other debtors	13(iii)	39,217	6,980
		662,745	559,857
Other assets			
Cash at bank and in hand		45,696	25,192
Overseas deposits	14	171,639	132,909
		217,335	158,101
Prepayments and accrued income			
Accrued interest and rent		5,862	3,664
Deferred acquisition costs		144,156	114,177
Other prepayments and accrued income		613	854
		150,631	118,695
Total assets		3,196,624	2,783,956

The notes set out of pages 21 to 41 form an integral part of these financial statements

BALANCE SHEET
As at 31 December 2016

Liabilities	Note	2016 £'000	Restated 2015 £'000
Members' balance		(41,374)	148,867
Technical provisions			
Provision for unearned premiums	12	647,108	511,546
Claims outstanding	12	2,236,936	1,861,147
		2,884,044	2,372,693
Creditors			
Creditors arising out of direct insurance operations	19(i)	97,411	79,651
Creditors arising out of reinsurance operations	19(ii)	185,541	146,938
Derivative financial instrument - liability	9	-	2,372
Other creditors including taxation and social security	20	67,957	31,087
		350,909	260,048
Accruals and deferred income		3,045	2,348
Total liabilities		3,196,624	2,783,956

These annual accounts on pages 14 to 41 were approved by the Board of QBE Underwriting Limited on 13 March 2017 and were signed on its behalf by:

D J Winkett

Director

The notes set out of pages 21 to 41 form an integral part of these financial statements

STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	Note	2016 £'000	Restated 2015 £'000
Cash flow from operating activities			
Operating (loss) / profit		(10,623)	136,251
Increase in gross technical provisions		518,036	37,606
(Increase) / decrease in reinsurers' share of technical provisions		(130,375)	59,611
(Increase) in debtors		(141,110)	(113,234)
Increase in creditors		88,603	44,627
Investment returns		(25,600)	(22,922)
		298,931	141,939
Cash flows from investing activities			
Purchase of equity and debt instruments		(3,681,817)	(3,465,204)
Sale of equity and debt instruments		3,858,609	3,419,860
Purchase of derivatives		(11,137)	5
Sale of derivatives		7,529	651
Investment income received		27,203	22,895
Foreign exchange		(285,327)	(7,815)
		(84,940)	(29,608)
Cash flow from financing activities			
Distribution profit		(179,273)	(135,165)
Open year profit release		-	(2,621)
		(179,273)	(137,786)
Movement in cash, portfolio investments and financing			
Cash and cash equivalents at the beginning of the year		158,101	185,557
Net increase / (decrease) in cash and cash equivalents		32,769	(23,628)
Foreign exchange movement on cash and cash equivalents		26,465	(3,828)
Cash and cash equivalents at the end of the year		217,335	158,101

	2016 £'000	2015 £'000
Non-cash flow activities		
Unrealised investment income	(1,603)	(27)
Non-standard personal expenses	(346)	1,854

NOTES TO THE ANNUAL ACCOUNTS

for the year ended 31 December 2016

1. Accounting policies

The principal accounting policies adopted in the preparation of these annual accounts are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

(a) Basis of preparation

These annual accounts have been prepared in accordance with regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102'') and Financial Reporting Standard 103 "Insurance Contracts" (''FRS 103'').

These annual accounts incorporate all transactions committed to by the 2016 year of account and prior years of account.

The Directors of the Managing Agent have prepared the 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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

1. Accounting policies (continued)

(b) Basis of accounting for insurance (continued)

(v) Claims provisions and related reinsurance recoveries

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.

Differences between the estimated cost and subsequent re-estimation or settlement of claims are reflected in the technical account for the year in which these claims are re-estimated or settled.

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

(vi) Unexpired risks provision

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

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

(vii) Acquisition costs

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

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

1. Accounting policies (continued)

(b) Basis of accounting for insurance (continued)

(viii) Foreign currency

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

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

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

(ix) Financial assets

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

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

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

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

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

(x) Investment income

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

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

(xi) Taxation

Under Schedule 19 of the Finance Act 1993 Managing Agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from Syndicate investment income is recoverable by Managing Agents and consequently the distribution made to the member is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate on behalf of the 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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

1. Accounting policies (continued)

(b) Basis of accounting for insurance (continued)

(xii) Administrative expenses

Administrative expenses are taken into account on an accrual basis. These recharged expenses include the costs of staff, who are employed by QBE Management Services (UK) Limited. QBE Management Services (UK) Limited operates both defined benefit and defined contribution pension schemes, the expense of which is included in the recharges. The recharged expenses also include the costs of various service and claims handling companies. These companies are wholly owned by QUL.

(xiii) Profit commission

Profit commission is 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 Solvency Capital Requirement (SCR). This is required to reflect the level of capital needed to ensure that the syndicate will remain solvent at the point where all of the liabilities have run-off in 99.5% of future foreseeable scenarios.

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

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

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

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

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2016

3. Segmental information

2016	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Accident and health	5,953	4,877	(1,776)	(1,892)	(451)	758
Motor (third party liability)	12,494	12,495	(8,483)	(4,012)	(390)	(390)
Marine, aviation and transport	124,549	117,554	(57,578)	(24,373)	(10,364)	25,239
Fire and other damage to property	183,546	160,791	(127,166)	(56,638)	(10,451)	(33,464)
Third party liability	256,293	234,662	(166,975)	(75,363)	(2,845)	(10,521)
Credit and suretyship	41,820	26,690	(10,286)	(9,818)	(3,235)	3,351
Miscellaneous	10	10	1,326	(222)	(2,425)	(1,311)
	624,665	557,079	(370,938)	(172,318)	(30,161)	(16,338)
Reinsurance acceptances	447,985	416,860	(219,309)	(113,141)	(82,264)	2,146
Total	1,072,650	973,939	(590,247)	(285,459)	(112,425)	(14,192)
Total continuing operations	1,073,614	974,875	(599,384)	(285,112)	(119,504)	(29,125)
Total discontinued operations	(964)	(936)	9,137	(347)	7,079	14,933

2015 Restated	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)	(6,449)	36,234
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)	(63,684)	79,664
Reinsurance acceptances	289,109	288,246	(137,796)	(87,690)	(24,928)	37,832
Total	991,391	945,682	(461,318)	(278,256)	(88,612)	117,496
Total continuing operations	990,459	941,243	(476,602)	(274,802)	(81,421)	108,418
Total discontinued operations	932	4,439	15,284	(3,454)	(7,191)	9,078

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 2016

3. Segmental information (continued)

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

		2016 £'000	2015 £'000
Europe:	United Kingdom	52,158	57,442
	Other	25,788	19,151
America:	North America	260,382	233,965
	Other	25,169	31,667
Asia		30,622	35,057
Worldwide		637,996	575,784
Other	(including Africa, Oceania and Middle East)	40,535	38,325
		1,072,650	991,391
Total continuing operations		1,073,614	990,459
Total discontinued operations		(964)	932

All premiums were concluded in the UK.

4. Net operating expenses

		2016 £'000	2015 £'000
Acquisition costs:	direct commission	176,485	167,346
	other	62,278	56,197
Changes in deferred acquisition costs		(22,535)	(17,457)
Administrative expenses		69,230	72,170
Reinsurance commission revenue		(15,216)	(14,431)
		270,242	263,825
Total continuing operations		269,895	260,371
Total discontinued operations		347	3,454

Administrative expenses include auditors' remuneration:

	2016 £'000	2015 £'000
Fees payable to the Syndicate's auditor for the audit of the Syndicate's annual accounts	259	285
Other services pursuant to legislation	310	307

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2016

5. 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:	2016 £'000	2015 £'000
Wages and salaries	50,497	49,430
Social security costs	6,147	5,893
Other pension costs	3,254	3,339
	59,898	58,662

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

	2016 Number	2015 Number
Underwriting	211	189
Claims	52	49
Administration	171	212
	434	450

6. 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:

	2016 £'000	2015 £'000
Directors of the Managing Agent	1,823	2,688
Active Underwriters	1,156	945

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

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2016

7. Investment income, expenses and charges

(a) Investment income

	2016 £'000	2015 £'000
Income from investments	27,622	21,552
Net gain on the realisation of investments	192	3,049
	27,814	24,601

(b) Investment expenses and charges

	2016 £'000	2015 £'000
Investment management expenses	610	1,652
	610	1,652

8. Other financial investments

Designated at fair value through profit and loss

	2016		2015	
	Cost £'000	Fair value £'000	Cost £'000	Fair value £'000
Shares and other variable yield securities and units in unit trusts	146,288	163,558	105,170	110,375
Debt securities and other fixed income securities	1,253,447	1,369,328	1,355,975	1,351,787
Loan and deposits with credit institutions	6,635	7,695	2,523	2,523
	1,406,370	1,540,581	1,463,668	1,464,685

The debt securities and other fixed income securities are listed on recognised exchanges. £71,014k of the shares and other variable yield securities and units in unit trusts are listed on recognised exchanges (2015 £55,766k).

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

9. Derivative financial instruments

Fair value	2016 £'000	Restated 2015 £'000
Foreign currency derivatives		
Derivative financial instrument – assets	15,124	2,387
Derivative financial instrument – liabilities	-	(2,372)

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 £649,472k (2015 £340,565k).

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

During the year a loss of £80,217k (2015 gain of £13,270k), relating to such contracts was recognised. This is included in the net foreign exchange gain of £5,165k (2015 loss £7,117k) 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 £nil gain/loss (2015 gain £759k) 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 £nil (2015 £35,347k).

Fixed income derivatives

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

During the year, a loss of £231k (2015 loss £15k) was included in the profit and loss non-technical account relating to these derivatives.

Contractual amounts for fixed income derivatives outstanding at the balance sheet date were £nil (2015 £49,891k).

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2016

10. Valuation hierarchy

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

2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Overseas deposits	32,776	138,863	-	171,639
Deposits with credit institutions	5	-	7,690	7,695
Variable yield securities and units in unit trusts	71,014	92,544	-	163,558
Debt securities and other fixed income securities	335,445	1,033,883	-	1,369,328
Derivatives – assets	-	15,124	-	15,124
	439,240	1,280,414	7,690	1,727,344

2015 Restated	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Overseas deposits	26,109	106,800	-	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 - assets	-	2,387	-	2,387
	296,204	1,303,777	-	1,599,981

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

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

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	2016 £'000	Restated 2015 £'000
At 1 January	-	-
Purchases	6,848	-
Unrealised gains	1,088	-
Redemptions	(246)	-
At 31 December	7,690	-

11. Financial risk

The activities of the Syndicate expose it to financial risks such as market risk (including currency risk, interest rate risk and equity 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.

		2016		2015	
	Movement in variable %	Profit / (loss) £'000	Equity £'000	Profit / (loss) £'000	Equity £'000
US dollar	+10	(2,632)	(2,632)	1,580	1,580
	–10	2,632	2,632	(1,580)	(1,580)
New Zealand dollar	+10	499	499	(278)	(278)
	–10	(499)	(499)	278	278
Euro	+10	(730)	(730)	153	153
	–10	730	730	(153)	(153)
Japanese Yen	+10	290	290	(99)	(99)
	–10	(290)	(290)	99	99

The Syndicate manages its exposure to foreign currencies based on the balance sheet by currency, which 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 2016

11. Financial risk (continued)

(i) Market risk (continued)

Interest rate risk (continued)

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

2016	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	485,996	319,955	213,284	180,268	455,338	1,654,841

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

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

	Movement in variable %	2016 Profit / (loss) £'000	2016 Equity £'000	2015 Profit / (loss) £'000	2015 Equity £'000
Interest rate movement – fixed interest securities	+0.5	(12,280)	(12,280)	(5,264)	(5,264)
	-0.5	11,734	11,734	4,714	4,714

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

11. Financial risk (continued)

(i) Market risk (continued)

Equity price risk

Equity price risk is the risk that the fair value of an equity instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual equity instrument or its issuer, or factors affecting all similar equity instruments traded on the market.

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

The impact has been shown on the basis that equity funds are fully exposed to market price fluctuations. Equity portfolios are from time to time hedged in order to manage this exposure. Exchange traded futures contracts used from time to time to provide the hedges are not perfectly correlated to the composition of the underlying equity fund. As at 31 December 2016, contractual amounts for exchange traded equity derivatives outstanding at the balance sheet date were £nil (2015 £35,347k).

		Financial impact	
	Movement in variable %	2016 Profit / (loss) and equity £'000	2015 Profit / (loss) and equity £'000
United States – S&P 500	+20	8,952	13,008
	-20	(8,952)	(13,008)
Emerging market equities	+20	68	1,568
	-20	(68)	(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 %	2016 Profit / (loss) and equity £'000	2015 Profit / (loss) and equity £'000
United States	+10	3,564	2,776
	-10	(3,564)	(2,776)

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2016

11. 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.

92.3% (2015 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. 95.0% (2015 95.0%) 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 £17,937k (2015 £33,607k) as collateral against credit risk.

The following table provides information regarding the carrying value of the Syndicate's financial assets. No amounts are past due or impaired at the balance sheet date.

	2016 £'000	Restated 2015 £'000
Other interest bearing investments	1,654,841	1,530,752
Other financial investments	103,075	92,034
Derivative financial instrument – assets	15,124	2,387
Other debtors	39,217	6,980
Debtors arising out of direct insurance operations	442,801	346,497
Debtors arising out of reinsurance operations	180,727	206,380
	2,435,785	2,185,030

(iii) Liquidity risk

Liquidity risk is the risk of holding insufficient liquid assets to meet liabilities as they fall due to creditors, or only being able to do so at excessive cost.

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

At 31 December 2016, the average duration of cash and fixed interest securities was 1.8 years (2015 0.8 years).

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

	2016		Restated 2015	
	Within 1 year £'000	Over 1 year £'000	Within 1 year £'000	Over 1 year £'000
Trade and other payables	350,909	-	257,676	-
Derivative financial instruments	-	-	2,372	-
	350,909	-	260,048	-

The Syndicate has no significant concentration of liquidity risk.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2016

12. Technical provisions

2016 **Gross**	**Provision for unearned premium £'000**	**Claims outstanding £'000**	**Net £'000**
At 1 January	511,546	1,861,147	2,372,693
Movement per technical account	98,711	78,456	177,167
Foreign exchange	36,851	297,154	334,005
Other movement	-	179	179
At 31 December	647,108	2,236,936	2,884,044
Reinsurance			
At 1 January	51,751	428,480	480,231
Movement per technical account	4,832	40,403	45,235
Foreign exchange	2,817	79,671	82,488
Other movement	-	2,254	2,254
At 31 December	59,400	550,808	610,208

2015 **Gross**	**Provision for unearned premium £'000**	**Restated Claims outstanding £'000**	**Restated Net £'000**
At 1 January	473,303	1,861,784	2,335,087
Movement per technical account	45,709	(25,432)	20,277
Foreign exchange	(20,465)	18,111	(2,354)
Other movement	12,999	6,684	19,683
At 31 December	511,546	1,861,147	2,372,693
Reinsurance			
At 1 January	71,777	468,064	539,841
Movement per technical account	(18,528)	(45,875)	(64,403)
Foreign exchange	1,420	5,893	7,313
Other movement	(2,918)	398	(2,520)
At 31 December	51,751	428,480	480,231

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

13. Debtors

(i) Debtors arising out of direct insurance operations

	2016 £'000	2015 £'000
Due within one year		
Due from policyholders	1,026	958
Due from intermediaries	441,452	344,321
Due after one year		
Due from intermediaries	323	1,218
	442,801	346,497

(ii) Debtors arising out of reinsurance operations

	2016 £'000	2015 £'000
Due within one year	179,954	205,224
Due after one year	773	1,156
	180,727	206,380

(iii) Other debtors

	2016 £'000	2015 £'000
Salvage and subrogation	4,212	6,286
Unsettled investment trade debtors	34,760	403
Amounts due from Group undertakings	245	291
	39,217	6,980

14. Overseas deposits

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

	2016 £'000	2015 £'000
Joint Asset Trust Funds	9,635	10,034
Canadian Margin Fund	73,520	47,586
Kentucky Trust Funds	4,614	3,004
Australian Trust Funds	55,803	50,138
South African Trust Funds	11,929	7,515
Additional Securities Overseas deposit	14,057	12,512
Additional Securities Illinois deposit	2,081	2,120
	171,639	132,909

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

15. Outstanding claims – claims development

2016	2010 and prior £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
At end of year		316,705	267,499	205,180	170,635	184,704	283,311	
One year later		543,818	461,215	404,672	352,622	428,704		
Two years later		558,089	512,762	449,989	454,461			
Three years later		557,597	495,799	475,006				
Four years later		541,535	509,529					
Five years later		552,598						
Current estimate of net cumulative claims cost		552,598	509,529	475,006	454,461	428,704	283,311	
Cumulative net claims payments to date		(438,371)	(351,167)	(265,138)	(195,254)	(107,046)	(39,566)	
Net outstanding claims	379,061	114,227	158,362	209,868	259,207	321,658	243,745	1,686,128

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

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

16. Concentration of insurance risk

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

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

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

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2016

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

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

	Sensitivity	Profit / (loss) 2016	Profit / (loss) Restated 2015
	%	£'000	£'000
Net claims outstanding	+5	67,445	57,128
	-5	(67,445)	(57,128)
Sterling to US dollar exchange rate	+10	66,070	58,482
	-10	(66,070)	(58,482)
Sterling to Australian Dollar exchange rate	+10	4,834	3,474
	-10	(4,834)	(3,474)
Sterling to Euro exchange rate	+10	8,959	6,746
	-10	(8,959)	(6,746)
Sterling to Canadian exchange rate	+10	16,656	11,647
	-10	(16,656)	(11,647)

18. Maturity profile of net outstanding claims

	1 year or less £'000	1 to 2 years £'000	2 to 3 years £'000	3 to 4 years £'000	4 to 5 years £'000	Over 5 years £'000	Total £'000
2016	513,248	337,706	227,947	157,290	113,232	336,705	1,686,128
2015 (Restated)	433,164	278,562	192,026	135,310	97,020	296,585	1,432,667

19. Creditors

(i) Creditors arising out of direct insurance operations

	2016 £'000	2015 £'000
Due within one year		
Due to policyholders	986	814
Due to intermediaries	96,425	78,837
	97,411	79,651

(ii) Creditors arising out of reinsurance operations

	2016 £'000	2015 £'000
Due within one year	185,541	146,927
Due after one year	-	11
	185,541	146,938

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

20. Other creditors including taxation and social security

	2016 £'000	2015 £'000
Due within one year		
Unsettled investment trade creditors	45,958	4,506
Amounts due to group undertakings	20,818	22,901
Taxation and social security	745	3,244
Other creditors	436	436
	67,957	31,087

21. Presentation of prior year comparatives

(i) Derivative financial instruments

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

The impact of this change in presentation is:

	2015 Restated presentation £'000	2015 Previous presentation £'000
Derivative financial instruments - assets	2,387	5,342
Derivative financial instruments - liabilities	(2,372)	(5,327)

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

(ii) Restatement of reinsurance recoveries

The prior year profit and loss account, and balance sheet, have has been restated to recognise a reduction of £13,133k in the reinsurance recoveries against specific IBNR. The impact of this adjustment was a loss of £13,133k in the profit and loss and an increase in the balance sheet outstanding claims provision of £13,133k.

On 31 December 2015 the Syndicate commuted two large casualty reinsurance agreements with Equator Re. Due to the timing of these transactions there were certain financial movements which should have been included in the 2015 financial statement. A detailed review of the historic premium and assumed recoveries resulted in additional reinsurance earned premium of approximately £300k during 2016 (2014 & prior) and a reduction in reinsurance recoveries of approximately £13,133k.

Set out below are the changes in profit for the financial year ended 31 December 2015 and the Members' balances as at 1 January 2015 and 31 December 2015.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2016

21. Presentation of prior year comparatives (continued)

(a) Profit for the year ended 31 December 2015

	2015 Restated presentation £'000	2015 Previous presentation £'000
Claims incurred, net of reinsurance, reinsurers share (continuing operations)	(35,599)	(22,466)
Balance on the technical account for general business	131,340	144,473
Profit for the financial year	136,251	149,384

(b) Total equity

	2015 Restated presentation £'000	2015 Previous presentation £'000
Members' balance	148,867	162,000

There are no tax effects in these Syndicate accounts.

22. Related parties

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

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

All transactions between the Syndicate and companies within the 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 £12,009k (2015 £11,232k) were written in the year with related QBE companies. All such contracts are written on normal market terms on an arm's length basis. At the year end there was a £5,074k (2015 £11,318k) share of technical provisions.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2016

22. Related parties (continued)

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 £107,146k (2015 £126,725k) 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 £21,535k (2015 £46,385k). Balances due from related QBE companies in respect of reinsurers' share of technical provisions were £23,618k (2015 £46,873k).

Administrative expenses

Total expenses recharged from QBE Partner Services (Europe) LLP in respect of services provided to the Syndicate amounted to £115,376k (2015 £114,864k). The balance outstanding at year end with QBE Partner Services (Europe) LLP is £25,455k (2015 £13,184k). 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.

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