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QBE Syndicate 2999 Annual report 2017

QBE

QBE Syndicate 2999

Annual Report

31 December 2017

ANNUAL REPORT
for the year ended 31 December 2017

MANAGING AGENCY – CORPORATE INFORMATION

Directors

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

* non-executive Directors

Company secretary

A J Smith

Registered office

Plantation Place
30 Fenchurch Street
London
EC3M 3BD

Independent auditors

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

STRATEGIC REPORT

The Directors of QBE Underwriting Limited, the Managing Agent for QBE Syndicate 2999 (the Syndicate), present their Strategic report for the Syndicate for the year ended 31 December 2017.

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 2017 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	Multi-line facility business

Following the restructure in 2017 of QBE European Operations (QBE EO or EO) Retail and International Markets divisions, into a single Insurance Division, led by Sam Harrison, Managing Director, coupled with EO's reinsurance franchise, QBE Re, led by Jonathan Parry, CUO, the Syndicate continues to offer a diverse range of insurance and reinsurance products via an extensive distribution network.

Business review, key performance indicators, and future developments

	2017 Total £000	Restated 2016 Total £000
Gross written premium	1,169,175	1,072,650
Net earned premiums	791,266	701,869
Net claims	(572,215)	(445,816)
Acquisition costs	(231,484)	(201,012)
Other net operating expenses	(76,275)	(69,230)
Net underwriting loss	(88,708)	(14,189)
Investment return	33,003	25,600
Non-technical account credit / (charge)	43,598	(22,034)
Loss for the year	(12,107)	(10,623)
Claims ratio	72.3%	63.5%
Combined operating ratio	111.2%	102.0%

The net underwriting loss reported in 2016 included the non-technical account credit / charge. In the current year the non-technical account credit / charge is presented below the net underwriting loss. This results in a 2016 combined operating ratio of 102.0% (previously 105.2%). There is no impact to the loss for the year from this change in presentation.

The Active Underwriters' comment as follows:

The 2017 financial year has produced a combined operating ratio of 111.2% (2016 102.0%).

The year was dominated by two principal themes: continued pricing pressure across all lines, and; exceptional catastrophe loss experience, including hurricanes Harvey, Irma and Maria (HIM).

The gross written premium growth of 9% relative to 2016 was predominantly due to a significantly weaker sterling, offsetting shortfalls in London market business, particularly Energy.

STRATEGIC REPORT (continued)

Active Underwriters' comment (continued)

Despite continued challenging market conditions, particularly with regards new business opportunities, overall rate decreases of -1.4% for the year were better than plan, driven primarily by Ogden discount rate changes and some positive post-HIM reaction, albeit too late in the year to have a material impact.

The Syndicate experienced significant catastrophe losses from HIM, resulting in a higher overall gross catastrophe claims experience relative to the 2017 plan, albeit within risk tolerance and materially mitigated by the Syndicate's reinsurance protections. Whilst market estimates for HIM catastrophes continue to vary significantly, the Syndicate's ultimate reserve estimates remain both in line with initial estimates and within reinsurance limits.

In addition the Syndicate suffered a higher incidence of large losses (greater than US$2,500k) relative to plan, contributing to an overall net underwriting loss of £88,708k.

The net underwriting loss for 2016 of £14,189k included the anticipated impact of the announcement from the Ministry of Justice, reducing the statutory discount rate applied to certain UK personal injury claims (referred to as Ogden tables) to -0.75%. This impact primarily arose from sub-Syndicate 566's casualty treaty account. The UK government's subsequent decision to revise its proposals for the Ogden discount rate to an expected range of between 0% and 1%, has been reflected in the 2017 result with an assumed rate of +0.25%. Any further advice from the Justice Committee will be monitored closely.

Outlook

Although HIM losses occurred too late to have any material impact on premium rates for the 2017 year, the expectation for the 2018 year is for an improved rating environment, particularly on loss impacted portfolios. Whilst both the quantum and longevity of these improved market conditions remains a matter of uncertainty, Syndicate 2999 continues to maintain its lead profile and as a consequence expects to benefit from the improved rating environment. The Syndicate has pre-empted its stamp capacity by £80,000k or 7.8% from £1,020,000k to £1,100,000k.

For 2018 the focus will remain on further improving the Syndicate's already strong business, with particular emphasis on pricing discipline and rectification of poor performing portfolios whilst keeping customers at the centre of its strategy.

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

Investment policy

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

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

Responsibility for the oversight and monitoring of the asset / liability strategy falls within the remit of the QBE European Operations investment committee. Risks monitored include the matching of investment assets and the liabilities generated by insurance activities. In 2017 the Syndicate held investments with shorter average duration than would normally be expected if it were wholly matching the duration of liabilities relating to long-tail classes of business.

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

STRATEGIC REPORT (continued)

Investment policy (continued)

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 certain regulatory overseas deposits managed directly by Lloyd's. The combined currency total return for the year was 2.3% (2016 1.6%).

Portfolio currency	2017 Average funds £'000	2017 Average return %	2017 Target return %	2016 Average funds £'000	2016 Average return %	2016 Target return %
Australian dollar	106,670	1.6	2.4	84,148	2.7	2.0
Canadian dollar	559,269	0.6	1.0	451,370	1.4	0.9
Euro	169,867	1.0	2.9	127,043	1.3	0.6
Sterling	29,040	0.1	3.1	186,072	2.0	0.8
US dollar	698,634	4.2	2.0	823,911	1.4	2.4
S African rand	8,433	8.4	8.1	7,775	8.5	8.6

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

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

The primary currency of the Syndicate outperformed its respective currency target for the year by sufficient margin to negate underperformance in other currencies, as a result overall performance for the Syndicate was ahead of the annual weighted target return of 1.9% (2016 1.7%).

During 2017, the Syndicate's fixed income portfolios continued to be managed conservatively with average duration of between one and two years. Through the investment manager's cautious stance, the Syndicate has not incurred any credit defaults or write downs in any of its fixed interest portfolios.

Corporate governance

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

During 2017, the Company's corporate governance structure and system of governance has continued to evolve, reflecting the Boards' ongoing commitment to ensuring that it remains efficient, relevant and supportive of the strategic aims of the Company. The structure continues to comply with all relevant regulatory and legal requirements, including the Lloyd's governance standards. As a member of the QBE Group, the Company is not bound by the UK Corporate Governance Code. However, as a matter of best practice, the Company's Board seeks to comply with the Code, where practical and relevant.

Key changes to the corporate governance structure during the year included the formalisation of the Conduct Risk Group ('CRG') as a formal sub-group of the RCC. The CRG was originally established in 2013 and its responsibilities include the identification, assessment, mitigation and oversight of Conduct Risk.

STRATEGIC REPORT (continued)

Corporate governance (continued)

In particular, the CRG monitors and provides customer challenge to high product risk areas. Given the importance of its responsibilities, in November 2017 the RCC agreed that the CRG should become part of the formal corporate governance structure.

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

In May and June 2017, the Board undertook a Board Effectiveness Review. The Review was conducted by the Chairman of the Boards, supported by QBE EO Company Secretarial. A series of minor recommendations to support continuous improvement of effectiveness arising from the Review were discussed and agreed by the Boards.
A Board away day was held in May, providing the opportunity for the Boards to focus on strategy (with presentations from senior management) and to meet more informally. In November, a further strategy session was held in order to discuss progress on strategic priorities. The non-executive Director engagement was further supported through informal meetings exclusively for QBE EO non-executive Directors and meetings with non-executive Directors from the QBE Group Board.

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

The Board of QBE Underwriting Limited

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

The role of the Chairman of the Board is distinct from that of the Chief Executive Officer, and each role is clearly established. The Board considers that the experience and areas of focus which each Board member brings to EO plc results in a strong and balanced leadership team to set and monitor the strategy and values of the Company.
In conjunction with QBE Group and supported by the Remuneration and Nomination Committee, succession planning is undertaken in accordance with the world-class talent objective, which forms part of the strategic priorities of both QBE EO and QBE Group.

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

Board Committees

The Boards of QBE European Operations plc and the Regulated Companies, including the Company, have jointly constituted Board Committees. The Committees all comprise appropriately skilled members and are supported by attendees as necessary.

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

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

Strategic risk

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

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

Insurance risk

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

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

Credit risk

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

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

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

Market risk

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

The Company manages market risk as follows:
- Actively managing investment assets;
- Performing asset and liability management to actively manage our exposure to yield curve fluctuations;
- Maintaining a diversified portfolio; and
- Hedging residual non-functional currency net asset exposures.

Liquidity risk

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

The Company manages liquidity risk using the following**:**
- Setting minimum levels of liquid, short term money market securities;
- Stress testing of liquidity relative to major catastrophe events; and
- Matching assets and liabilities in our major currency positions.

Operational risk

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

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

Solvency II and capital adequacy

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

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

STRATEGIC REPORT (continued)

Business continuity management

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

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

This Strategic Report was approved by the QBE Underwriting Limited Board of Directors on 15 March 2018 and signed on its behalf by:

D J Winkett

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 2017.

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

Strategic report

The strategic report, which includes details of the Syndicate's principal activities, development, performance and KPI's, risk management framework and governance structure, is set out on pages 3 to 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 information relevant to the audit of the Syndicate’s annual accounts for the year ended 31 December 2017 of which the auditors are unaware; and
- the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of, and to establish that the Syndicate’s auditors are aware of, any relevant audit information.

Independent auditors

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

On behalf of the Board of the Managing Agent,

D J Winkett

Director
QBE Underwriting Limited
London
15 March 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2999

Report on the Syndicate annual accounts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Responsibilities for the syndicate annual accounts and the audit
Responsibilities of the managing agent for the syndicate annual accounts
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 10, the managing agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

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

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

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

Use of this report
This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- certain disclosures of managing agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

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

PROFIT AND LOSS ACCOUNT - TECHNICAL ACCOUNT - GENERAL BUSINESS

for the year ended 31 December 2017

	Note	£'000	2017 £'000	£'000	2016 £'000
Continuing operations					
Earned premiums, net of reinsurance					
Gross premiums written	3	1,169,036		1,073,614	
Outward reinsurance premiums		(349,642)		(271,261)	
Net premiums written			819,394		802,353
Change in the gross provision for unearned premiums		(38,153)		(98,739)	
Change in the provision for unearned premiums, reinsurers' share		15,053		4,994	
			(23,100)		(93,745)
Earned premiums, net of reinsurance			796,294		708,608
Allocated investment return transferred from the non-technical account			33,003		25,600
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(727,162)		(484,930)	
Reinsurers' share		140,575		101,212	
		(586,587)		(383,718)	
Change in the provision for claims					
Gross amount		(331,648)		(114,454)	
Reinsurers' share		352,222		30,337	
		20,574		(84,117)	
Claims incurred, net of reinsurance			(566,013)		(467,835)
Net operating expenses	4		(303,975)		(269,895)
Balance on the technical account for general business – continuing operations			(40,691)		(3,522)

The notes set out on pages 22 to 41 form an integral part of these annual accounts

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

	Note	£'000	2017 £'000	£'000	2016 £'000
Discontinued operations					
Earned premiums, net of reinsurance					
Gross premiums written	3	139		(964)	
Outward reinsurance premiums		(5,328)		(5,641)	
Net premiums written			(5,189)		(6,605)
Change in the gross provision for unearned premiums		134		28	
Change in the provision for unearned premiums, reinsurers' share		27		(162)	
			161		(134)
Earned premiums, net of reinsurance			(5,028)		(6,739)
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(33,295)		(26,861)	
Reinsurers' share		6,276		2,816	
		(27,019)		(24,045)	
Change in the provision for claims					
Gross amount		25,913		35,998	
Reinsurers' share		(5,096)		10,066	
		20,817		46,064	
Claims incurred, net of reinsurance			(6,202)		22,019
Net operating expenses	4		(3,784)		(347)
Balance on the technical account for general Business – discontinued operations			(15,014)		14,933

The notes set out on pages 22 to 41 form an integral part of these annual accounts

PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT

for the year ended 31 December 2017

	Note	2017 £'000	Restated 2016 £'000
Balance on the general business technical account		(55,705)	11,411
Investment income	7(a)	44,741	45,330
Unrealised gains on investments		234,767	183,211
Investment expenses and charges	7(b)	(16,606)	(18,127)
Unrealised losses on investments		(229,899)	(184,814)
Investment return		33,003	25,600
Allocated investment return transferred to the general business technical account		(33,003)	(25,600)
Non-technical account income / (charges)		43,598	(22,034)
Loss for the financial year		(12,107)	(10,623)

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 loss for the financial year stated above and their historical cost equivalents.

The notes set out on pages 22 to 41 form an integral part of these annual accounts

STATEMENT OF INCOME AND MEMBERS BALANCES

for the year ended 31 December 2017

	2017 £'000	2016 £'000
Members' balances as at 1 January	(41,374)	148,867
Loss for the financial year	(12,107)	(10,623)
Payments out of profit to members' personal reserve funds	(134,711)	(179,273)
Other non-standard personal expenses	255	(345)
Members' balances as at 31 December	(187,937)	(41,374)

The notes set out on pages 22 to 41 form an integral part of these annual accounts

BALANCE SHEET
as at 31 December 2017

Assets	Note	2017 £'000	2016 £'000
Investments			
Other financial investments	8	1,261,072	1,540,581
Derivative financial instrument - assets	9	15,389	15,124
		1,276,461	1,555,705
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	67,490	59,400
Claims outstanding	12	859,202	550,808
		926,692	610,208
Debtors			
Debtors arising out of direct insurance operations	13(i)	378,166	442,801
Debtors arising out of reinsurance operations	13(ii)	176,837	180,727
Other debtors	13(iii)	19,759	39,217
		574,762	662,745
Other assets			
Cash at bank and in hand		38,404	45,696
Overseas deposits	14	192,552	171,639
		230,956	217,335
Prepayments and accrued income			
Accrued interest and rent		6,218	5,862
Deferred acquisition costs		153,614	144,156
Other prepayments and accrued income		3,212	613
		163,044	150,631
Total assets		3,171,915	3,196,624

The notes set out on pages 22 to 41 form an integral part of these annual accounts

BALANCE SHEET
As at 31 December 2017

Liabilities	Note	2017 £'000	2016 £'000
Members' balance		(187,937)	(41,374)
Technical provisions			
Provision for unearned premiums	12	624,066	647,108
Claims outstanding	12	2,434,540	2,236,936
		3,058,606	2,884,044
Creditors			
Creditors arising out of direct insurance operations	19(i)	51,486	97,411
Creditors arising out of reinsurance operations	19(ii)	211,329	185,541
Other creditors including taxation and social security	20	31,422	67,957
		294,237	350,909
Accruals and deferred income		7,009	3,045
Total liabilities		3,171,915	3,196,624

These annual accounts on pages 15 to 41 were approved by the Board of QBE Underwriting Limited on 15 March 2018 and were signed on its behalf by:

D J Winkett

Director

The notes set out on pages 22 to 41 form an integral part of these annual accounts

STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	2017 £'000	Restated 2016 £'000
Cash flow from operating activities		
Operating loss	(12,107)	(10,623)
Increase in gross technical provisions	174,562	518,036
Increase in reinsurers' share of technical provisions	(316,485)	(130,375)
Decrease / (increase) in debtors	75,570	(141,110)
(Decrease) / increase in creditors	(52,707)	88,603
Investment return	(33,003)	(25,600)
Foreign exchange	115,280	(285,327)
Non-standard personal expenses	255	(346)
	(48,635)	13,258
Cash flows from investing activities		
Purchase of equity and debt instruments	(3,785,752)	(3,681,817)
Sale of equity and debt instruments	3,953,889	3,858,609
Purchase of derivatives	(458)	(11,137)
Sale of derivatives	450	7,529
Investment income received	28,134	27,203
Unrealised investment gain / (loss)	4,868	(1,603)
	201,131	198,784
Cash flow from financing activities		
Distribution profit	(134,711)	(179,273)
	(134,711)	(179,273)
Movement in cash, portfolio investments and financing		
Cash and cash equivalents at the beginning of the year	217,335	158,101
Net increase in cash and cash equivalents	17,785	32,769
Foreign exchange movement on cash and cash equivalents	(4,164)	26,465
Cash and cash equivalents at the end of the year	230,956	217,335

The notes set out on pages 22 to 41 form an integral part of these annual accounts

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

1. Accounting policies

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

(a) Basis of preparation

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

These annual accounts incorporate all transactions committed to by the 2017 year of account and prior years of account.

The Directors of the Managing Agent have prepared the annual accounts on the basis that the Syndicate will continue to write 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 2017

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 2017

1. Accounting policies (continued)

(b) Basis of accounting for insurance (continued)

(viii) Foreign currency

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

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

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

(ix) Financial assets

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

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

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

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

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

(x) Investment income

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

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

(xi) Taxation

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

No provision has been made for any United States Federal Income tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate on behalf of the 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 2017

1. Accounting policies (continued)

(b) Basis of accounting for insurance (continued)

(xii) Administrative expenses

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

(xiii) Profit commission

Profit commission is 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 2017

3. Segmental information

2017	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Accident and health	10,893	9,497	(5,070)	(3,667)	(256)	504
Motor (third party liability)	11,586	10,604	(10,383)	(3,389)	2,083	(1,085)
Marine, aviation and transport	135,811	140,247	(140,276)	(31,608)	25,650	(5,987)
Fire and other damage to property	210,745	192,433	(218,147)	(76,156)	81,168	(20,702)
Third party liability	281,460	276,365	(226,899)	(75,865)	17,703	(8,696)
Credit and suretyship	55,532	31,180	(8,432)	(12,987)	(3,289)	6,472
	706,027	660,326	(609,207)	(203,672)	123,059	(29,494)
Reinsurance acceptances	463,148	470,830	(456,985)	(121,769)	48,710	(59,214)
Total	1,169,175	1,131,156	(1,066,192)	(325,441)	171,769	(88,708)
Total continuing operations	1,169,036	1,130,883	(1,058,810)	(321,657)	175,890	(73,694)
Total discontinued operations	139	273	(7,382)	(3,784)	(4,121)	(15,014)

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

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 2017

3. Segmental information (continued)

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

		2017 £'000	2016 £'000
Europe:	United Kingdom	57,771	52,158
	Other	24,612	25,788
America:	North America	290,850	260,382
	Other	30,038	25,169
Asia		39,373	30,622
Worldwide		686,287	637,996
Other	(including Africa, Oceania and Middle East)	40,244	40,535
		1,169,175	1,072,650
Total continuing operations		1,169,036	1,073,614
Total discontinued operations		139	(964)

All premiums were concluded in the UK.

4. Net operating expenses

		2017 £'000	2016 £'000
Acquisition costs:	direct commission	210,160	176,485
	other	58,171	62,278
Changes in deferred acquisition costs		(19,165)	(22,535)
Administrative expenses		76,275	69,230
Reinsurance commission revenue		(17,682)	(15,216)
		307,759	270,242
Total continuing operations		303,975	269,895
Total discontinued operations		3,784	347

Administrative expenses include auditors' remuneration:

	2017 £'000	2016 £'000
Fees payable to the Syndicate's auditors' for the audit of the Syndicate's annual accounts	277	259
Other services pursuant to legislation	338	310

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

5. Employees

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

6. Directors' emoluments

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

	2017 £'000	2016 £'000
Directors of the Managing Agent	2,135	1,823
Active Underwriters	988	1,156

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

7. Investment income, expenses and charges

(a) Investment income

	2017 £'000	Restated 2016 £'000
Income from investments	28,436	27,622
Gains on the realisation of investments	16,305	17,708
	44,741	45,330

(b) Investment expenses and charges

	2017 £'000	Restated 2016 £'000
Investment management expenses	1,645	610
Losses on the realisation of investments	14,961	17,517
	16,606	18,127

8. Other financial investments

Designated at fair value through profit and loss

	2017 Cost £'000	2017 Fair value £'000	2016 Cost £'000	2016 Fair value £'000
Shares and other variable yield securities and units in unit trusts	118,303	129,883	146,288	163,558
Debt securities and other fixed income securities	1,112,854	1,113,267	1,253,447	1,369,328
Loan and deposits with credit institutions	17,671	17,922	6,635	7,695
	1,248,828	1,261,072	1,406,370	1,540,581

The debt securities and other fixed income securities are listed on recognised exchanges. £40,677k of the shares and other variable yield securities and units in unit trusts are listed on recognised exchanges (2016 £71,014k).

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2017

9. Derivative financial instruments

Fair value	2017 £'000	2016 £'000
Foreign currency derivatives		
Derivative financial instrument – assets	15,389	15,124

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 £410,790k (2016 £649,472k).

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

During the year a gain of £19,083k (2016 loss £80,217k), relating to such contracts was recognised in the profit and loss non-technical account.

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 £15k (2016 loss £231k) was included in the profit and loss non-technical account relating to these derivatives.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2017

10. Valuation hierarchy

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

2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Overseas deposits	17,347	175,205	-	192,552
Deposits with credit institutions	-	3,796	-	3,796
Variable yield securities and units in unit trusts	40,677	47,545	41,661	129,883
Debt securities and other fixed income securities	229,681	883,586	14,126	1,127,393
Derivatives – assets	-	15,389	-	15,389
	287,705	1,125,521	55,787	1,469,013

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

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

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

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

Movements in level 3 investments	2017 £'000	2016 £'000
At 1 January	7,690	-
Purchases	50,149	6,848
Unrealised (losses) / gains	(1,507)	1,088
Redemptions	(545)	(246)
At 31 December	55,787	7,690

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2017

11. Financial risk

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

		2017		2016	
	Movement in variable %	Profit / (loss) £'000	Equity £'000	Profit / (loss) £'000	Equity £'000
US dollar	+10	(4,510)	(4,510)	(2,632)	(2,632)
	–10	4,510	4,510	2,632	2,632
New Zealand dollar	+10	30	30	499	499
	–10	(30)	(30)	(499)	(499)
Euro	+10	244	244	(730)	(730)
	–10	(244)	(244)	730	730
Japanese Yen	+10	321	321	290	290
	–10	(321)	(321)	(290)	(290)

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 2017

11. Financial risk (continued)

(i) Market risk (continued)

Interest rate risk (continued)

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

2017	Floating interest rate	Fixed interest rate maturing in				Total
		1 year or less	1 to 2 years	2 to 3 years	3 years over	
	£'000	£'000	£'000	£'000	£'000	£'000
Interest bearing assets	165,807	204,243	463,674	273,750	257,936	1,365,410

2016	Floating interest rate	Fixed interest rate maturing in				Total
		1 year or less	1 to 2 years	2 to 3 years	3 years over	
	£'000	£'000	£'000	£'000	£'000	£'000
Interest bearing assets	485,996	319,955	213,284	180,268	455,338	1,654,841

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

		2017		2016	
	Movement in variable %	Profit / (loss) £'000	Equity £'000	Profit / (loss) £'000	Equity £'000
Interest rate movement – fixed interest securities	+0.5	(9,594)	(9,594)	(12,280)	(12,280)
	-0.5	8,735	8,735	11,734	11,734

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 2017, contractual amounts for exchange traded equity derivatives outstanding at the balance sheet date were £nil (2016 £nil).

		Financial impact	
	Movement in variable %	2017 Profit / (loss) and equity £'000	2016 Profit / (loss) and equity £'000
United States – S&P 500	+20	4,044	8,952
	-20	(4,044)	(8,952)
Emerging market equities	+20	1,866	68
	-20	(1,866)	(68)
EURO STOXX	+20	1,836	-
	-20	(1,836)	-

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 %	2017 Profit / (loss) and equity £'000	2016 Profit / (loss) and equity £'000
United States	+10	2,629	3,564
	-10	(2,629)	(3,564)
Europe	+10	241	-
	-10	(241)	-

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2017

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% (2016 92.3%) of total fixed interest and cash investments are with counterparties having a Standard & Poors's rating of A or better. The Syndicate does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings. The Syndicate only uses derivatives in highly liquid markets.

The reinsurers' share of claims outstanding is also exposed to credit risk. 97.6% (2016 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 £17,433k (2016 £17,937k) as collateral against credit risk.

The following table provides information regarding the carrying value of the Syndicate's financial assets.

2017	Neither past due nor impaired £'000	Past due by: Up to 3 months £'000	3 to 6 months £'000	6 months to 1 year £'000	Greater than 1 year £'000	Total £'000
Other interest bearing investments	1,365,410	-	-	-	-	1,365,410
Other financial investments	126,617	-	-	-	-	126,617
Derivative financial instrument – assets	15,389	-	-	-	-	15,389
Other debtors	19,759	-	-	-	-	19,759
Debtors arising out of direct insurance operations	378,166	-	-	-	-	378,166
Debtors arising out of reinsurance operations	124,519	25,990	7,356	6,616	12,356	176,837
	2,029,860	25,990	7,356	6,616	12,356	2,082,178

2016	Neither past due nor impaired £'000	Past due by: Up to 3 months £'000	3 to 6 months £'000	6 months to 1 year £'000	Greater than 1 year £'000	Total £'000
Other interest bearing investments	1,654,841	-	-	-	-	1,654,841
Other financial investments	103,074	-	-	-	-	103,074
Derivative financial instrument – assets	15,124	-	-	-	-	15,124
Other debtors	39,217	-	-	-	-	39,217
Debtors arising out of direct insurance operations	442,801	-	-	-	-	442,801
Debtors arising out of reinsurance operations	140,720	25,722	2,405	3,576	8,304	180,727
	2,395,778	25,722	2,405	3,576	8,304	2,435,785

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2017

11. Financial risk (continued)

(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 are held in liquid, short term money market securities to ensure there are sufficient liquid funds available to meet current obligations.

At 31 December 2017, the average duration of cash and fixed interest securities was 1.7 years (2016 1.8 years).

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

	2017 £'000	2016 £'000
Trade and other payables	294,237	350,909
	294,237	350,909

All amounts are due within one year. The Syndicate has no significant concentration of liquidity risk.

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

12. Technical provisions

2017

Gross	Provision for unearned premium £'000	Claims outstanding £'000	Net £'000
At 1 January	647,108	2,236,936	2,884,044
Movement per technical account	38,019	305,735	343,754
Foreign exchange	(61,061)	(108,131)	(169,192)
At 31 December	624,066	2,434,540	3,058,606
Reinsurance			
At 1 January	59,400	550,808	610,208
Movement per technical account	15,079	347,126	362,205
Foreign exchange	(6,989)	(38,732)	(45,721)
At 31 December	67,490	859,202	926,692

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

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

13. Debtors

(i) Debtors arising out of direct insurance operations

	2017 £'000	2016 £'000
Due within one year		
Due from policyholders	1,148	1,026
Due from intermediaries	376,769	441,452
Due after one year		
Due from intermediaries	249	323
	378,166	442,801

(ii) Debtors arising out of reinsurance operations

	2017 £'000	2016 £'000
Due within one year	176,633	179,954
Due after one year	204	773
	176,837	180,727

(iii) Other debtors

	2017 £'000	2016 £'000
Salvage and subrogation	6,383	4,212
Unsettled investment trade debtors	4,442	34,760
Trade debtors	2,387	-
Amounts due from Group undertakings	6,547	245
	19,759	39,217

14. Overseas deposits

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

	2017 £'000	2016 £'000
Joint Asset Trust Funds	9,367	9,635
Canadian Margin Fund	82,337	73,520
Kentucky Trust Funds	2,927	4,614
Australian Trust Funds	77,215	55,803
South African Trust Funds	6,886	11,929
Additional Securities Limited Overseas deposit	11,807	14,057
Additional Securities Limited Illinois deposit	2,013	2,081
	192,552	171,639

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2017

15. Outstanding claims – claims development

2017	2010 and prior £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	Total £'000
At end of year		314,568	266,399	203,827	169,601	183,877	281,076	315,776	
One year later		534,251	449,860	396,084	345,927	422,512	504,163		
Two years later		541,974	493,957	435,623	441,363	490,671			
Three years later		536,287	473,157	457,978	419,204				
Four years later		519,120	485,945	410,662					
Five years later		528,141	459,753						
Six years later		526,354							
Current estimate of net cumulative claims cost		526,354	459,753	410,662	419,204	490,671	504,163	315,776	
Cumulative net claims payments to date		(455,555)	(362,639)	(277,536)	(277,283)	(210,397)	(200,513)	(58,955)	
Net outstanding claims	291,633	70,799	97,114	133,126	141,921	280,274	303,650	256,821	1,575,338

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 2017

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

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

	Sensitivity	Profit / (loss)	
			Restated
		2017	2016
	%	£'000	£'000
Net claims outstanding	+5	63,604	67,445
	-5	(63,604)	(67,445)
Sterling to US dollar exchange rate	+10	51,545	57,535
	-10	(51,545)	(57,535)
Sterling to Australian Dollar exchange rate	+10	5,141	4,834
	-10	(5,141)	(4,834)
Sterling to Euro exchange rate	+10	9,724	8,959
	-10	(9,724)	(8,959)
Sterling to Canadian exchange rate	+10	18,662	16,656
	-10	(18,662)	(16,656)

18. Maturity profile of net outstanding claims

	1 year or less £'000	1 to 2 years £'000	2 to 3 years £'000	3 to 4 years £'000	4 to 5 years £'000	Over 5 years £'000	Total £'000
2017	442,324	308,375	196,193	148,512	108,106	371,828	1,575,338
2016	513,248	337,706	227,947	157,290	113,232	336,705	1,686,128

19. Creditors

(i) Creditors arising out of direct insurance operations

	2017 £'000	2016 £'000
Due within one year		
Due to policyholders	576	986
Due to intermediaries	50,741	96,425
Due after one year		
Due to intermediaries	169	-
	51,486	97,411

(ii) Creditors arising out of reinsurance operations

	2017 £'000	2016 £'000
Due within one year	211,329	185,541
	211,329	185,541

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2017

20. Other creditors including taxation and social security

	2017 £'000	2016 £'000
Due within one year		
Unsettled investment trade creditors	16,176	45,958
Amounts due to group undertakings	13,869	20,818
Taxation and social security	1,377	745
Other creditors	-	436
	31,422	67,957

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

Directors' interests

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

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 £9,863k (2016 £12,009k) 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 £5,133k (2016 £5,074k) 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 £181,478k (2016 £107,146k) 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 £29,615k (2016 £21,535k). Balances due from related QBE companies in respect of reinsurers' share of technical provisions were £16,773k (2016 £23,618k).

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2017

21. Related parties (continued)

Administrative expenses

Total expenses recharged from QBE Partner Services (Europe) LLP in respect of services provided to the Syndicate amounted to £119,350k (2016 £115,376k). The balance outstanding at year end with QBE Partner Services (Europe) LLP is £12,177k (2016 £25,455k). 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.

22. Presentation of prior year comparatives

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

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

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

In 2016, non- standard personal expenses and unrealised investments gain/(loss) were separately disclosed within non-cash items on the statement of cash flows. In 2017, non- standard personal expenses have been presented within cash flow from operating activities and unrealised investments gain/(loss) have been presented within investing activities.

During the year the Syndicate has updated the methodology to estimate the impact of changes of key variables on the outstanding claims provision at Note 17. Previously the estimate excluded the impact of reinsurance recoveries due under certain reinsurance programs. The updated methodology includes reinsurance recoveries due under all reinsurance programs. This impacts the Sterling to US Dollar exchange rate sensitivity, where the 2016 disclosure of £66,070k has reduced to £57,535k.

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

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