QBE

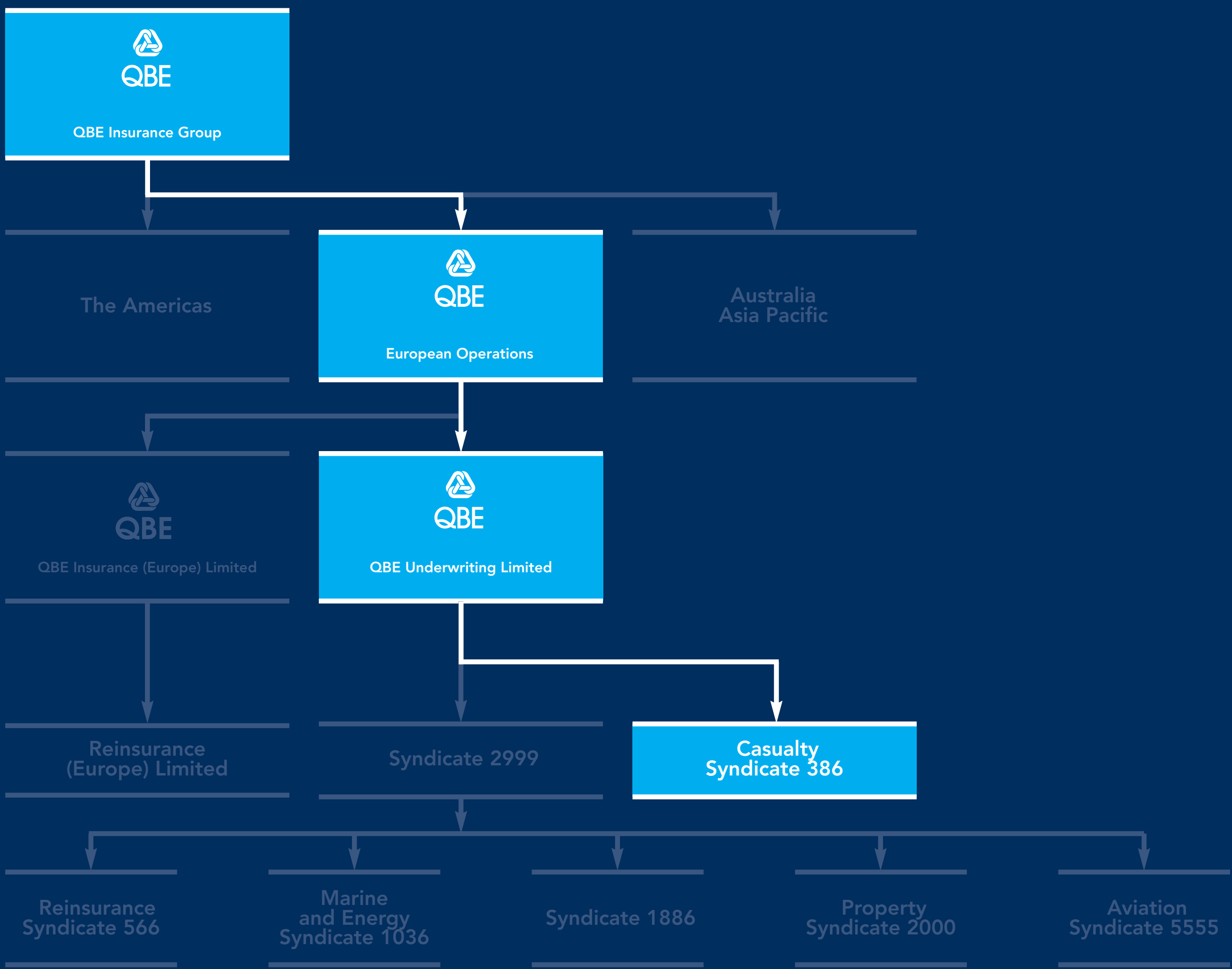
SYNDICATE 386
ANNUAL REPORT 2007

SYNDICATE 386

QBE CASUALTY SYNDICATE 386

QBE CASUALTY SYNDICATE 386 IS THE LEADING NON-US LIABILITY SYNDICATE AT LLOYD'S MANAGED BY QBE UNDERWRITING LIMITED, THE LARGEST MANAGING AGENT AT LLOYD'S

QBE Underwriting Limited is part of QBE European Operations, a division of QBE Insurance Group, one of the world's leading insurers and reinsurers, with a 2007 gross written premium of A$12.4 billion. Headquartered in Sydney, Australia, QBE operates out of 45 countries and has a presence in all of the world's key insurance markets.



Frank O'Halloran
Chief Executive Officer, QBE Insurance Group

Steven Burns
Chief Executive Officer, QBE European Operations

QBE VISION

To be internationally recognised as:

- A highly successful general insurance and reinsurance group
- A builder of shareholders' wealth
- A developer of "can do" people
- An organisation that excels in the continuous delivery of new and proven quality products and services

QBE VALUES

- Increasing the long term wealth of shareholders
- Customer satisfaction and retention
- Employee motivation
- Integrity

QBE EUROPEAN OPERATIONS OVERVIEW

WHILST MARKET CONDITIONS IN 2007 WERE LESS BUOYANT THAN THOSE FOR 2006, THE YEAR WAS AGAIN CHARACTERISED BY THE ABSENCE OF MATERIAL CATASTROPHE LOSS.

THIS, COUPLED WITH A STRONG PRIOR YEAR PERFORMANCE HAS HELPED QBE EUROPEAN OPERATIONS [EO] PRODUCE A RECORD RESULT, WITH A COMBINED OPERATING RATIO OF 84.8% (86.1% FOR 2006).

The primary challenge therefore for 2008 will be the maintenance of underwriting discipline and strong cycle management in the face of an increasingly competitive environment. As part of this process, EO has moved to a product and distribution model which, together with a rationalisation of brands, will provide a more cohesive and transparent offering to the markets and greater leverage of our capabilities.

QBE's philosophy remains based on underwriting specialism, leadership and continuity, which, combined with the highest quality of products, enables it to provide a secure, professional environment to fully service clients' insurance needs.

AT QBE, WE'RE CONSTANTLY LOOKING FOR WAYS OF MAKING LIFE EASIER. THAT'S WHY ON 1 JANUARY 2008 WE INTRODUCED A SIMPLE UNIFIED STRUCTURE.

During 2007 the senior underwriters and managers of QBE European Operations sponsored a series of initiatives with one aim in mind – to make it easier for brokers to do business with us.

The results of these were to move from individual business units and syndicates to eight product focused underwriting divisions.

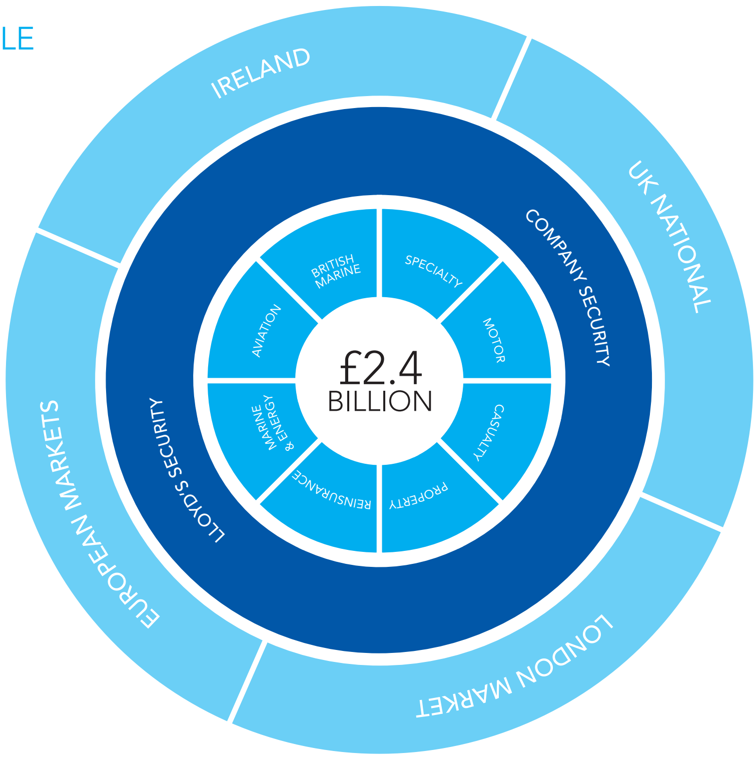
This new approach has allowed us to leverage the breadth and depth of our capabilities for our brokers and clients in a coordinated and focused way. Put simply, this means our brokers and clients now have:

- Access to a wider distribution network
- Access to all our expertise in one place
- Access to the same people they already have a strong relationship with
- Access to a choice of Lloyd's or company paper
- Access to the strength and size of QBE

We already have a highly respected name within the insurance market, with quality products and excellent service. This change provided an even easier, simpler and more convenient method of access giving brokers even stronger reasons to use QBE.

PRODUCT AND DISTRIBUTION MODEL

WITH A PROJECTED GROSS INCOME OF £2.4BN FOR 2008, THE EIGHT PRODUCT DIVISIONS CAN UTILISE LLOYD'S AND/OR QBE COMPANY PAPER VIA MULTIPLE DISTRIBUTION CHANNELS



THE SYNDICATE ACCOUNTS ARE PREPARED ON BOTH AN ANNUAL ACCOUNTED BASIS UNDER UK GAAP AND ON AN UNDERWRITING YEAR OF ACCOUNT BASIS.

HIGHLIGHTS

Results on an annual accounted basis include:

- 2007 combined operating ratio of 70.4% (2006 77.6%)
- 2007 GWP of £436 million (2006 £440 million)
- 2008 projected GWP of £393 million (£337 million net of commissions)
- Continued responsible cycle management with a static capacity of £340 million for 2008, reflecting the anticipated difficult market conditions

Results on an underwriting year of account basis include:

- 2005 underwriting year of account profit of 41.4%
- 2006 underwriting year of account forecast of 33.0%
- 2007 underwriting year of account forecast of 18.5%

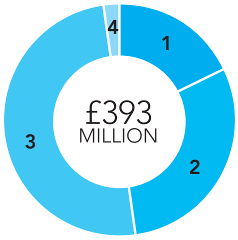
SYNDICATE 386's CONTINUED ABILITY TO DELIVER EXCEPTIONAL RESULTS HAS BEEN FURTHER ENHANCED FOLLOWING THE ESTABLISHMENT OF THE INTEGRATED QBE CASUALTY DIVISION.

STRENGTHS OF THE SYNDICATE

- Part of the integrated QBE casualty offering for 2008
- Experienced underwriting team providing strength and continuity
- Established network of UK and Irish offices which offer qualities of security (S&P rated "A+"), flexibility and service for regionally produced business
- S&P Lloyd's Syndicate Assessment of "5" (very low dependency), the highest ever awarded to any Lloyd's syndicate
- Total syndicate funds of £1.2 billion
- Exceptional track record with an average profit to capital providers of 23.7% for the 1993-2005 underwriting years
- Part of QBE Underwriting Limited, the largest managing agent at Lloyd's with
  - £1.12 billion capacity for 2008
  - £677 million of total funds at Lloyd's in support of underwriting activities
  - £2.4 billion of total funds under management
- QBE (main underwriting entities rated S&P "A+") as the ultimate parent company and provider of 69.6% of 2008 underwriting capital

CASUALTY SYNDICATE 386 IS A SPECIALIST UK NON-MARINE LIABILITY INSURER, HEADED BY DAVID CONSTABLE.

2008 Planned portfolio



For 2008, the syndicate has been combined with QBE's company operations to create an integrated casualty offering, providing significant benefits:

- Stronger capability through enhanced distribution opportunities
- Greater ability to leverage broker and client relationships
- Economies of scale in reinsurance purchase
- Underwriter empowerment with dual pen capability
- Transparency of product offering
- Operational efficiencies

Established in 1974, the syndicate believes in the mutual benefits of long term commercial relationships, whether with brokers, insureds or reinsurers.

This, allied with its professional approach, underpins the exceptional market returns which the syndicate has consistently produced.

The syndicate's performance record, and its commitment to the lines of business it underwrites, enables it to provide unique insurance solutions. Clients benefit from the quality of the products provided, as well as confidence in the fact that they deal with a syndicate which is, by any measure, a long term player.

Professional Indemnity

The focus in the UK, where this account is primarily based, is on risks in the construction business and in the more traditional professions. We also write a significant global book of solicitors' business and have only an incidental exposure to the US. As leaders in this technical field, we give clients the peace of mind that we are able to control the structure and scope of exposure.

International Liability

We have an enviable reputation as a leader in this business. We underwrite public and products liability as well as umbrella and excess of loss for risks which tend towards large industrial, mineral extraction, utility and transport concerns. The account only has an incidental exposure to the US.

UK and Europe

We underwrite employers' liability, public and products' liability, and products' guarantee for construction and offshore accounts, as well as for more traditional industries. A leader in the liability field, we endeavour to offer a combined employers' liability and third party product, where possible, incorporating a client's excess layer requirements.

Specialist

The account is made up of carnet, pharmaceutical and medical malpractice. These areas of the syndicate's account have been incorporated into the specialist team who have extensive experience in this sector.

Claims

The syndicate has an excellent claims team operating within a combined casualty QBE claims service with an exemplary reputation in service and reserving.

DAVID CONSTABLE
ACTIVE UNDERWRITER

MAKING YOUR LIFE EASIER

EXPERTISE
With QBE, you will find everything you want is all together in one place, giving you direct access to the wealth of products that QBE has to offer, which means we have the flexibility to provide whatever insurance clients require.

FLEXIBILITY
We have developed a healthy appetite for risk which means we are always looking to stretch the boundaries, enabling us to find solutions where other insurers can't or won't.

RESPONSIVE
When it comes to claims, our responsive attitude ensures that we provide a service dedicated to keeping clients happy.

SIZE AND STRENGTH
QBE is one of the world's leading insurers and reinsurers with over 120 years' experience in the industry. We have offices in 45 countries, all backed by A+ ratings by S&P and Fitch meaning we have the size and strength to consider any size of risk.

EMPOWERMENT
At QBE, we encourage our employees to use their experience and expertise, which means they are always looking to find a creative solution to any problem.

The directors of QBE Underwriting Limited (QUL, previously Limit Underwriting Limited) the managing agent for Syndicate 386, present the annual report and audited financial statements for the syndicate for the year ended 31 December 2007.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 3219 of 2004 the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 ("the 2004 Regulations").

Principal activity

Syndicate 386 is a non-marine liability (excluding USA) syndicate operating within the Lloyd's insurance market.
The syndicate is led by David Constable, Active Underwriter, and specialises in employers' liability insurance, third party liability, product liability and professional indemnity insurance.

Capacity offer

In the second quarter of 2007, QBE Group commenced work on a capacity offer in order to buy out the external minority of Names that participate on Syndicate 386. The final proposed offer comprised either: a cash payment of £1.25 per £1 of capacity or; a cash payment of £1.05 per £1 with the right to participate on the 2008 and 2009 underwriting years. The offer would have been conditional upon acceptances of 67.1% of the 30.4% minority being received, thus triggering the 90% compulsory buyout threshold. Following subsequent confirmation from members' agents that they did not believe the offer to be sufficiently valued, QBE withdrew its' proposed offer in July 2007. The expenses incurred in establishing the proposed offer have not been charged to the syndicate. QBE continues to welcome the support of external capital providers as valued long-term partners in the syndicate's future.

Business review and future developments

The table below details the syndicate's annually accounted result as at 31 December 2007 relative to the previous year end.

	2007 £000	2006 £000
Gross premium written	**436,060**	439,785
Net earned premiums	**370,347**	367,443
Net claims	**(158,034)**	(161,852)
Acquisition costs	**(80,204)**	(71,501)
Net underwriting profit	**132,109**	134,090
Profit/(loss) on exchange	**29,789**	(9,658)
Other net operating expenses	**(52,334)**	(41,951)
Investment return	**56,202**	40,600
Total profit for the financial year	**165,766**	123,081
Claims ratio	**42.7%**	44.0%
Combined operating ratio	**70.4%**	77.6%

The Active Underwriter comments:

"The building blocks set post 2001 continue to bear fruit for the success of Syndicate 386, these include:

- Strong support from QBE and names
- Reserve consistency and strength over the past five years
- Underwriting management encompassing rate monitoring, minimum premium levels and underwriting controls set out by QBE and the Franchise Directorate"

It is therefore a great pleasure to present another excellent result, with a combined ratio of 70.4% and an insurance profit of £165.8 million for the financial year 2007.

All key underwriting areas have contributed strongly to the result as follows:

UK Box	£54.6m
UK Regional	£31.3m
Professional Indemnity	£24.6m
International	£45.5m
Ireland	£9.8m
	£165.8m

With the exception of Ireland, 2007 premium earnings were broadly in line with those for 2006 across all underwriting units. This was despite witnessing much stronger competition than envisaged in my report last year. This demonstrates a recognition of the teams ability to take advantage of the underlying profitability of our book, as well as the market in general.

The commitment and dedication of the whole team, both underwriting and claims, has been immense and they must take the credit for this set of results.

Future developments

There is no doubt we are in a difficult period within the underwriting cycle and whilst rates have been under pressure, this has been offset by strong and sustained economic factors which have maintained the premium levels year on year, across the key areas of the book.

As we enter 2008, the effect of the credit crunch, gloomier economic issues and reducing rates, the need to be vigilant is even more important.

The key objective is to keep the business we know as our main stay (retention levels) and write new business (new opportunities) sensibly. We have overwritten in the past two years where rate reductions have been offset by positive economic issues, namely healthy fee, turnover and wage increases. We do not expect this to be repeated in 2008.

One of the key strategic steps we took during 2007 was to look at how the syndicate operated relative to QBE's wider European company operations. The need to consider how we could do things differently for the good of all stakeholders was very much in mind.

Following discussions with the Group, I decided it was for the best to embark on an integration project, bigger and broader than that commenced in 2006 for the professional indemnity book.

We established the following broad objectives for 1 January 2008 implementation:

- "One stop shop" for brokers
- Empowered underwriters with dual pen capabilities
- Optimising of underwriting capacity and reinsurance programme, structure and retentions
- To build on the strengths of the respective teams within 386 and QBE to ensure the whole is greater than the sum of two parts
- To continue as a market of choice by remaining innovative, flexible, accessible and committed

I am pleased to report we have progressed a long way to delivering on these objectives. In particular the successful purchase of a combined reinsurance programme providing greater coverage at a materially reduced cost to Syndicate 386. We fully expect to maintain this momentum for the balance of 2008.

This integration is important to the success of us all as both a defence against deteriorating market conditions and the foundation of a strong business for the future."

Investment policy

QBE European Operations operates an investment committee which is responsible for recommending to the QBE Underwriting Limited agency board appropriate investment policy and strategy, and which also monitors the performance of investment managers and their compliance with internal guidelines and external regulation. The investment policy is designed to ensure that appropriate levels of liquidity, credit and investment risk are maintained.

Syndicate investments are currently limited to fixed income bonds and money market instruments. The majority of portfolios have an average credit rating equivalent to or better than Standard & Poor's "AA". The minimum permitted credit quality is "A-". The performance of the investment managers is monitored against an absolute return mandate with other reference benchmarks or peer group performance used as key performance indicators.

Management of the investment portfolios for the syndicate is delegated under an arm's length agreement to Minster Court Asset Management (UK) Ltd, a wholly owned subsidiary of the QBE Group. The activities of the manager are regulated by the FSA.

The syndicate operates a policy to minimise foreign exchange risk by holding assets in foreign currencies in order to match underwriting liabilities in such currencies where size is deemed material. In order to reduce volatility of investment return in each calendar year the syndicate adopts a shorter average duration for investment assets than would normally be expected if it were matching the duration of liabilities relating to long-tail classes of business.

Investment performance

The total investment returns achieved for calendar year 2007 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. The combined total currency return for the year was 5.0%.

Portfolio currency	2007 Average funds 000	2007 Actual return %	2007 Target return %	2006 Average funds 000	2006 Actual return %	2006 Benchmark return %
Australian dollar	476,078	6.3	6.2	366,052	5.0	3.9
Canadian dollar	275,181	4.4	4.0	227,061	3.7	3.8
Euro	395,295	3.5	3.4	402,913	2.1	1.8
Sterling	515,087	5.6	4.8	598,429	3.7	3.0
US dollar	128,417	5.3	4.9	121,289	4.5	4.0

The benchmark for fixed income funds during 2006 was the Merrill Lynch 1–3 Year Government Bond Index in the relevant currency. With effect from 1 January 2007 the benchmark target for fixed income portfolios changed to an absolute return yield to be agreed for each currency on an annual basis by the QBE European Operations executive board. Targets for each currency agreed for calendar year 2007 are shown above.

Investment returns achieved in the majority of portfolios outperformed the respective currency targets during the year. Outperformance was generated as a result of active management using a low risk investment strategy with capital preservation a high priority.

Early in 2007, fund manager Minster Court Asset Management (UK) Ltd adopted a cautious stance by maintaining relatively short duration in all portfolios. This strategy continued for the majority of the year as the growing impact of the sub-prime credit squeeze caused turmoil in financial markets. Overall investment return achieved as a result of this approach exceeded the weighted currency budgeted target by a reasonable margin.

After taking account of investment return, profit payments and exchange rate movement, overall syndicate funds closed the year slightly higher than budgeted target.

Managing agency board

The Board is committed to high standards of corporate governance and has established a practical governance framework which includes the delegation of considerable authority to divisional product management committees and a number of other authorised committees. All of the committees comprise appropriately skilled and experienced members, and operate under formal terms of reference. The board comprises 18 executive directors and three non-executive directors and meets seven times a year.

Syndicate boards

During the year, each syndicate had its own board, responsible for the reporting and review of all aspects of the syndicate's day to day management. Each board was chaired by the respective syndicate's Active Underwriter and comprised senior underwriting and management representatives of the syndicate, together with representatives of the managing agency board. For 2008, the Syndicate 386 board will continue to meet on a quarterly basis.

Divisional product management committees

From January 2008, these committees are responsible for the reporting and review of all aspects of the division's day to day management of underwriting and meet monthly. Each board is chaired by the divisional Managing Director and comprises senior underwriting and management representatives of the division, together with representatives of the managing agency board.

Other committees

- Strategic underwriting committee: the committee is responsible for developing the business strategy and agrees and oversees the implementation of appropriate policies and controls for underwriting activities. The committee is chaired by the Chief Operating Officer.

- General business committee: the committee reviews and approves routine matters where the board has delegated authority to the committee; makes recommendations as where board approval is required; and reviews and approves routine matters and regulatory returns which do not require board approval. The committee is chaired by the Compliance and Risk Management Director.

- Group security committee: the committee is responsible for establishing and monitoring procedures and systems for the evaluation of all reinsurance security and outwards reinsurance intermediaries to be utilised by regulated entities within the Group. The committee is chaired by the Chief Underwriting Officer.

- Information technology committee: the committee is responsible for reviewing and recommending the IT strategy to the board, recommending the annual IT plan, implementing strategy and providing oversight of material IT projects. The committee is chaired by the Chief Operating Officer.

- Investment committee: the committee is responsible for making recommendations to the board as to the appropriate investment policy and guidelines for each of the syndicates' funds and to take responsibility for the day to day implementation and monitoring of the agreed strategy. The committee is chaired by the Chief Financial Officer.

- Audit committee: the committee is responsible for assisting the boards in discharging their oversight responsibilities, by overseeing the financial reporting process and reviewing the effectiveness of the internal financial control and risk management system, the effectiveness of the internal audit function, the independent audit process including recommending the appointment and assessing the performance of the external auditor, and the process for monitoring compliance with laws and regulations. The committee is chaired by a non-executive director.

- Reserving committee: the committee is primarily responsible for undertaking a review of the reserve information (including reinsurance to close and open year reserve information produced by each managed syndicate) in support of the accounts and solvency returns, and to be satisfied that the level of total closed and open year reserves have been calculated, where appropriate having regard to Lloyd's Code for Management for Reserving Risks, Regulations and Byelaws, and are consistent with the standards required to attain satisfactory audit and actuarial opinions. The committee is chaired by the Chief Actuarial Officer.

- Capital committee: the committee is responsible for providing guidance and review on capital assessment issues in relation to the FSA and Lloyd's regimes. The committee is chaired by the Chief Actuarial Officer.

- Risk management committee: the committee is responsible for ensuring that all risks to QUL's objectives are identified, assessed and monitored in accordance with the overall risk policy. The committee is chaired by a non-executive director.

- Internal audit committee: the committee provides assurance that an appropriate control framework is in place to mitigate business risk and that these controls are both functioning in practice and consistent with QBE Group and QUL procedures together with legislative and regulatory requirements. The committee also provides assurance that compliance and monitoring procedures are operating effectively. The committee is chaired by a non-executive director.

Risk management

QBE's activities expose the business to a number of key risks which have the potential to affect QBE's ability to achieve its business objectives. The board is responsible for ensuring that an appropriate structure for managing these risks is maintained. The board acknowledges that it is not realistic or possible to eliminate risk entirely, and therefore seeks to ensure that the appropriate controls are in place to effectively manage risks in line with the agreed tolerance.

QBE continues to develop its risk management capability to ensure that an effective framework exists to support the management of all types of risk. Elements of this framework include the regular identification and assessment of the key risk and controls and clearly defined ownership of both the risks and controls.

Risk groups

The key risks can be grouped under the following headings:

- Insurance risk: the syndicate's business is to accept insurance risk which is appropriate to enable it to meet its objectives. In line with the QBE Group risk strategy, the syndicate seeks to balance insurance risk with reward. All underwriting divisions are set specific and measurable performance targets which they are expected to achieve by operating within the parameters of the approved business plan.

- Credit risk: in addition to the insurance terms of trade offered as standard, a certain amount of credit risk is unavoidable, as it can arise as a result of the inability to pay or slow payment of any of the syndicate's counterparties. The syndicate therefore seeks to limit exposure as far as is practical, and therefore has established detailed guidelines, procedures, limits and monitoring requirements to mitigate credit risk.

- Capital and liquidity risk: capital and liquidity risk is the potential that the syndicate is unable to meet its obligations as they fall due or its capital falls below that required by regulators. The objective of QBE's capital and liquidity risk management is to ensure that capital is optimally managed, that QBE remains solvent by a significant margin and that all withdrawals and funding requirements can be met out of readily available sources of funding. QBE undertakes capital exercises to ensure that capital is adequate to meet risks and seeks to maintain a strong liquidity position by holding its assets in liquid funds.

- Market risk: the syndicate's exposure to financial market risk arises out of the investment decisions made in relation to the investment of Premium Trust Fund assets. Exposure to market risk is managed through the investment strategy, which reflects the appetite of the board. The strategy is deliberately conservative in order to eliminate potential volatility to market fluctuations as much as possible.

- Operational risk: the syndicate seeks to mitigate exposure to operational risks through ensuring that an effective infrastructure, robust systems and controls and appropriately experienced and qualified individuals are in place throughout the organisation.

- Cash flow risk: The syndicate's exposure to cash flow risk is addressed under the heading of capital and liquidity risk.

Internal audit
An independent internal audit function provides assurance to the internal audit committee chaired by a non-executive director as to the effectiveness of internal systems and controls, makes recommendations for improvement and monitors progress towards completion via management action plans. Internal audit also provides independent feedback on the risk management process.

Other governance issues
QBE 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 company. 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 and conflicts of interest. Other policies are in place to cover areas such as health and safety, harassment, equal opportunities and financial crime.

Directors
Details of the directors of the managing agent that served during the year are shown on page 11.

Creditor payment policy
The managing agent's policy on the payment of creditors is to abide by London insurance market practices, including those of Lloyd's and the International Underwriting Association. The managing agent agrees terms with its other suppliers when it enters into binding purchase contracts. The managing agent seeks to abide by the payment terms agreed with these suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

Statement of managing agent's responsibilities
The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 require the managing agent to prepare syndicate annual accounts at 31 December each year which give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

In preparing the syndicate annual accounts, the managing agent is required to:

- Select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so

The directors confirm that they have complied with the above requirements in preparing the annual accounts for syndicate 386.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2004 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

Statement of Disclosure of Information to Auditors
Each of the persons who is a director of the managing agent at the date of this report confirms that:

- So far as each of the directors is aware, there is no information relevant to the audit of the syndicate's financial statements for the year ended 31 December 2007 of which the auditors are unaware
- The director has taken all the steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information

Auditors
The directors of the managing agent intend to reappoint PricewaterhouseCoopers LLP as the syndicate's auditors.

By order of the board

S M Boland
Company Secretary
QBE Underwriting Limited

Plantation Place
30 Fenchurch Street
London
EC3M 3BD

19 March 2008

The managing agent, QBE Underwriting Limited, changed its name from Limit Underwriting Limited on 31 December 2007.

Directors

The directors of QBE Underwriting Limited, the managing agent, who served during the year ended 31 December 2007 and subsequently are:

A M Bathia	Appointed 1 January 2008
I D Beckerson	
S P Burns	
D A Constable	
M F Crane	Appointed 1 January 2008
P A Dodridge	
D Grossman	Appointed 1 January 2008
P E Grove	
M S Kang	Resigned 31 December 2007
D M Lang	Resigned 30 September 2007
V McLenaghan	
J D Neal	
C R O'Farrell	
F M O'Halloran	
P J O'Neill	Appointed 1 January 2008
P V Olsen*	
J W Parry	
B W Pomeroy*	
H M Posner*	
G S Rayner	Appointed 1 January 2008
C Rolleston	Resigned 30 October 2007
E Di Silvio	
T J Whittaker	Appointed 1 January 2008
D J Winkett	
D Woodruff	Resigned 21 November 2007

*non-executive director

Directors' interests

None of the directors were members of the syndicate for the years of account open during the period of these accounts.

Secretary

A C H Williams	Resigned 15 May 2007
S M Boland	Appointed 15 May 2007

Registered office

Plantation Place
30 Fenchurch Street
London
EC3M 3BD

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Hay's Galleria
1 Hay's Lane
London
SE1 2RD

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 386

We have audited the syndicate annual accounts of Syndicate 386 for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. These accounts have been prepared under the accounting policies set out in therein.

Respective responsibilities of managing agent and auditors

The managing agent's responsibilities for preparing the syndicate annual accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of managing agent's responsibilities.

Our responsibility is to audit the syndicate annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the syndicate's members as a body and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the syndicate annual accounts give a true and fair view and are properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. We also report to you whether, in our opinion, information given in the managing agent's report is consistent with the syndicate annual accounts. We also report to you if, in our opinion, the managing agent has not kept proper accounting records in respect of the syndicate, if the syndicate annual accounts are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding remuneration of the directors of the managing agent and the active underwriter and other transactions is not disclosed.

We read other information attached to the syndicate annual accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the syndicate annual accounts. This other information comprises only the report of the directors of the managing agent and the information on pages 1 to 11, the underwriting year accounts on pages 26 to 37, and pages 38 to 40. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate annual accounts. It also includes an assessment of the significant estimates and judgements made by the managing agent in the preparation of the syndicate annual accounts, and of whether the accounting policies are appropriate to the syndicate's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the syndicate annual accounts.

Opinion

In our opinion:

- the syndicate annual accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the syndicate's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended;
- the syndicate annual accounts have been properly prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004; and
- the information given in the managing agent's report is consistent with the syndicate annual accounts.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

19 March 2008

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

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 £000	2007 £000	2006 £000	2006 £000
Earned premiums, net of reinsurance					
Gross premiums written	2	**436,060**		439,785	
Outward reinsurance premiums		**(62,407)**		(72,345)	
Net premiums written			**373,653**		367,440
Changes in the provision for unearned premiums:					
Gross amount		**1,729**		(2,957)	
Reinsurers' share		**(5,035)**		2,960	
			(3,306)		3
Earned premiums, net of reinsurance			**370,347**		367,443
Investment return transferred from the non-technical account			**56,202**		40,600
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		**(163,536)**		(169,157)	
Reinsurers' share		**32,998**		8,327	
		(130,538)		(160,830)	
Changes in the provision for claims					
Gross amount		**(28,868)**		(6,097)	
Reinsurers' share		**1,372**		5,075	
		(27,496)		(1,022)	
Claims incurred, net of reinsurance			**(158,034)**		(161,852)
Net operating expenses	4		**(60,114)**		(90,268)
Standard personal expenses			**(42,635)**		(32,842)
Balance on technical account – general business			**165,766**		123,081

The results above are all derived from continuing operations.

The notes on pages 18 to 25 form an integral part of these financial statements.

PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 £000	2006 £000
Balance on technical account – general business		**165,766**	123,081
Investment income	7	**52,613**	57,986
Unrealised gains on investments		**6,586**	1,329
Investment expenses and charges	7	**(2,997)**	(18,715)
Investment return		**56,202**	40,600
Investment return – transferred to general business account		**(56,202)**	(40,600)
Profit for the financial year		**165,766**	123,081

The results above are all derived from continuing operations.

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

Assets	Notes	2007 £000	2006 £000
Assets			
Investments			
Financial investments	8	1,136,079	1,063,920
Reinsurers' share of technical provisions			
Provision for unearned premiums		22,737	27,773
Claims outstanding	3	262,903	259,792
		285,640	287,565
Debtors			
Debtors arising out of direct insurance operations	9	195,010	181,515
Debtors arising out of reinsurance operations		10,960	6,729
Other debtors	10	93	585
		206,063	188,829
Other assets			
Overseas deposits	11	107,152	88,219
Cash at bank and in hand		7,982	24,582
		115,134	112,801
Prepayments and accrued income			
Accrued interest		26,280	20,328
Deferred acquisition costs		36,461	35,761
		62,741	56,089
Total assets		1,805,657	1,709,204

The notes on pages 18 to 25 form an integral part of these financial statements.

AS AT 31 DECEMBER 2007

Liabilities	Notes	2007 £000	2006 £000
Capital and reserves			
Members balances	12	167,181	127,793
		167,181	127,793
Technical provisions			
Provision for unearned premiums		209,103	210,832
Claims outstanding	3	1,259,556	1,191,983
		1,468,659	1,402,815
Creditors			
Creditors arising out of direct insurance operations	13	94,982	86,573
Creditors arising out of reinsurance operations		28,695	20,467
Other creditors	14	46,140	71,295
		169,817	178,335
Accruals and deferred income		–	261
Total liabilities		1,805,657	1,709,204

These financial statements on pages 13 to 25 were approved by the board of QBE Underwriting Limited on 19 March 2008 and were signed on its behalf by:

D J Winkett
Director

19 March 2008

The notes on pages 18 to 25 form an integral part of these financial statements.

	Notes	2007 £000	2006 £000
Net cash inflow from operating activities		**136,844**	172,992
Transfer to members in respect of underwriting participations			
Distribution of profits		**(57,229)**	(129,185)
Continuous solvency transfers		**(68,442)**	(136,028)
Members agents' fees paid on behalf of members		**(741)**	(643)
Financing			
Cash calls received		**11**	9
		10,443	(92,855)
Cash flows were invested/(applied) as follows:			
Decrease in cash holdings	15	**(17,507)**	(4,809)
(Decrease)/increase in amounts due to credit institutions	15	**(138)**	1,066
Increase/(decrease) in overseas deposits	15	**11,240**	(1,206)
Net portfolio investments (disinvestments)	15	**16,848**	(87,906)
Net investment/(application) of cash flows		**10,443**	(92,855)

	Notes	2007 £000	2006 £000
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit on ordinary activities		**165,766**	123,081
Realised and unrealised investment (gains)/losses		**(63,911)**	48,079
Increase/(decrease) in net technical provisions		**67,769**	(33,252)
Decrease/(increase) in debtors		**(23,886)**	47,449
Decrease in creditors		**(8,918)**	(12,365)
Other movements		**24**	–
Net cash inflow from operating activities		**136,844**	172,992

The notes on pages 18 to 25 form an integral part of these financial statements.

1 ACCOUNTING POLICIES

a) Basis of preparation

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004, and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2006, except that foreign exchange gains and losses are taken to the profit and loss technical account.

The directors of the managing agent have prepared the financial statements on a going concern basis. 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 18.

b) 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) Reinsurance premium ceded

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 provisions and related recoveries

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.

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 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.

v) Unexpired risks provision

Provision has been 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 risks surpluses and deficits are offset where business classes are managed together.

1 ACCOUNTING POLICIES CONTINUED

vi) Acquisition costs
Acquisition costs, which represent commission and other costs related to the acquisition of new insurance contracts, are deferred subject to recoverability, and amortised over the period to which the related premiums are earned.

c) Foreign currency transactions
Transactions denominated in foreign currencies are translated into sterling at the rate of exchange prevailing at the time of the transaction.

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.

Exchange differences are included in the technical account, except for differences arising on members' balances, which are included in members' balances.

d) Investments
Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions and overseas deposits are stated at cost.

e) Investment return
Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between net sale proceeds and purchase price.

Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price, or if they have previously been valued, their valuation at the previous balance sheet date, together with a reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments related to the technical account.

f) Taxation
Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading "members' balance".

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

g) Administrative expenses
Administrative expenses are taken into account on an accruals basis. These recharged expenses include the costs of staff, who are employed by QBE Management Services (UK) Limited. QBE Management Services (UK) Limited operates both defined benefit and defined contribution pension schemes, the expense of which is included in the recharges.

h) Profit commission
Profit commission is charged by the managing agent at a rate of 20% of profit subject to the operation of a deficit clause. Profit commission is recognised on the basis of the annual accounting result for each year of account. It is charged to the syndicate as incurred.

2 SEGMENTAL INFORMATION

2007	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Third party liability	394,107	395,337	(174,784)	(90,582)	(27,766)	102,205
	394,107	395,337	(174,784)	(90,582)	(27,766)	102,205
Reinsurance acceptances	41,953	42,452	(17,620)	(12,167)	(5,306)	7,359
Total	436,060	437,789	(192,404)	(102,749)	(33,072)	109,564

2006 (restated)	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Third party liability	401,080	401,286	(153,748)	(114,463)	(54,898)	78,177
	401,080	401,286	(153,748)	(114,463)	(54,898)	78,177
Reinsurance acceptances	38,705	35,542	(21,506)	(8,647)	(1,085)	4,304
Total	439,785	436,828	(175,254)	(123,110)	(55,983)	82,481

Changes have been made in the presentation of segmental information for the 2007 calendar year to more appropriately reflect the nature of the underlying business of the syndicate. As such the 2006 calendar year figures have been restated to reflect this.

All premiums were concluded in the UK.

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

	2007 £000	2006 £000
UK	248,322	253,264
Other EU countries	50,294	49,451
US	–	–
Other countries	137,444	137,070
	436,060	439,785

3 CLAIMS OUTSTANDING

This year, there is an overall positive net run-off development of £83,723,000 (2006: £58,005,000) of which the major contributor was third party liability of £80,343,000 (2006: £71,792,000) together with a positive development in reinsurance acceptances of £3,380,000 (2006: adverse £16,571,000).

4 NET OPERATING EXPENSES

	2007 £000	2006 £000
Acquisition costs – direct commission	60,591	57,959
Acquisition costs – other	20,313	18,037
Change in deferred acquisition costs	(700)	(4,495)
Administrative expenses	9,699	9,109
(Profit)/loss on exchange	(29,789)	9,658
	60,114	90,268
Administrative expenses include Auditors' remuneration:		
Fees payable to the syndicate's auditors for the audit of the syndicate's annual accounts	229	226
Other services pursuant to legislation	106	80

5 DIRECTORS' EMOLUMENTS

The directors of QBE Underwriting Limited and the Active Underwriter received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2007 £000	2006 £000
Directors of the managing agent	1,340	572
Active Underwriter	353	314

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

6 STAFF NUMBERS AND COSTS

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

The following amounts were charged to the syndicate in respect of salary costs:

	2007 £000	2006 £000
Wages and salaries	11,749	10,013
Social security costs	1,316	1,129
Other pension costs	1,270	1,384
	14,335	12,526

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

	2007 Number	2006 Number
Underwriting	75	45
Claims	27	33
Administration	79	96
	181	174

7 INVESTMENT INCOME, EXPENSES AND CHARGES

Investment income	2007 £000	2006 £000
Income from investments	**52,613**	57,986

Investment expenses and charges	2007 £000	2006 £000
Net losses on the realisation of investments	**1,743**	17,668
Investment management expenses	**1,254**	1,047
	2,997	18,715

8 FINANCIAL INVESTMENTS

	Cost		Market Value	
	2007 £000	2006 £000	2007 £000	2006 £000
Shares and other variable yield securities and units in unit trusts	**12,636**	12,332	**12,636**	12,332
Debt securities and other fixed income securities	**1,090,521**	1,025,393	**1,094,021**	1,022,153
Participation in investment pools	**29,395**	23,672	**29,395**	23,672
Other loans	**–**	5,735	**–**	5,735
Deposits with credit institutions	**27**	28	**27**	28
	1,132,579	1,067,160	**1,136,079**	1,063,920

Shares and other variable yield securities, units in unit trusts, and debt securities and other fixed income securities are all listed on recognised stock exchanges.

Other loans comprises loans to the Lloyd's New Central Fund.

9 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2007 £000	2006 £000
Due within one year		
Due from intermediaries	**193,402**	180,859
Due after one year		
Due from intermediaries	**1,608**	656
	195,010	181,515

10 OTHER DEBTORS

Other debtors includes an amount of £nil (2006 £nil) relating to unsettled investment transactions.

11 OVERSEAS DEPOSITS

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

12 RECONCILIATION OF MEMBERS' BALANCES

	2007 £000	2006 £000
At 1 January	**127,793**	270,559
Profit for the financial year	**165,766**	123,081
Members' agent fees	**(741)**	(662)
Non-standard personal expenses	**24**	17
Payments out of profit to members' personal reserve funds	**(125,671)**	(265,214)
Losses/calls not made	**11**	9
(Loss)/profit on exchange	**(1)**	3
At 31 December	**167,181**	127,793

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies in that year of account in respect of their membership of a particular year.

Unpaid cash calls in the above balances as at 31 December 2007 for the 2005 year of account were £11,000 (2006 for the 2004 year of account £22,000).

13 CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2007 £000	2006 £000
Due within one year		
Due to intermediaries	**94,982**	86,573

14 OTHER CREDITORS

Other creditors includes profit commission due to the managing agent of £42.4 million (2006 £68.5 million), amounts due to QBE Management Services (UK) Limited in relation to recharged expenses of £2.5 million (2006 £0.9 million), and includes £0.9 million (2006 £0.8 million) owed to credit institutions.

15 MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS NET OF FINANCING

	2007 £000	2006 £000
Net cash inflow for the year:		
Decrease in cash holdings	(17,507)	(4,809)
(Decrease)/increase in amounts due to credit institutions	(138)	1,066
Increase/(decrease) in overseas deposits	11,240	(1,206)
Net portfolio investments (disinvestments)	16,848	(87,906)
Movement arising from cash flows	10,443	(92,855)
Changes in market value and exchange rates	63,911	(48,079)
Total movement in portfolio investments, net of financing	74,354	(140,934)
At 1 January, net of financing	1,175,887	1,316,821
At 31 December, net of financing	1,250,241	1,175,887

Movement in cash, portfolio investments and financing

	1 January 2007 £000	Cash flow £000	Changes to market value and currencies £000	At 31 December 2007 £000
Cash at bank and in hand	24,582	(17,507)	907	7,982
Overseas deposits	88,219	11,240	7,693	107,152
Portfolio investments:				
Shares and other variable yield securities and units in unit trusts	12,332	117	187	12,636
Debt securities and other fixed income securities	1,022,153	20,409	51,459	1,094,021
Participations in investment pools	23,672	2,057	3,666	29,395
Other loans	5,735	(5,735)	–	–
Deposits with credit institutions	28	–	(1)	27
Total portfolio investments	1,063,920	16,848	55,311	1,136,079
Amounts due to credit institutions	(834)	(138)	–	(972)
Total cash, portfolio investments and financing	1,175,887	10,443	63,911	1,250,241

Other loans comprises loans to the Lloyd's New Central Fund.

16 CASH FLOWS INVESTED IN PORTFOLIO INVESTMENTS

	2007 £000	2006 £000
Purchase of shares and other variable yield securities	(94,260)	(274,309)
Purchase of debt securities and other fixed income securities	(2,477,545)	(3,637,050)
Purchase of participations in investment pools	(80,019)	(58,525)
Increase in other loans	–	(2,549)
Sale of shares and other variable yield securities	94,143	281,865
Sale of debt securities and other fixed income securities	2,457,136	3,678,020
Sale of participations in investment pool	77,962	46,296
Decrease in other loans	5,735	–
Redemption of deposits with credit institutions	–	54,158
Net cash (outflow)/inflow on portfolio investments	(16,848)	87,906

17 RELATED PARTIES

The managing agent of the syndicate, QBE Underwriting Limited, and certain corporate members that provide capital to the syndicate, are wholly owned subsidiaries of their ultimate parent company, QBE Insurance Group Limited.

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

Directors' interests

All of the executive directors listed on page 11 hold, or held in the year, executive directorships of other companies within the QBE European Operations Division. In addition, P V Olsen, B W Pomeroy and H M Posner are non-executive directors of related companies within the QBE European Operations division.

Inter syndicate transactions

In certain instances the syndicate has underwritten reinsurances of other managed syndicates. The premiums paid are not material either in the context of those syndicates' overall reinsurance costs nor are they a material part of this syndicate's income.

All contracts are written on normal market terms at arm's length.

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 £1,500,000 (2006 £1,306,000) were written in the year with QBE Insurance (Europe) Limited. All such contracts are written on normal market terms on an arm's length basis. No balances remained at the end of the year.

Claims incurred on contracts with these reinsurers totalled £nil with QBE Insurance (Europe) Limited (2006 £575,000). At year end claims balances relating to these reinsurers amounted to £nil (2006 £6,099,000).

Outwards reinsurance contracts with related QBE companies

The syndicate has purchased reinsurance with companies within the QBE Insurance Group during the year. Outward premiums totalling £6,683,000 (2006: £nil) were placed with Equator Reinsurances Limited. All such contacts are written on normal market terms on an arm's length basis. At year end premium balances relating to contracts with these reinsurers amounted to £nil (2006 £nil).

Balances due in respect of reinsurance recoverable from related QBE companies amounted to £76,000 (2006 £42,000).

Profit commission

Profit commission is payable to the managing agent as per note 1(h). During the year £40,600,000 was charged (2006 £30,805,000).

At the year end £42,425,000 (2006 £68,482,000) was outstanding. This is shown within other creditors.

Managing agent

Total fees payable to QBE Underwriting Limited in respect of services provided to the syndicate in the year amounted to £2,037,000 (2006 £2,037,000). No balance is outstanding at the year end.

Administrative expenses

Total expenses recharged from QBE Underwriting Limited and QBE Management Services (UK) Limited in respect of services provided to the syndicate amounted to £23,702,000 (2006 £20,352,000). The balance remaining at year end is £2,492,000 (2006 £886,000).

There are no other transactions or arrangements to be disclosed.

18 FUNDS AT LLOYD'S

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 FSA 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 financial statements 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.

UNDERWRITING YEAR ACCOUNTS

Underwriting year

The managing agent presents its report at 31 December 2007 for the 2005 closed year of account.

The report is prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005). It accompanies the underwriting year accounts prepared on an underwriting year basis of accounting as required by Statutory Instrument No 3219 of 2004, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations ("the 2004 Regulations").

The reinsurance to close for the 2005 underwriting year was approved by the board of directors on 5 February 2008.

Principal activity

Casualty Syndicate 386 is a non-marine liability (excluding USA) syndicate operating within the Lloyd's insurance market. The syndicate is led by David Constable, Active Underwriter and specialises in employers' liability insurance, third party liability and product liability and professional indemnity insurance.

"I am pleased again to report another market leading result for the close of 2005 underwriting year with a total profit to the names of £175.7 million, which equates to 41.4% of capacity.

The 2005 and prior year underwriting result of £184.2 million comprises a pure year result of £160.5 million and a prior year contribution of £23.7 million. This result reflects the fantastic efforts of both the underwriting and claims teams together with the syndicate's continued support from its major brokers and clients.

All underwriting units contributed significantly to the result, which for the 2005 pure year was broken down as follows:

UK Box	£50.4m
UK Regional	£28.4m
Professional Indemnity	£26.5m
International	£49.3m
Ireland	£5.9m
	£160.5m

The investment return on the fund is £48.3 million, which is in line with expectations.

The 2006 open year continues to develop satisfactorily, albeit reflective of the weakening underwriting environment, with a mid range profit forecast of 33.0% of capacity.

Although still very early in its development, the 2007 open year account is forecast to achieve a mid range profit of 18.5%."

Directors

Details of the directors of the managing agent that served during the year are shown on page 11.

Statement of managing agent's responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004 require the managing agent to prepare syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005).

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- Select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured

- Take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment

- Make judgements and estimates that are reasonable and prudent

- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the underwriting year accounts

The directors confirm that they have complied with the above requirements in preparing the underwriting year accounts for Syndicate 386's 2005 closed year of account.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

Each of the persons who is a director of the managing agent at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the syndicate's auditors are unaware
- The director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information

By order of the board of the managing agent

S M Boland
Company Secretary
QBE Underwriting Limited
Plantation Place
30 Fenchurch Street
London EC3M 3BD

19 March 2008

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS ON THE 2005 CLOSED UNDERWRITING YEAR OF ACCOUNT OF SYNDICATE 386

We have audited the syndicate underwriting year accounts of Syndicate 386 for the 2005 closed underwriting year of account which comprise the profit and loss account, the balance sheet and the related notes. These accounts have been prepared under the accounting policies set out therein.

Respective responsibilities of the managing agent and auditors

The managing agent's responsibilities for preparing the syndicate underwriting year accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004, the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable United Kingdom Generally Accepted Accounting Practice are set out in the statement of managing agent's responsibilities.

Our responsibility is to audit the syndicate underwriting year accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the syndicate's members as a body and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the syndicate underwriting year accounts give a true and fair view of the closed year of account result in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004. In addition, we report to you if, in our opinion, the managing agent has not kept proper accounting records in respect of the syndicate, if the syndicate underwriting year accounts are not in agreement with the accounting records, or if we have not received all the information and explanations we require for our audit.

We read other information attached to the syndicate underwriting year accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the syndicate underwriting year accounts. This other information comprises only the report of the directors of the managing agent and the information on pages 26 to 29, the annual accounts on pages 1 to 25, and pages 38 to 40. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the syndicate underwriting year accounts. It also includes an assessment of the significant estimates and judgements made by the managing agent in the preparation of the syndicate underwriting year accounts, and of whether the accounting policies are appropriate to the syndicate's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the syndicate underwriting year accounts.

Opinion

In our opinion the syndicate underwriting year accounts give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice of the profit of the 2005 closed year of account.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
United Kingdom

19 March 2008

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

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

PROFIT AND LOSS ACCOUNT: 2005 TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE 36 MONTHS ENDED 31 DECEMBER 2007

	Notes	£000	£000
Syndicate allocated capacity			424,189
Earned premiums, net of reinsurance			
Gross premiums written		473,809	
Outward reinsurance premiums		(69,120)	
Earned premiums, net of reinsurance			404,689
Reinsurance to close premium received, net of reinsurance,	3		640,380
Investment return transferred from the non-technical account			48,271
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(165,246)	
Reinsurers' share		33,934	
Change in the net provision for claims			(131,312)
Reinsurance to close premium payable, net of reinsurance	4		(665,454)
Net operating expenses	5		(70,148)
Standard personal expenses			(50,715)
Balance on technical account – general business			175,711

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

PROFIT AND LOSS ACCOUNT: 2005 NON-TECHNICAL ACCOUNT

FOR THE 36 MONTHS ENDED 31 DECEMBER 2007

	Notes	£000
Balance on technical account – general business		175,711
Investment income	6	49,876
Unrealised gains on investments		4,586
Investment expenses and charges	6	(6,191)
Investment return		48,271
Investment return – transferred to general business technical account		(48,271)
Profit for the 2005 closed year of account		175,711

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts.

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

	Notes	£000
Assets		
Investments	8	667,895
Debtors		
Debtors	9	54,265
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	4	203,714
		257,979
Other assets		
Cash at bank and in hand		1,973
Overseas deposits	10	69,741
		71,714
Prepayments and other accrued income		14,119
Total assets		1,011,707
Liabilities		
Amounts due to members	11	86,524
Reinsurance to close premium payable to close the account – gross amount	4	869,168
Creditors	12	56,015
Total liabilities		1,011,707

These financial statements on pages 30 to 37 were approved by the board of QBE Underwriting Limited on 19 March 2008 and were signed on its behalf by

D.J. Winkett

D J Winkett
Director

19 March 2008

The notes on pages 33 to 37 form an integral part of these financial statements

1 ACCOUNTING POLICIES

a) Basis of preparation

These syndicate underwriting year accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2004, the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued in December 2006 by the Association of British Insurers.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2005 year of account which has been closed by reinsurance to close as at 31 December 2007. Consequently the balance sheet represents the assets and liabilities of the 2005 year of account at the date of closure. The profit and loss account reflects the transactions for that year of account during the three year period until closure.

These accounts cover the three years from the date of inception of the 2005 year of account to the date of closure. Accordingly, this is the only reporting period and so corresponding amounts are not shown.

b) Insurance

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

i) Premiums written

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Premiums in respect of insurance contracts underwritten under a binding authority, line slip or consortium arrangement are allocated to the year of account corresponding to the calendar year of inception of the arrangement. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

ii) Reinsurance premium ceded

Initial reinsurance premiums paid to purchase policies which give excess of loss protection are charged to the year of account in which the protection commences. Premiums for other reinsurances are charged to the same year of account as the risks being protected.

iii) Claims paid and related recoveries

Gross claims paid include internal and external claims settlement expenses and, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

iv) Reinsurance to close premium payable

The net reinsurance to close premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims incurred but not reported), net of estimated collectible reinsurance recoveries, relating to the closed year of account and all previous years of account reinsured therein.

The estimate of claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date. It also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified.

The reinsurers' share is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions as regards claims estimates are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the estimates of gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the reinsurance to close premium so determined.

1 ACCOUNTING POLICIES CONTINUED

c) Foreign currency transactions
Transactions other than the reinsurance to close in foreign currencies are translated at the average rates of exchange for the period. Reinsurance to close premiums receivable and payable, and underwriting transactions denominated in other foreign currencies, are included at the rate of exchange ruling at the closing date.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate.

Exchange differences are included in the technical account.

Where Canadian dollars or euros are sold or bought relating to the profit or loss of the closed underwriting account after 31 December, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where United States dollars relating to the profit or loss of a closed underwriting account are bought or sold by members on that year, any exchange profit or loss accrues to those members.

d) Investments
Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

e) Investment return
Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. The returns on the Joint Asset Trust Funds and Illinois Deposit are allocated to the year of account as notified by Lloyd's. The returns on other assets arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

f) Operating expenses
Where expenses are incurred by or on behalf of the managing agent on the administration of managed syndicates, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for the agency company and managed syndicates are apportioned between the agency company and the syndicates on bases depending on the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses are allocated to the year of account for which they are incurred. Commission and brokerage are charged to the year of account to which the relevant policy is allocated.

g) Taxation
Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'.

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

h) Profit commission
Profit commission is charged by the managing agent at a rate of 20% of profit for the closed year of account, subject to the operation of a deficit clause. Where profit commission is charged, it is included within standard personal expenses within the profit and loss 2005 technical account.

2 SEGMENTAL INFORMATION

An analysis of the underwriting result before investment return is set out below:

	Gross premiums written £000	Gross claims incurred (note a) £000	Gross operating expenses £000	Reinsurance balance (note b) £000	Total £000
Direct insurance					
Third party liability	429,530	(152,373)	(61,745)	(32,245)	183,167
	429,530	(152,373)	(61,745)	(32,245)	183,167
Reinsurance acceptances	44,279	(12,873)	(8,403)	(2,941)	20,062
RITC	640,380	(869,168)	–	203,714	(25,074)
Total	1,114,189	(1,034,414)	(70,148)	168,528	178,155

Notes:
a) Gross claims incurred comprises gross claims paid and gross reinsurance to close premium payable.
b) The reinsurance balance comprises reinsurance premiums ceded less reinsurance recoveries on claims paid and reinsurance recoveries anticipated on reinsurance to close payable.
c) All premiums are concluded in the UK.

3 REINSURANCE TO CLOSE PREMIUM RECEIVABLE

	£000
Gross reinsurance to close premium received	832,588
Reinsurance recoveries anticipated	(192,208)
Reinsurance to close premium receivable, net of reinsurance	640,380

4 REINSURANCE TO CLOSE PREMIUM PAYABLE

	Reported £000	IBNR £000	Credit for future premiums £000	Total £000
Gross reinsurance to close premium payable	582,432	286,736	–	869,168
Reinsurance recoveries anticipated	(165,490)	(40,429)	2,205	(203,714)
Reinsurance to close premium payable, net of reinsurance	416,942	246,307	2,205	665,454

5 NET OPERATING EXPENSES

	£000
Acquisition costs – brokerage	64,086
Acquisition costs – other	6,936
Administrative expenses	12,925
Profit on exchange	(13,799)
	70,148
Administrative expenses include:	
Auditors' remuneration	
Audit services – current auditors	393
Audit services – previous auditors	63

6 INVESTMENT INCOME, EXPENSES AND CHARGES

	£000
Investment income:	
Income from investments	49,876
Investment expenses:	
Investment management expenses	910
Losses on the realisation of investments	5,281
Investment expenses	6,191

7 ANALYSIS OF RESULT BY YEAR OF ACCOUNT

	2004 and prior years of account £000	2005 pure year of account £000	Total £000
Technical account balance excluding investment return and operating expenses	26,637	221,666	248,303
Brokerage and commission on gross premium	(2,943)	(61,143)	(64,086)
	23,694	160,523	184,217
Allocated investment return transferred from the non-technical account			48,271
Net operating expenses			(6,062)
Standard personal expenses			(50,715)
			175,711

8 INVESTMENTS

	Cost £000	Market value £000
Shares and other variable yield securities and units in unit trusts	636,243	638,007
Holdings in collective investment scheme	6,655	6,655
Participation in investment pools	23,206	23,206
Deposits with credit institutions	27	27
	666,131	667,895

9 DEBTORS

Arising out of direct insurance operations:

	£000
Amounts due within one year:	
Due from intermediaries	39,394
Inter-year loan	5,519
Arising out of reinsurance operations	618
Reinsurance recoveries accrued	8,236
Other	79
	53,846
Amounts due after one year:	
Due from intermediaries	419
	54,265

10 OVERSEAS DEPOSITS

These comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

11 AMOUNTS DUE TO MEMBERS

	£000
Profit for the closed year of account	175,711
Members' agents fees paid on behalf of members	(1,002)
Distributions made to 31 December 2007	(88,185)
Members' balances carried forward at 31 December 2007	86,524

12 CREDITORS

	£000
Arising out of direct insurance operations	
Due to intermediaries	28,527
Arising out of reinsurance operations	4,709
Profit commission payable	21,884
Amounts owed to credit institutions	646
Unsettled investment trades	248
Other	1
	56,015

13 RELATED PARTIES

The managing agent of the syndicate, QBE Underwriting Limited, and certain corporate members that provide capital to the syndicate, are wholly owned subsidiaries of their ultimate parent company, QBE Insurance Group Limited.

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

Directors' interests
All of the executive directors listed on page 11 hold, or held in the year, executive directorships of other companies within the QBE European Operations Division. In addition, P V Olsen, B W Pomeroy and H M Posner are non-executive directors of related companies within the QBE European Operations division.

Inter-syndicate transactions
In certain instances the syndicate has underwritten reinsurances of other managed syndicates. The premiums paid are not material either in the context of those syndicates' overall reinsurance costs nor are they a material part of this syndicate's income. All contracts are written on normal market terms at arm's length.

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 £nil were written for the 2005 account, all with QBE Insurance (Europe) Limited. All such contracts are written on normal market terms on an arm's length basis. No balances remain at the period end.

Claims incurred on contracts with QBE Insurance (Europe) Limited totalled £nil. No balances remain at the period end.

Outward reinsurance contracts with related QBE companies
The syndicate has not placed outwards reinsurance business with companies within the QBE Insurance Group during the period. Balances due in respect of reinsurance recoverable from related QBE companies amounted to £76,000.

Profit commission
Profit commission is payable to the managing agent as per note 1(h). During the period £43,928,000 was charged in respect of the 2005 year of account. At the end of the period £21,884,000 was outstanding. This is shown within other creditors.

Managing agent
Total fees payable to QBE Underwriting Limited in respect of services provided to the syndicate in respect of the 2005 year of account amounted to £2,545,000. No balance is outstanding at the year end.

Administrative expenses
Total expenses recharged from QBE Underwriting Limited and QBE Management Services (UK) Limited in respect of services provided to the syndicate in respect of the 2005 year of account amounted to £19,175,000. No balance is outstanding at the year end.

There are no other transactions or arrangements to be disclosed.

The results for the last seven years on an annual accounting basis are as follows:

	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	**2007 £000**
Gross premium written	379,148	426,653	471,961	436,749	448,999	439,785	**436,060**
Net earned premiums	251,656	303,417	362,634	402,228	380,150	367,443	**370,346**
Net claims	(196,544)	(207,726)	(217,299)	(211,975)	(114,495)	(161,852)	**(158,033)**
Acquisition costs	(60,827)	(71,065)	(77,201)	(59,418)	(49,708)	(71,501)	**(80,205)**
Net underwriting profit	(5,715)	24,626	68,134	130,835	215,947	134,090	**132,108**
Profit/(loss) on exchange	(5,313)	(4,525)	(10,179)	2,615	6,263	(9,658)	**29,789**
Other net operating expenses	(12,911)	(27,425)	(32,341)	(56,301)	(72,246)	(41,951)	**(52,333)**
Investment return	16,850	21,431	37,784	52,150	58,814	40,600	**56,202**
Profit for the financial year	(7,089)	14,107	63,398	129,299	208,778	123,081	**165,766**

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

	1999	2000	2001	2002	2003	2004	**2005**
Syndicate allocated capacity	£124.77m	£212.27m	£212.62m	£299.65m	£449.11m	£498.63m	**£424.19m**
Capacity utilised	96.8%	94.6%	132.6%	104.8%	94.6%	85.3%	**111.7%**
Number of underwriting members	1,716	1,935	1,873	1,747	1,705	1,570	**1,224**
Aggregate net premiums	£102.9m	£161.0m	£191.0m	£248.8m	£352.6m	£354.0m	**£404.7m**
Net capacity utilised	82.5%	75.8%	89.8%	83.0%	78.5%	71.0%	**95.4%**
Technical account ratio	(11.6)%	(11.3)%	(7.4)%	12.5%	37.9%	44.6%	**37.6%**

Result for an illustrative share of £10,000	£	£	£	£	£	£	**£**
Gross premiums	9,677	9,460	13,256	10,480	9,463	8,535	**11,170**
Net premiums	8,249	7,583	8,984	8,303	7,851	7,099	**9,540**
Reinsurance to close from earlier account	15,409	17,904	19,737	16,448	12,815	12,564	**15,096**
Net claims	(6,097)	(7,105)	(7,184)	(4,033)	(1,891)	(3,196)	**(3,096)**
Reinsurance to close	(18,072)	(18,925)	(21,728)	(18,869)	(14,454)	(12,356)	**(15,687)**
Profit/(loss) on exchange	(30)	(40)	(416)	85	(79)	43	**325**
Syndicate operating expenses	(582)	(490)	(377)	(628)	(654)	(352)	**(1,979)**
Balance on technical account	(1,123)	(1,073)	(984)	1,306	3,588	3,802	**4,199**
Investment income and gains less losses, less expenses and charges	1,366	901	1,577	1,503	1,491	854	**1,138**
Profit before personal expenses	243	(172)	593	2,809	5,079	4,656	**5,337**
Illustrative personal expenses for a traditional name							
Managing agent's fee	(50)	(65)	(65)	(65)	(65)	(60)	**(60)**
Contribution to Lloyd's Central Fund	(100)	(100)	(75)	(100)	(100)	(125)	**(50)**
Profit commissions	(20)	-	(17)	(524)	(978)	(884)	**(1,035)**
Lloyd's subscription	(35)	(25)	(25)	(25)	(25)	(50)	**(50)**
	(205)	(190)	(182)	(714)	(1,168)	(1,119)	**(1,195)**
Profit/(loss) after illustrative profit commission and personal expenses	38	(362)	411	2,095	3,911	3,537	**4,142**

Notes:
1 The seven year summary has been prepared from the audited accounts of the syndicate.
2 Gross and net premiums are stated net of brokerage and commissions.

Active Underwriter
David Constable
david.constable@uk.qbe.com
tel +44 (0)20 7105 4076

Syndicate Manager
Frank Kent
frank.kent@uk.qbe.com
tel +44 (0)20 7105 4829

Designed and produced by 85four www.85four.com

Printed in England by Cousin www.cousin.uk.com
Cousin is a carbon neutral company with ISO 14001 accreditation: it recycles all solvents used in the printing process, making any waste ph neutral, and also hold fsc status.

This report is printed on paper made from totally chlorine-free (TCF) and elemental chlorine-free (ECF) pulp, sourced from sustainable forests. It is recyclable and biodegradable.

Casualty Syndicate 386
Plantation Place
30 Fenchurch Street
London EC3M 3BD

tel +44 (0)20 7105 4000
fax +44 (0)20 7105 4019

For more information:

e-mail **enquiries@uk.qbe.com**

or visit **www.QBEeurope.com**