QBE Casualty Syndicate 386
Annual report 2008

386

QBE

QBE Casualty Syndicate 386

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**

Frank O'Halloran
Chief Executive Officer,
QBE Insurance Group

Steven Burns
Chief Executive Officer,
QBE European Operations

QBE European Operations overview

Despite less favourable market conditions, two major hurricanes and an increase in large loss frequency for 2008, QBE European Operations (EO) has produced another strong result with a combined operating ratio of 85.6% (2007 84.8%).

This was achieved through focused underwriting discipline and high business retention ratios coupled with a strong prior year performance.

Following the successful implementation of our product and distribution model and the development of our UK National and European Markets distribution capabilities, we are now very well positioned to deliver strong growth through these local offices as and when market conditions improve.

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

EOs' eight product focused underwriting divisions allow it to leverage the breadth and depth of its capabilities in a coordinated and focused way.

This means brokers and clients have access to:

- A wider distribution network
- All expertise in one place
- A choice of Lloyd's paper or company paper
- The strength and size of QBE
- The individuals who understand their business

What makes QBE different?

1

Strong and growing market presence

2

Entrepreneurial solutions to business risk

3

Empowers through a collaborative can do spirit across the business and with all business partners

Strong
QBE is one of the world's top 25 insurers and reinsurers and has been established in the UK since 1904. At QBE we understand the importance of security in the insurance decision making process and the strength of our ratings and financial backing gives us a real advantage in the market.

QBE is one of the world's leading insurers and reinsurers with offices in 45 countries, backed by A+ ratings by S&P and Fitch. Our approach is one of leading not following, so when it comes to product design or setting the terms and conditions we take the initiative.

Entrepreneurial
We are always looking for solutions to business risks which means working closely with all parties to understand their business and creating the right product for them.

A groundbreaking six year deal signed with a major provider of transport infrastructure provides a graphic illustration of an insurer that has an appetite for tripartite partnerships with brokers and clients built around shared information. This also demonstrates our appetite to tackle risks that others cannot and this deal provided the client with the necessary insurance first to survive and, latterly, the confidence to build for the future.

Empowers
At every stage of the relationship we encourage a "can do" spirit, which means everyone benefits from quicker decision making and faster solutions.

We emphasise the importance of cooperation across all departments and this in turn enables us to provide a bespoke service and excellent customer relations management programme to our clients.

An example of this was provided recently to a major UK based corporate catering company where a flexible, coordinated approach to client care was implemented, including scheduled quarterly meetings backed up by fully transparent management reporting.

The QBE European Operations brand promise strives for excellence in five core areas

4

Delivers reliable and responsive service at every stage of the stakeholder experience

Delivers

By understanding the market better and in particular the risks associated with that product, we are more responsive and able to deliver solutions to everyone's requirements.

Not only do we take great satisfaction from our claims record, we also place a great emphasis on risk management, with regular forums held addressing the key risk issues facing our clients. This emphasis is recognised by brokers who rated QBE fourth for claims handling in a recent study*.

5

Specialist in every business line and consistently across all disciplines

Specialist

Our teams are specialists in every business line, which means they give equal importance to the generation of new business as they do to supporting the retention of key existing business.

Our underwriters are readily accessible and their skills and in depth product knowledge of their sector enable them to provide an answer straight away. The sheer number of underwriters allows us to have specialists for individual subclasses of product and, if an answer is not readily available, then we are always looking for creative solutions.

These key attributes resulted in brokers ranking QBE underwriters in third place in a recent survey*. So whether it's cover for aviation products or zoos, or anything in between, we can provide a competitive and effective outcome.

*Commercial Insurer Service study 2008 (Insurance Times).

QBE Casualty Syndicate 386 at a glance

The Casualty division is realising its potential to maximise opportunities, whilst continuing to deliver market leading results via Syndicate 386.

The syndicate accounts are prepared on both an annually accounted basis under UK GAAP and on an underwriting year of account basis.

Highlights

Results on an annual accounted basis include:

- 2008 combined operating ratio of 71.5% (2007 70.4%)
- 2008 GWP of £412 million (2007 £436 million)
- 2009 projected GWP of £386 million
- Continued responsible cycle management with a static capacity of £340 million for 2009

Results on an underwriting year of account basis include:

- 2006 underwriting year of account profit of 56.0% of capacity (2005 41.4%)
- 2007 underwriting year of account forecast profit of 21.5% of capacity
- 2008 underwriting year of account forecast profit of 12.5% of capacity

Strengths of the syndicate

- 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 award available to a Lloyd's syndicate
- Total syndicate funds of £1.3 billion
- Exceptional track record with an average profit to capital providers of 26.0% for the 1993-2006 underwriting years
- Part of QBE Underwriting Limited, one of the largest managing agents at Lloyd's with over £1 billion capacity for 2009
- QBE (main underwriting entities rated S&P "A+") as the ultimate parent company and provider of 69.6% of 2009 underwriting capital

£412 million
2008 GWP

71.5%
2008 combined operating ratio

56.0%
2006 underwriting year profit

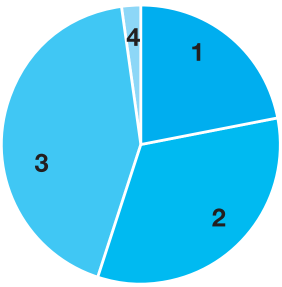
£1.3 billion
Total syndicate funds

Business of the syndicate

David Constable
Active Underwriter

QBE Casualty Syndicate 386 is a specialist UK non-marine liability insurer, headed by David Constable.

2008 Portfolio split



1 Professional indemnity **22%**
2 International liability **33%**
3 UK and Europe **43%**
4 Specialist **2%**

Summary of syndicate benefits

For 2008, the syndicate was 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.

As part of the Casualty Division, the syndicate is now able to enhance its product range by cross selling other casualty and property classes offered within QBE and is now better placed to defend its book against its competitors.

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 us 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.

Risk management

The syndicate's activities expose the business to a number of key risks which have the potential to affect its 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 manage risks effectively in line with the agreed tolerance.

The syndicate 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 risks 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 the syndicate 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.

Report of the directors of the managing agent

The directors of QBE Underwriting Limited (QUL), the managing agent for Syndicate 386, present the annual report and audited financial statements for the syndicate for the year ended 31 December 2008.

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 and product liability and professional indemnity insurance.

Business review

The table below details the syndicate's annually accounted result as at 31 December 2008 relative to the previous year end.

	2008 £000	2007 £000
Gross premium written	**411,967**	436,060
Net earned premiums	**359,216**	370,347
Net claims	**(192,421)**	(158,034)
Acquisition costs	**(81,486)**	(80,204)
Net underwriting profit	**85,309**	132,109
Profit/(loss) on exchange	**70,857**	29,789
Other net operating expenses	**(53,693)**	(52,334)
Investment return	**60,812**	56,202
Total profit for the financial year	**163,285**	165,766
Claims ratio	**53.6%**	42.7%
Combined operating ratio	**71.5%**	70.4%

The Active Underwriter comments:

"The objectives for 2008 as we embarked on integration within the QBE Casualty team were stated as:

- A one stop shop for brokers
- Empowered underwriters with dual pen capabilities
- Optimisation of underwriting capacity and reinsurance arrangements
- To build on the strengths of the respective Lloyd's and Company teams within QBE to ensure the whole is greater than the sum of the parts
- To continue as market of choice by remaining innovative, flexible, accessible and committed.

I reported last year we had successfully purchased a combined reinsurance programme which materially reduced the cost to Syndicate 386. As important were the other objectives which required a buy-in by all stakeholders to ensure the sum of the two must be at least as good, or better than the parts. It is pleasing to report not only the delivery of all these objectives but also an excellent contribution to the Casualty division result.

It is therefore with great pride that I present another excellent syndicate result with a combined operating ratio of 71.5% and an insurance profit of £163.3 million for the 2008 financial year.

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

	£m
UK Box	45.3
National (including Ireland)	36.1
Professional Indemnity	35.7
International	42.9
Specialist	3.3
Total	163.3

Report of the directors of the managing agent continued

On analysis of the result by underwriting year of account, the 2008 underwriting year performed well during the 2008 financial year, with a profit of £16.3 million and a combined operating ratio of 92.2%. However, the major contributors to the overall result were the 2007 and prior years which witnessed a strong run-off development during the period, coupled with a strong profit on exchange of £70.9 million. The syndicate writes a significant proportion of its business in US dollar, Canadian dollar and Australian dollars which has given rise to significant currency movements during the year.

Taking into consideration the dual pen responsibility within the new Casualty division, it again demonstrates a capability within the QBE underwriting approach which develops underwriters who are in the top quartile of the market. My congratulations go to the whole Casualty team for their dedication, expertise and hard work in achieving this.

Lastly, my thanks to the Casualty division Managing Director, Ash Bathia, whose leadership and encouragement to maintain a high standard in all areas greatly assisted the transition phase we all went through in 2008."

Future developments

The key objectives for integration set out earlier have been achieved and a firm foundation set for the future success of both Syndicate 386 and the Casualty division. There are a number of challenges which have to be met, the most important is underwriting within a difficult market whilst in the middle of a full blown recession. There is no doubt we will see increased claims frequency across most portfolios and with pressure on our insured's own balance sheets, there will be a need to maintain a tight control over price and terms and conditions.

The purchase of a three year reinsurance protection with QBE Group's wholly owned captive subsidiary, Equator Re, will also assist the syndicate's future reinsurance needs (see note 17, page 26).

Key initiatives affecting the Casualty division are as follows:

- Canada and Middle East representative offices will assist in the introduction of new business at source.
- The ability of offering package policies especially out of the national offices will assist in protecting the Casualty lines as well as introducing new business opportunities.
- Infrastructure opportunities arising from government backed projects will be sought and cross class deals quoted.

In addition to this, we continue to develop our IT capability and improve operational efficiencies. The current Syndicate 386 underwriting system is past its natural life. A new project started in 2008 will be carried through into 2009 and beyond, to deliver a system capable of dealing with the requirements of the UK market in particular, as we expand the national book over the next few years.

Protocols

The implementation and management of underwriting protocols continues to be given the highest priority and is working as intended. The protocols themselves are a live set of rules which need to reflect changes as the business is developed. From a Syndicate 386 perspective, there are certain initiatives within QBE which would not fall under its traditional approach which have been reflected in the protocols.

On a longer term basis we recognise the need to review the protocol approach, especially as we move further away from the original integration date when the percentages were agreed. We will address this issue in 2009 and advise whether there is a better way of doing this which encapsulates the original intent of the protocols and makes the operational support processes easier and more efficient.

Investment policy

QBE European Operations operates an investment committee which is responsible for recommending to the QUL 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, (the investment manager), a wholly owned subsidiary of the QBE Group. The activities of the investment manager are regulated by the Financial Services Authority (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 each calendar year are set out below. These include income earned on funds which are not managed by the investment manager, such as short term liquid deposits and certain regulatory overseas deposits. The combined total currency return for the year was 5.0% (2007 5.0%).

Portfolio currency	2008 Average funds 000	2008 Actual return %	2008 Target return %	2007 Average funds 000	2007 Actual return %	2007 Target return %
Australian dollar	**574,423**	**9.7**	**6.5**	476,078	6.3	6.2
Canadian dollar	**321,024**	**3.6**	**4.3**	275,181	4.4	4.0
Euro	**412,831**	**1.8**	**4.0**	395,295	3.5	3.4
Sterling	**419,274**	**5.6**	**5.2**	515,087	5.6	4.8
US dollar	**113,005**	**2.6**	**4.6**	128,417	5.3	4.9

The benchmark target for fixed income portfolios is 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 each calendar year are shown above.

Individual currency investment returns varied in performance when compared to their respective currency targets for the year. Outperformance was achieved in the sterling and Australian portfolios whilst the Canadian, euro and US dollar funds fell short of their benchmark. Overall performance for the syndicate was in line with the weighted target return of 5%.

During 2008, the investment manager adopted a cautious stance by maintaining relatively short duration in all portfolios. As the intensity of the credit crunch worsened during the year, the investment strategy adopted for the syndicate was dominated by an emphasis on preservation of capital as the primary goal. As a result of this strategy, the syndicate investment portfolios performed favourably when compared with returns in the insurance industry peer group and managed funds avoided any credit defaults in 2008.

After taking account of the investment return, profit payments and significant exchange rate movements, overall syndicate funds closed the year below budgeted target but materially above their opening level.

Corporate governance

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 19 executive directors and three non-executive directors and meets seven times a year.

Divisional product management committees

These committees are responsible for the reporting and review of all aspects of the division's day-to-day management of underwriting. Each committee 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 of the company 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; it makes recommendations 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.

Report of the directors of the managing agent continued

- 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, which is constituted solely by non-executive directors, 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.

The following four committees report to the audit committee:

- 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.

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

Risk management
Details of the principal risks and uncertainties facing the syndicate are shown on page 06.

Other governance issues
QUL has adopted a code of conduct which outlines a set of general business ethics that apply to all employees when conducting any activity on behalf of the 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, conflicts of interest and treating customers fairly. Other policies are in place to cover areas such as health and safety, harassment, equal opportunities and financial crime.

Directors
Details of the directors of the managing agent that served during the year are shown on page 12.

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 2008 of which the auditors are unaware; and
- 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. In accordance with the terms of the Insurance Accounts Directive (Lloyd's Syndicate Aggregate Accounts) Regulation 2008, an AGM has been convened on 28 April 2009 at 3.00pm, for which notice has been issued to members' agents.

By order of the Board

Sharon Boland

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

17 March 2009

Managing agency – corporate information

Directors

The directors of QUL, the managing agent, who served during the year ended 31 December 2008 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	
E Di Silvio		
P A Dodridge		
D Grossman	Appointed 1 January 2008	
P E Grove		
R B M Johnston	Appointed 10 March 2009	
B Mageean	Appointed 11 June 2008	
V McLenaghan		
J D Neal		
C R O'Farrell		
F M O'Halloran		
P J O'Neill	Appointed 1 January 2008	Resigned 11 June 2008
P V Olsen*		
J W Parry		
B W Pomeroy*		
H M Posner*		
G S Rayner	Appointed 1 January 2008	
T J Whittaker	Appointed 1 January 2008	
D J Winkett		

*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

S M Boland

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 QBE Casualty Syndicate 386

We have audited the syndicate annual accounts of Syndicate 386 for the year ended 31 December 2008 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 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, the information given in the report of the directors of the managing agent 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 01 to 12, the underwriting year accounts on pages 27 to 39, and pages 40 to 42. 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 2008 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 report of the directors of the managing agent is consistent with the syndicate annual accounts.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

17 March 2009

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 2008

	Notes	2008 £000	2008 £000	2007 £000	2007 £000
Earned premiums, net of reinsurance					
Gross premiums written	2	**411,967**		436,060	
Outward reinsurance premiums		**(53,218)**		(62,407)	
Net premiums written			**358,749**		373,653
Changes in the provision for unearned premiums:					
Gross amount		**1,247**		1,729	
Reinsurers' share		**(780)**		(5,035)	
			467		(3,306)
Earned premiums, net of reinsurance			**359,216**		370,347
Investment return transferred from the non-technical account			**60,812**		56,202
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		**(196,823)**		(163,536)	
Reinsurers' share		**34,921**		32,998	
		(161,902)		(130,538)	
Changes in the provision for claims					
Gross amount		**(51,968)**		(28,868)	
Reinsurers' share		**21,449**		1,372	
		(30,519)		(27,496)	
Claims incurred, net of reinsurance			**(192,421)**		(158,034)
Net operating expenses	4		**(21,463)**		(60,114)
Standard personal expenses			**(42,859)**		(42,635)
Balance on technical account – general business			**163,285**		165,766

The results above are all derived from continuing operations.

The notes on pages 19 to 26 form an integral part of these financial statements.

Profit and loss account: non-technical account

For the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Balance on technical account – general business		**163,285**	165,766
Investment income	7	**69,813**	52,613
Unrealised gains on investments		**–**	6,586
Unrealised loss on investments		**(7,755)**	–
Investment expenses and charges	7	**(1,246)**	(2,997)
Investment return		**60,812**	56,202
Investment return – transferred to general business account		**(60,812)**	(56,202)
Profit for the financial year		**163,285**	165,766

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.

The notes on pages 19 to 26 form an integral part of these financial statements.

Balance sheet

As at 31 December 2008

Assets	Notes	2008 £000	2007 £000
Investments			
Financial investments	8	**1,186,583**	1,136,079
Reinsurers' share of technical provisions			
Provision for unearned premiums		**21,957**	22,737
Claims outstanding	3	**307,311**	262,903
		329,268	285,640
Debtors			
Debtors arising out of direct insurance operations	9	**200,333**	195,010
Debtors arising out of reinsurance operations		**15,643**	10,960
Other debtors	10	**452**	93
		216,428	206,063
Other assets			
Overseas deposits	11	**146,728**	107,152
Cash at bank and in hand		**29,460**	7,982
		176,188	115,134
Prepayments and accrued income			
Accrued interest		**20,994**	26,280
Deferred acquisition costs		**39,611**	36,461
		60,605	62,741
Total assets		**1,969,072**	1,805,657

The notes on pages 19 to 26 form an integral part of these financial statements.

Balance sheet
continued
As at 31 December 2008

Liabilities	Notes	2008 £000	2007 £000
Capital and reserves			
Members balances	12	**168,679**	167,181
		168,679	167,181
Technical provisions			
Provision for unearned premiums		**207,855**	209,103
Claims outstanding	3	**1,425,399**	1,259,556
		1,633,254	1,468,659
Creditors			
Creditors arising out of direct insurance operations	13	**98,255**	94,982
Creditors arising out of reinsurance operations		**19,750**	28,695
Other creditors	14	**49,134**	46,140
		167,139	169,817
Accruals and deferred income		**–**	–
Total liabilities		**1,969,072**	1,805,657

These financial statements on pages 14 to 26 were approved by the board of QUL on 17 March 2009 and were signed on its behalf by:

D J Winkett
Director
17 March 2009

The notes on pages 19 to 26 form an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Net cash inflow from operating activities		**122,835**	136,844
Transfer to members in respect of underwriting participations			
Distribution of profits		**(86,524)**	(57,229)
Open year profit release		**(73,962)**	(68,442)
Members agents' fees paid on behalf of members		**(849)**	(741)
Financing			
Cash calls received		**4**	11
		(38,496)	10,443
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	15	**20,452**	(17,507)
Decrease in amounts due to credit institutions	15	**(456)**	(138)
Increase in overseas deposits	15	**31,322**	11,240
Net portfolio investments (disinvestments)	15	**(89,814)**	16,848
Net investment of cash flows		**(38,496)**	10,443

	Notes	2008 £000	2007 £000
Reconciliation of operating profit/(loss) to net cash flow from operating activities			
Operating profit on ordinary activities		**163,285**	165,766
Realised and unrealised investment (gains)/losses		**(149,598)**	(63,911)
Increase/(decrease) in net technical provisions		**120,967**	67,769
Decrease/(increase) in debtors		**(8,230)**	(23,886)
(Decrease)/increase in creditors		**(3,133)**	(8,918)
Other movements		**(456)**	24
Net cash inflow from operating activities		**122,835**	136,844

The notes on pages 19 to 26 form an integral part of these financial statements.

Notes to the financial statements

Forming part of the 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 2005 (as amended in December 2006), except that foreign exchange gains and losses are taken to the profit and loss technical account.

The accounts incorporate all transactions committed to by the 2008 year of account and prior years of 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.

1 Accounting policies continued

iv) Claims provisions and related recoveries continued
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.

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 whereas deposits with credit institutions, participation in investment pools 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

2008	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	**369,350**	**371,356**	**(220,916)**	**(56,285)**	**(2,710)**	**91,445**
	369,350	**371,356**	**(220,916)**	**(56,285)**	**(2,710)**	**91,445**
Reinsurance acceptances	**42,617**	**41,858**	**(27,875)**	**(8,037)**	**5,082**	**11,028**
Total	**411,967**	**413,214**	**(248,791)**	**(64,322)**	**2,372**	**102,473**

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

All premiums were concluded in the UK.

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

	2008 £000	2007 £000
UK	**219,647**	248,322
Other EU countries	**50,363**	50,294
US	**–**	–
Other countries	**141,957**	137,444
	411,967	436,060

3 Claims outstanding

This year, there is an overall positive net run-off development of £40,590,000 (2007 £83,723,000) of which the major contributor was third party liability of £34,809,000 (2007 £80,343,000) together with a positive development in reinsurance acceptances of £5,781,000 (2007 £3,380,000).

Notes to the financial statements continued

Forming part of the financial statements

4 Net operating expenses

	2008 £000	2007 £000
Acquisition costs – direct commission	**58,162**	60,591
Acquisition costs – other	**26,474**	20,313
Change in deferred acquisition costs	**(3,150)**	(700)
Administrative expenses	**10,834**	9,699
(Profit)/loss on exchange	**(70,857)**	(29,789)
	21,463	60,114
Administrative expenses include auditors' remuneration:		
Fees payable to the syndicate's auditor for the audit of the syndicate's annual accounts	**222**	229
Other services pursuant to legislation	**103**	106

5 Directors' emoluments

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

	2008 £000	2007 £000
Directors of the managing agent	**1,445**	1,340
Active Underwriter	**374**	353

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

6 Employees

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:

	2008 £000	2007 £000
Wages and salaries	**14,945**	11,749
Social security costs	**1,588**	1,316
Other pension costs	**3,188**	1,270
	19,721	14,335

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

	2008 Number	2007 Number
Underwriting	**114**	75
Claims	**20**	27
Administration	**110**	79
	244	181

7 Investment income, expenses and charges

Investment income	2008 £000	2007 £000
Income from investments	**56,480**	52,613
Net gains on realisation of investments	**13,333**	–
	69,813	52,613

Investment expenses and charges	2008 £000	2007 £000
Net losses on the realisation of investments	**–**	1,743
Investment management expenses	**1,246**	1,254
	1,246	2,997

8 Financial investments

	Cost		Market value	
	2008 £000	2007 £000	2008 £000	2007 £000
Shares and other variable yield securities and units in unit trusts	**7,652**	12,636	**7,652**	12,636
Debt securities and other fixed income securities	**1,145,623**	1,090,521	**1,139,504**	1,094,021
Participation in investment pools	**39,390**	29,395	**39,390**	29,395
Deposits with credit institutions	**37**	27	**37**	27
	1,192,702	1,132,579	**1,186,583**	1,136,079

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.

9 Debtors arising out of direct insurance operations

	2008 £000	2007 £000
Due within one year		
Due from intermediaries	**199,130**	193,402
Due after one year		
Due from intermediaries	**1,203**	1,608
	200,333	195,010

10 Other debtors

Other debtors includes an amount of £407,000 (2007 £nil) relating to unsettled investment transactions.

Notes to the financial statements continued

Forming part of the financial statements

11 Overseas deposits

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

	2008 £000	2007 £000
Joint Asset Trust Funds	**5,814**	4,715
Canadian Margin Fund	**21,277**	17,574
Australian Trust Funds	**101,567**	73,639
South African Trust Funds	**15,059**	8,717
Additional Securities Limited	**3,011**	2,507
	146,728	107,152

The Joint Asset Trust Funds are required to enable names to write certain business in the US.

The deposits with Additional Securities Limited are required to allow names to write business in various overseas countries.

12 Reconciliation of members' balances

	2008 £000	2007 £000
At 1 January	**167,181**	127,793
Profit for the financial year	**163,285**	165,766
Members' agent fees	**(849)**	(741)
Non-standard personal expenses	**(457)**	24
Payments out of profit to members' personal reserve funds	**(160,486)**	(125,671)
Losses/calls not made	**5**	11
(Loss)/profit on exchange	**–**	(1)
At 31 December	**168,679**	167,181

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 2008 for the 2006 year of account were £8,000 (2007 for the 2005 year of account £11,000).

13 Creditors arising out of direct insurance operations

	2008 £000	2007 £000
Due within one year		
Due to intermediaries	**98,255**	94,982

14 Other creditors

Other creditors includes profit commission due to the managing agent of £42.9 million (2007 £42.4 million), amounts due to QBE Management Services (UK) Limited in relation to recharged expenses of £4.5 million (2007 £2.5 million), and £1.4 million (2007 £0.9 million) owed to credit institutions.

15 Movement in opening and closing portfolio investments net of financing

	2008 £000	2007 £000
Net cash inflow for the year:		
Increase/(decrease) in cash holdings	20,452	(17,507)
Decrease in amounts due to credit institutions	(456)	(138)
Increase in overseas deposits	31,322	11,240
Net portfolio investments (disinvestments)	(89,814)	16,848
Movement arising from cash flows	(38,496)	10,443
Changes in market value and exchange rates	149,598	63,911
Total movement in portfolio investments, net of financing	111,102	74,354
At 1 January, net of financing	1,250,241	1,175,887
At 31 December, net of financing	1,361,343	1,250,241

Movement in cash, portfolio investments and financing

	1 January 2008 £000	Cash flow £000	Changes to market value and currencies £000	At 31 December 2008 £000
Cash at bank and in hand	7,982	20,452	1,026	29,460
Overseas deposits	107,152	31,322	8,254	146,728
Portfolio investments:				
Shares and other variable yield securities and units in unit trusts	12,636	(5,451)	467	7,652
Debt securities and other fixed income securities	1,094,021	(90,716)	136,200	1,139,505
Participations in investment pools	29,395	6,353	3,642	39,390
Deposits with credit institutions	27	–	9	36
Total portfolio investments	1,136,079	(89,814)	140,318	1,186,583
Loans due within one year	(972)	(456)	–	(1,428)
Total cash, portfolio investments and financing	1,250,241	(38,496)	149,598	1,361,343

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

16 Cash flows invested in portfolio investments

	2008 £000	2007 £000
Purchase of shares and other variable yield securities	(100,476)	(94,260)
Purchase of debt securities and other fixed income securities	(2,043,398)	(2,477,545)
Purchase of participations in investment pools	(224,973)	(80,019)
Sale of shares and other variable yield securities	105,927	94,143
Sale of debt securities and other fixed income securities	2,134,114	2,457,136
Sale of participations in investment pool	218,620	77,962
Decrease in other loans	–	5,735
Net cash inflow/(outflow) on portfolio investments	89,814	(16,848)

Notes to the financial statements continued

Forming part of the financial statements

17 Related parties

The managing agent of the syndicate, QUL, 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 12 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 £2,929,000 (2007 £1,500,000) 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 (2007 £nil). At year end claims balances relating to these reinsurers amounted to £nil (2007 £nil)

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 £28,805,000 (2007 £6,683,000) were placed with Equator Reinsurances Limited. All such contracts 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 (2007 £nil).

Balances due in respect of reinsurance recoverable from related QBE companies amounted to £99,000 (2007 £76,000).

Profit commission

Profit commission is payable to the managing agent as per note 1(h). During the year £40,390,000 was charged (2007 £40,600,000).

At the year end £42,872,000 (2007 £42,425,000) was outstanding. This is shown within other creditors.

Managing agent

Total fees payable to QUL in respect of services provided to the syndicate in the year amounted to £2,038,000 (2007 £2,037,000). No balance is outstanding at the year end.

Administrative expenses

Total expenses recharged from QUL and QBE Management Services (UK) Limited in respect of services provided to the syndicate amounted to £33,582,000 (2007 £23,702,000). The balance remaining at the year end is £4,474,000 (2007 £2,492,000).

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

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Report of the directors of the managing agent

The managing agent presents its report at 31 December 2008 for the 2006 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 2006 underwriting year was approved by the board of directors on 10 February 2009.

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 and product liability and professional indemnity insurance.

Review of the 2006 closed year of account

The Active Underwriter comments further:

"The 2006 pure underwriting year performance has been excellent with a gross premium of £452 million, producing a pure year net underwriting profit of £91.2 million. This, combined with a prior year surplus of £49.8 million and a strong below the line performance on expenses, investment and foreign exchange, has produced an outstanding total profit to names of 56.0% of capacity.

There is no doubt that the capacity figure budgeted for of £340 million has proven to be too pessimistic. This was due to stronger economic conditions than envisaged, combined with good rate environment which enabled us to renew our book of business and acquire new opportunities. This coupled with a solid prior year performance, all combined to deliver this fantastic result.

All underwriting units contributed significantly to the result, which for the 2006 pure year was broken down as follows:

	£m
UK Box	29.1
National (including Ireland)	17.7
Professional Indemnity	17.8
International	22.3
Specialist	4.3
Total	91.2

The 2007 pure year continues to perform well with a net projected ULR of 73.1%, reflecting the weakening of the rate environment coupled with competition across the whole book. The year is projected to produce a mid-range profit of 21.5% of capacity to names.

The pleasing aspect for me is that whilst discussions and planning were undertaken throughout 2007 on the Casualty integration, the team kept their eye on the ball and delivered an excellent top line figure.

The application of the agreed protocols for 2008 has helped to maintain a strong premium flow to the syndicate. The additional resources shared amongst the bigger Casualty team plus the ability to write cross class deals both within Casualty as well as with our Property and Motor colleagues has certainly proved to be a good defensive mechanism for the whole book.

Whilst it remains too early to accurately predict, the early signs are that 2008 will produce a net ULR of approximately 80% and a projected mid-range profit to names of 12.5% of capacity. This result is consistent with the rate reductions experienced across the syndicate's book, coupled with a reduced investment return forecast."

Directors

Details of the directors of the managing agent that served during the year are shown on page 12.

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; and
- 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 2006 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.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on its website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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; and
- 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

Sharon Boland

S M Boland
Company Secretary
QBE Underwriting Limited

Plantation Place
30 Fenchurch Street
London
EC3M 3BD

17 March 2009

Independent auditors' report to the members on the 2006 underwriting year of account of QBE Casualty Syndicate 386

We have audited the syndicate underwriting year accounts of Syndicate 386 for the 2006 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 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 01 to 12 and pages 27 to 29, the annual accounts on pages 14 to 26, and pages 40 to 42. 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 2006 closed year of account.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

17 March 2009

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: 2006 technical account – general business

For the 36 months ended 31 December 2008

	Notes	£000	£000
Syndicate allocated capacity			339,424
Earned premiums, net of reinsurance			
Gross premiums written		461,763	
Outward reinsurance premiums		(70,118)	
Earned premiums, net of reinsurance			391,645
Reinsurance to close premium received, net of reinsurance	3		728,852
Investment return transferred from the non-technical account			59,848
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(198,716)	
Reinsurers' share		34,984	
Change in the net provision for claims		(163,732)	
Reinsurance to close premium payable, net of reinsurance	4	(752,744)	
			(916,476)
Net operating expenses	5		(19,019)
Standard personal expenses			(54,672)
Balance on technical account – general business			190,178

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

The notes on pages 34 to 39 form an integral part of these financial statements.

Profit and loss account: 2006 non-technical account

For the 36 months ended 31 December 2008

	Notes	£000
Balance on technical account – general business		**190,178**
Investment income	6	**66,062**
Unrealised losses on investments		**(5,121)**
Investment expenses and charges	6	**(1,093)**
Investment return		**59,848**
Investment return – transferred to general business technical account		**(59,848)**
Profit for the 2006 closed year of account		**190,178**

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.

The notes on pages 34 to 39 form an integral part of these financial statements.

Balance sheet

For the 2006 closed year of account as at 31 December 2008

	Notes	£000
Assets		
Investments	8	**733,559**
Debtors		
Debtors	9	**74,117**
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	4	**256,066**
		330,183
Other assets		
Cash at bank and in hand		**17,024**
Overseas deposits	10	**106,502**
		123,526
Prepayments and other accrued income		**13,529**
Total assets		**1,200,797**
Liabilities		
Amount due to members	11	**116,519**
Reinsurance to close premium payable to close the account – gross amount	4	**1,008,810**
Creditors	12	**75,468**
Total liabilities		**1,200,797**

These financial statements on pages 31 to 39 were approved by the Board of QUL on 17 March 2009 and were signed on its behalf by

D.J. Winkett

D J Winkett
Director
17 March 2009

The notes on pages 34 to 39 form an integral part of these financial statements.

Notes to the financial statements

Forming part of the 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 2005 (as amended 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 2006 year of account which has been closed by reinsurance to close as at 31 December 2008. Consequently the balance sheet represents the assets and liabilities of the 2006 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 2006 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.

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 whereas deposits with credit institutions, participation in investment pools 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. 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 2006 technical account.

Notes to the financial statements continued

Forming part of the financial statements

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	420,728	(184,411)	(17,342)	(33,765)	185,210
Reinsurance Acceptances	41,035	(14,305)	(1,677)	(1,368)	23,685
RITC	728,852	(1,008,810)	–	256,066	(23,892)
Total	1,190,615	(1,207,526)	(19,019)	220,933	185,003

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	940,184
Reinsurance recoveries anticipated	(211,332)
Reinsurance to close premium receivable, net of reinsurance	728,852

4 Reinsurance to close premium payable

	Reported £000	IBNR £000	Credit for future premiums £000	Total £000
Gross reinsurance to close premium payable	668,331	340,544	(65)	1,008,810
Reinsurance recoveries anticipated	(203,294)	(53,277)	505	(256,066)
Reinsurance to close premium payable, net of reinsurance	465,037	287,267	440	752,744

5 Net operating expenses

	£000
Acquisition costs – brokerage	63,087
Acquisition costs – other	13,815
Administrative expenses	5,819
(Profit)/loss on exchange	(63,702)
	19,019
Administrative expenses include:	
Auditors' remuneration	
Audit services	192

6 Investment return

	£000
Investment income:	
Income from investments	56,173
Gains on realisation of investments	9,889
	66,062
Investment expenses:	
Investment management expenses, including interest	1,093
	1,093

7 Analysis of result by year of account

	2005 and prior years of account £000	2006 pure year of account £000	Total £000
Balance excluding investment return and operating expenses	51,044	152,977	204,021
Brokerage and commission on gross premium	(1,275)	(61,812)	(63,087)
	49,769	91,165	140,934
Allocated investment return transferred from the non-technical account			59,848
Net operating expenses			44,068
Standard personal expenses			(54,672)
			190,178

8 Investments

	Cost £000	Market value £000
Shares and other variable yield securities and units in unit trusts	4,136	4,136
Debt securities and other fixed income securities	702,696	696,558
Participation in investment pools	32,828	32,828
Deposits with credit institutions	37	37
	739,697	733,559

Notes to the financial statements continued

Forming part of the financial statements

9 Debtors

Arising out of direct insurance operations:

	£000
Amounts due within one year:	
Due from intermediaries	49,859
Inter-year loan	9,109
Arising out of reinsurance operations	105
Reinsurance recoveries accrued	14,376
Other	299
	73,748
Amounts due after one year:	
Due from intermediaries	369
	74,117

10 Overseas deposits

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

	£000
Joint Asset Trust Funds	148
Canadian Margin Fund	13,007
Australian Trust Funds	83,621
South African Trust Funds	7,829
Additional Securities Limited	1,897
	106,502

The Joint Asset Trust Funds are required to enable names to write certain business in the US.

The deposits with Additional Securities Limited are required to allow names to write business in various overseas countries.

11 Amounts due to members

	£000
Profit for the closed year of account	190,178
Members' agents fees paid on behalf of members	(731)
Distributions made to 31 December 2008	(72,928)
Members' balances carried forward at 31 December 2008	116,519

12 Creditors

	£000
Arising out of direct insurance operations	
Due to intermediaries	39,260
Arising out of reinsurance operations	5,701
Profit commission payable	29,312
Amounts owed to credit institutions	1,069
Other	126
	75,468

13 Related parties

The managing agent of the syndicate, QUL, 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 12 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 2006 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 £99,000.

Profit commission

Profit commission is payable to the managing agent as per note 1(h). During the period £47,544,000 was charged in respect of the 2006 year of account. At the end of the period £29,312,000 was outstanding. This is shown within other creditors.

Managing agent

Total fees payable to QUL in respect of services provided to the syndicate in respect of the 2006 year of account amounted to £2,037,000. No balance is outstanding at the year end.

Administrative expenses

Total expenses recharged from QUL and QBE Management Services (UK) Limited in respect of services provided to the syndicate in respect of the 2006 year of account amounted to £22,478,000. No balance is outstanding at the year end.

There are no other transactions or arrangements to be disclosed.

Seven year summaries

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

	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000	**2008 £000**
Gross premium written	426,653	471,961	436,749	448,999	439,785	436,060	**411,967**
Net earned premiums	303,417	362,634	402,228	380,150	367,443	370,346	**359,216**
Net claims	(207,726)	(217,299)	(211,975)	(114,495)	(161,852)	(158,033)	**(192,421)**
Acquisition costs	(71,065)	(77,201)	(59,418)	(49,708)	(71,501)	(80,205)	**(81,486)**
Net underwriting profit	24,626	68,134	130,835	215,947	134,090	132,108	**85,309**
Profit/(loss) on exchange	(4,525)	(10,179)	2,615	6,263	(9,658)	29,789	**70,857**
Other net operating expenses	(27,425)	(32,341)	(56,301)	(72,246)	(41,951)	(52,333)	**(53,693)**
Investment return	21,431	37,784	52,150	58,814	40,600	56,202	**60,812**
Profit for the financial year	14,107	63,398	129,299	208,778	123,081	165,766	**163,285**

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

	2000	2001	2002	2003	2004	2005	**2006**
Syndicate allocated capacity	£212.3m	£212.6m	£299.6m	£449.1m	£498.6m	£424.2m	**£339.4m**
Capacity utilised	94.6%	132.6%	104.8%	94.6%	85.3%	111.7%	**136.0%**
Number of underwriting members	1,935	1,873	1,747	1,705	1,570	1,224	**1,185**
Aggregate net premiums	£161.0m	£191.0m	£248.8m	£352.6m	£354.0m	£404.7m	**£391.6m**
Net capacity utilised	75.8%	89.8%	83.0%	78.5%	71.0%	95.4%	**115.4%**
Technical account ratio	(11.3)%	(7.4)%	12.5%	37.9%	44.6%	37.6%	**40.1%**

Result for an illustrative share of £10,000	£	£	£	£	£	£	£
Gross premiums	9,460	13,256	10,480	9,463	8,535	11,170	**13,604**
Net premiums	7,583	8,984	8,303	7,851	7,099	9,540	**11,539**
Reinsurance to close from earlier account	17,904	19,737	16,448	12,815	12,564	15,096	**21,473**
Net claims	(7,105)	(7,184)	(4,033)	(1,891)	(3,196)	(3,096)	**(4,824)**
Reinsurance to close	(18,925)	(21,728)	(18,869)	(14,454)	(12,356)	(15,687)	**(22,177)**
Profit/(loss) on exchange	(40)	(416)	85	(79)	43	325	**1,877**
Syndicate operating expenses	(490)	(377)	(628)	(654)	(352)	(1,979)	**(2,437)**
Balance on technical account	(1,073)	(984)	1,306	3,588	3,802	4,199	**5,451**
Investment income and gains less losses, less expenses and charges	901	1,577	1,503	1,491	854	1,138	**1,763**
Profit before personal expenses	(172)	593	2,809	5,079	4,656	5,337	**7,214**
Illustrative personal expenses for a traditional name							
Managing agent's fee	(65)	(65)	(65)	(65)	(60)	(60)	**(60)**
Contribution to Lloyd's Central Fund	(100)	(75)	(100)	(100)	(125)	(50)	**(100)**
Profit commissions	–	(17)	(524)	(978)	(884)	(1,035)	**(1,401)**
Lloyd's subscription	(25)	(25)	(25)	(25)	(50)	(50)	**(50)**
	(190)	(182)	(714)	(1,168)	(1,119)	(1,195)	**(1,611)**
Profit/(loss) after illustrative profit commission and personal expenses	(362)	411	2,095	3,911	3,537	4,142	**5,603**

Notes:

1 The seven year summary has been prepared from the audited accounts of the syndicate.

2 Underwriting year gross and net premiums are stated net of brokerage and commissions.

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