# QBE Re (Europe) Limited

## Annual Report

## 31 December 2015

Registered Number 1378853

# QBE RE (EUROPE) LIMITED

## ANNUAL REPORT
*for the year ended 31 December 2015*

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# DIRECTORS AND OFFICERS

**Directors**

W-F Au *
P A Dodridge
T C W Ingram *
M G McCaig *
J W Parry
R V Pryce
S W Sinclair *
D J Winkett

* non-executive director

**Former directors who served during part of the year**

| | |
|---|---|
| I D Beckerson | Resigned 29 June 2015 |
| L Boghe | Resigned 29 June 2015 |
| D J Clayden | Resigned 29 June 2015 |
| C K Curtis | Resigned 31 May 2015 |
| J Gordon | Resigned 29 June 2015 |
| P L Horgan | Resigned 29 June 2015 |
| J Leflot | Resigned 29 June 2015 |
| P R Wilkins | Resigned 29 June 2015 |

**Company secretary**

E Felton Smith

**Registered office**

Plantation Place
30 Fenchurch Street
London
EC3M 3BD

**Independent auditors**

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

## STRATEGIC REPORT

### Principal activity

The principal activity of QBE Re (Europe) Limited (the Company) is the transaction of reinsurance business. The Company will continue this activity through the development of its existing lines of business, while actively seeking new opportunities for expansion and growth to the benefit of its shareholder and policyholders.

The Company is a limited company registered in England and Wales with registration number 1378853. The address of the registered office is given on page 2. The Company is a wholly owned subsidiary of QBE European Operations plc (EO plc), which is the holding company for the European Operations division (QBE EO) of QBE Insurance Group Limited (QBE Group). The Company is managed at the QBE EO division level.

### Business review

The results of the Company for the year are set out in the profit and loss account on pages 12 to 14. The profit for the year was €77,297,000 (2014 €11,206,000). No interim dividend was paid on the ordinary shares during the year (2014 €88,855,000). The directors do not recommend the payment of a final dividend (2014 €nil).

Effective from the start of 2015, the Company opened a branch in Bermuda to write North American Property, International Property and US Casualty business. The Company continues to write International Property and Casualty business from its established Dublin-based branch; and European non-life multiline reinsurance and worldwide life business from its established Brussels-based branch.

### Key performance indicators

| | | 2015 | 2014 |
|---|---|---|---|
| Gross written premium | €m | 351.8 | 304.7 |
| Gross earned premium | €m | 347.3 | 310.6 |
| Net earned premium | €m | 301.2 | 270.1 |
| Claims ratio* | % | 38.4 | 67.4 |
| Commission ratio | % | 17.3 | 18.3 |
| Expense ratio | % | 11.7 | 10.4 |
| Combined operating ratio* | % | 67.4 | 96.1 |

* Claims ratio and combined operating ratio are calculated before change in equalisation provision

Premium growth was underpinned by new business activity with the successful execution of various strategic initiatives.

The Company benefitted from good claims experience, with relatively benign catastrophe activity coupled with favourable prior year reserve development.

### Strategy

The strategic ambition of QBE EO, of which the Company forms a part, is described within the business review section of the Strategic report within EO plc's consolidated annual report.

### Principal risks and uncertainties

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

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

### Strategic risk

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

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

### Insurance risk

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

The Company manages insurance risks as follows:
- We analyse and respond to historical pricing and claims experience;
- We set a tolerance to concentration risk;
- We monitor and review underwriting performance; and
- We conduct both an in-house and external actuarial review of our claims provisions, independent of our underwriting teams.

### Credit risk

The Company defines credit risk as the risk of not recovering money owed to the Company by third parties, as well as the loss in value of assets due to deterioration in credit quality. The Company's exposure to credit risk results from financial transactions with securities issuers, debtors, brokers, policyholders, reinsurers and guarantors.

The Company manages credit risk as follows:
- We regularly review our exposure limits and credit quality levels for approved counterparties in relation to deposits and investments;
- We maximise the amount of reinsurance that we place with highly rated counterparties and limit concentrating our exposures.

### Group risk

The Company defines group risk as the risk to a division arising specifically from being part of a wider group, including financial impact and loss of support from the QBE Group.

The Company manages group risk as follows:
- Independent non-executive directors on the Company Board.
- Contractual arrangements in place for material services provided by other QBE Group divisions and companies.
- The QBE Group services framework which governs the procurement, monitoring and review of services provided to the QBE Group.

## STRATEGIC REPORT (continued)

### Principal risks and uncertainties (continued)

#### Market risk

The Company defines market risk as the risk of variation in the value of investments due to market movements. Market factors include but are not limited to: interest rates, credit spreads, foreign exchange rates, equity prices and commodity derivatives.

The Company manages market risk as follows:

- We actively manage investment assets;
- We perform asset and liability management to actively manage our exposure to yield curve fluctuations;
- We maintain a diversified portfolio; and
- We hedge residual non-functional currency net asset exposures.

#### Liquidity risk

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

The Company manages liquidity risk as follows:

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

#### Operational risk

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

The Company manages operational risk as follows:

- We actively monitor our key processes and systems;
- We conduct scenario reviews to identify and quantify potential exposures for mitigation; and
- We maintain effective segregation of duties, access controls, authorisation and reconciliation procedures.

#### Solvency II and capital allocation

The Prudential Regulation Authority (PRA) pre-approved the Company's Solvency II internal capital model application in December 2015. The Company has defined its internal model as an integrated framework to support its objectives by managing risk and capital across the business. The internal model has broad scope including: capital modelling; risk identification; mitigation; assessment and monitoring, and is used in the day to day operation of the Company.

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

#### Future outlook of the business environment

Across the Company we have delivered our financial targets and progressed strategic objectives and as a consequence we move into 2016 with positive momentum.

Our biggest challenge continues to be the extremely competitive pricing landscape which shows little sign of abating. Our focus on underwriting discipline remains paramount and we are well placed to respond appropriately.

## STRATEGIC REPORT (continued)

### Corporate governance

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

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

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

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

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

The Company's Boards and Board Committees met regularly during the year with strong attendance from all members. The Board of the Company met eleven times during 2015.

### The Board of QBE Re (Europe) Limited

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

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

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

There were eight changes to the Board of QBE Re (Europe) Limited during the year which are noted on page 2.

## STRATEGIC REPORT (continued)

**The Board of QBE Re (Europe) Limited (continued)**

In conjunction with QBE Group and supported by the Remuneration and Nomination Committee, the Board undertakes succession planning in accordance with the world-class talent and leadership objective, which underpins the strategic ambitions of QBE Group.
QBE Re (Europe) Limited has four non-executive directors who are all members of the Audit Committee and the Risk and Capital Committee.

All the non-executive directors are considered to be independent of management and free from any relationship that could materially interfere with the exercise of their independent judgment.

**Board Committees**

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

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

**Business continuity management**

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

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

This Strategic report was approved by the Board of directors on 4 March 2016 and signed on its behalf by:

T C W Ingram

Director

## DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2015.

### Strategic report

The strategic report, which includes details on the Company's principal activities, development, performance and KPI's, risk management framework and governance structure, is set out on pages 3 to 7.

### Dividends

No interim dividend was paid (2014 €88,855,000) and no final dividend has been proposed (2014 €nil).

### Overseas branches

The Company has overseas branches in Belgium, Bermuda and Ireland.

### Currency

The presentation currency of these financial statements is the Euro (€). At the year end the Euro to UK pound sterling rate was 1.35665 (2014 1.28792).

The functional currency of the Company and its Belgian branch is the Euro. The functional currency of the Irish and Bermudian branches is the US dollar (US$). At the year end the US dollar to Euro rate was 1.08665 (2014 1.21005).

### Directors' indemnities

A qualifying third party indemnity provision (as defined in section 234 of the Companies Act 2006) was in force during the course of the financial year ended 31 December 2015 and up to the date of approval of the financial statements for the benefit of all past and present directors of the Company. This provision remains in force for the benefit of the directors and provides indemnity protection in relation to certain losses, expenses and liabilities which they may incur in the actual or purported execution and/or discharge of their duties.

### Internal audit

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

### Employees – disabled persons

Applications for employment by disabled persons are always considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. There is an Equal Opportunities policy in place which clarifies and explains QBE EO's commitment to providing equal opportunities to all. This policy is expressly referred to in QBE EO's Recruitment policy which clarifies that QBE EO is committed to applying the Equal Opportunities policy at all stages of recruitment and selection. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within QBE EO continues and any appropriate training is arranged. It is the policy of QBE EO that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

### Employees – employee involvement

QBE EO provides information to employees about matters of concern to them and consults with them or their representatives to ensure that their views are taken into account when decisions are made that are likely to affect their interests. All employees are made aware of the financial and economic performance of their business units and of the QBE Group as a whole, and are rewarded in part according to the financial results of both through share schemes and performance-related bonus schemes.

## DIRECTORS' REPORT (continued)

### Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 "Reduced Disclosure Framework" has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Statement of disclosure of information to auditors

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

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

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

By order of the Board:

D J Winkett
Director
QBE Re (Europe) Limited
Registered Number 1378853
London
4 March 2016

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QBE RE (EUROPE) LIMITED

## Report on the financial statements

### Our opinion

In our opinion, QBE Re (Europe) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

The financial statements, included within the Annual Report, comprise:

- the Balance Sheet as at 31 December 2015;
- the Profit and Loss Account and the Statement of Other Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF QBE RE (EUROPE) LIMITED (continued)

### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

### Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Statement of Director's Responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

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

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

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

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

Andrew Moore (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2016

## PROFIT AND LOSS ACCOUNT -
## TECHNICAL ACCOUNT - GENERAL BUSINESS
*for the year ended 31 December 2015*

| | Note | 2015 €'000 | 2015 €'000 | 2014 €'000 | 2014 €'000 |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| **Earned premiums, net of reinsurance** | | | | | |
| Gross premiums written | 4 | 328,853 | | 286,343 | |
| Outward reinsurance premiums | | (52,138) | | (38,505) | |
| Net premiums written | | 276,715 | | 247,838 | |
| Change in the gross provision for unearned premiums | | (4,469) | | 5,912 | |
| Change in the provision for unearned premiums, reinsurers' share | | 7,790 | | (1,568) | |
| Change in the net provision for unearned premiums | | 3,321 | | 4,344 | |
| **Earned premiums, net of reinsurance** | | | 280,036 | | 252,182 |
| **Claims incurred, net of reinsurance** | | | | | |
| Claims paid | | | | | |
| Gross amount | | (158,896) | | (158,851) | |
| Reinsurers' share | | 21,660 | | 13,423 | |
| **Net claims paid** | | (137,236) | | (145,428) | |
| Change in the provision for claims | | | | | |
| Gross amount | | 38,264 | | (49,048) | |
| Reinsurers' share | | (3,703) | | 19,298 | |
| **Change in the net provision for claims** | | 34,561 | | (29,750) | |
| **Claims incurred, net of reinsurance** | | | (102,675) | | (175,178) |
| **Net operating expenses** | 5 | | (82,072) | | (72,487) |
| **Change in the equalisation provision** | 24 | | (11,025) | | (8,454) |
| **Balance on the technical account for general business** | | | 84,264 | | (3,937) |

The notes set out on pages 19 to 44 form an integral part of these financial statements

## PROFIT AND LOSS ACCOUNT -
## TECHNICAL ACCOUNT - LONG-TERM BUSINESS

*for the year ended 31 December 2015*

| | Note | 2015 €'000 | 2015 €'000 | 2014 €'000 | 2014 €'000 |
|---|---|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | | | |
| Gross premiums written | 4 | 22,959 | | 18,329 | |
| Outward reinsurance premiums | | (1,812) | | (418) | |
| Net premiums written | | 21,147 | | 17,911 | |
| Investment income | | 1,238 | | 305 | |
| | | | 22,385 | | 18,216 |
| **Claims incurred, net of reinsurance** | | | | | |
| Claims paid | | | | | |
| Gross amount | | (15,889) | | (20,040) | |
| Reinsurers' share | | 54 | | 4,026 | |
| **Net claims paid** | | (15,835) | | (16,014) | |
| **Change in provision for claims, net of reinsurance** | | | | | |
| Long-term business provision, net of reinsurance | | | | | |
| Gross amount | | 2,990 | | 12,902 | |
| Reinsurers' share | | (168) | | (3,939) | |
| **Change in the net provision for claims** | | 2,822 | | 8,963 | |
| | | | (13,013) | | (7,051) |
| Net operating expenses | 5 | | (5,451) | | (5,085) |
| Investment expenses and charges | | | (439) | | (123) |
| Unrealised losses on investments | | | (288) | | 17 |
| **Balance on the technical account - long-term business** | | | 3,194 | | 5,974 |

The notes set out on pages 19 to 44 form an integral part of these financial statements

## PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT
*for the year ended 31 December 2015*

| | Note | 2015 €'000 | 2014 €'000 |
|---|---|---|---|
| **Balance on the general business technical account** | | 84,264 | (3,937) |
| **Balance on the long-term business technical account** | | 3,194 | 5,974 |
| Investment income | 9(a) | 20,996 | 17,977 |
| Unrealised (losses) / gains on investments | | (5,657) | 5,349 |
| Investment expenses and charges | 9(b) | (3,578) | (10,893) |
| Allocated investment return transferred to the long-term business technical account | | (511) | (199) |
| **Profit on ordinary activities before tax** | 10 | 98,708 | 14,271 |
| Tax on profit on ordinary activities | 11 | (21,411) | (3,065) |
| **Profit for the financial year** | | 77,297 | 11,206 |

The results above are derived from continuing operations.

Neither gains nor losses arising on the holding or disposal of investments; nor the effect of fair value accounting for financial instruments are required to be included in a note of historical profit and losses. There are no other differences between the profit on ordinary activities after tax or the profit for the financial year stated above and their historical cost equivalents.

The notes set out on pages 19 to 44 form an integral part of these financial statements

## STATEMENT OF OTHER COMPREHENSIVE INCOME

*for the year ended 31 December 2015*

| | Note | 2015 €'000 | 2014 €'000 |
|---|---|---|---|
| **Profit for the financial year** | | 77,297 | 11,206 |
| **Items that may be reclassified to profit or loss:** | | | |
| Currency translation differences | | 2,400 | (199) |
| **Items that will not be reclassified to profit or loss:** | | | |
| Actuarial gain / (loss) recognised on medical scheme | 7(c) | 47 | (557) |
| Actuarial (loss) / gain recognised on pension scheme | 7(a) | (202) | 139 |
| Corporation tax relief associated with actuarial movements on medical and pension schemes | 7(a) | 52 | 143 |
| **Other comprehensive income for the year, net of tax** | | 2,297 | (474) |
| **Total comprehensive income for the year** | | 79,594 | 10,732 |

The notes set out on pages 19 to 44 form an integral part of these financial statements

## STATEMENT OF CHANGES IN EQUITY

*For the period ended 31 December 2015*

| 2015 | Called up share capital €'000 | Share premium account €'000 | Profit and loss account €'000 | Foreign currency translation reserve €'000 | Total €'000 |
|---|---|---|---|---|---|
| At 1 January | 24,205 | 487,201 | 10,504 | (199) | 521,711 |
| Dividends paid | - | - | - | - | 0 |
| Profit for the year | - | - | 77,297 | - | 77,297 |
| Currency translation differences | - | - | - | 2,400 | 2,400 |
| Actuarial loss recognised in the defined benefit schemes | - | - | (102) | - | (102) |
| At 31 December | 24,205 | 487,201 | 87,699 | 2,201 | 601,306 |

| 2014 | Called up share capital €'000 | Share premium account €'000 | Restated Profit and loss account €'000 | Restated Foreign currency translation reserve €'000 | Total €'000 |
|---|---|---|---|---|---|
| At 1 January (restated) | 24,205 | 487,201 | 88,428 | - | 599,834 |
| Dividends paid | - | - | (88,855) | - | (88,855) |
| Profit for the year | - | - | 11,206 | - | 11,206 |
| Currency translation differences | - | - | - | (199) | (199) |
| Actuarial loss recognised in the defined benefit schemes | - | - | (275) | - | (275) |
| At 31 December | 24,205 | 487,201 | 10,504 | (199) | 521,711 |

The notes set out on pages 19 to 44 form an integral part of these financial statements

## BALANCE SHEET
*As at 31 December 2015*

| Assets | Note | 2015 €'000 | Restated 2014 €'000 |
|---|---|---|---|
| **Investments** | | | |
| Other financial investments | 12 | 1,549,871 | 1,467,273 |
| Deposits with ceding undertakings | | 136,398 | 123,951 |
| Derivative financial instruments | 13 | 2,827 | 609 |
| | | 1,689,096 | 1,591,833 |
| **Reinsurers' share of technical provisions** | | | |
| Provision for unearned premiums | | 8,186 | 1 |
| Long-term business provision | 20 | 597 | 763 |
| Claims outstanding | 20 | 121,963 | 122,225 |
| | | 130,746 | 122,989 |
| **Debtors** | | | |
| Debtors arising out of reinsurance operations | 17 | 187,456 | 155,967 |
| Deferred tax | 15 | 2,902 | 2,804 |
| Other debtors | 16 | 4,636 | 5,066 |
| | | 194,994 | 163,837 |
| **Other assets** | | | |
| Tangible assets | 18 | 368 | 564 |
| Cash at bank and in hand | | 9,804 | 20,946 |
| | | 10,172 | 21,510 |
| **Prepayments and accrued income** | | | |
| Accrued interest | | 4,600 | 6,274 |
| Deferred acquisition costs | | 11,673 | 10,650 |
| | | 16,273 | 16,924 |
| **Total assets** | | 2,041,281 | 1,917,093 |

The notes set out on pages 19 to 44 form an integral part of these financial statements

## BALANCE SHEET
*As at 31 December 2015*

| Liabilities | Note | 2015 €'000 | Restated 2014 €'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Called up share capital | 19 | 24,205 | 24,205 |
| Share premium account | | 487,201 | 487,201 |
| Other reserves | | 2,201 | (199) |
| Profit and loss account | | 87,699 | 10,504 |
| **Total shareholder's funds** | | 601,306 | 521,711 |
| **Technical provisions** | | | |
| Provision for unearned premiums | | 45,429 | 35,987 |
| Long-term business provision | 20 | 45,831 | 48,109 |
| Claims outstanding | 20 | 1,166,745 | 1,183,691 |
| Equalisation provision | 24 | 48,688 | 37,663 |
| | | 1,306,693 | 1,305,450 |
| **Deposits retained from reinsurers** | | 20,182 | 23,005 |
| **Creditors** | | | |
| Creditors arising out of reinsurance operations | | 72,822 | 42,524 |
| Derivative financial instruments | 13 | 5,766 | 8,341 |
| Other creditors including taxation and social security | 25 | 4,725 | 4,678 |
| | | 83,313 | 55,543 |
| **Accruals and deferred income** | | 21,251 | 3,691 |
| **Pension deficit** | 7 | 8,536 | 7,693 |
| **Total liabilities** | | 2,041,281 | 1,917,093 |

These financial statements on pages 12 to 44 were approved by the Board of directors on 4 March 2016 and signed on its behalf by:

D.J. Winkett

D J Winkett

Director

QBE Re (Europe) Limited
Registered Number: 1378853 (England & Wales)
Registered office: Plantation Place, 30 Fenchurch Street, London - EC3M 3BD

The notes set out on pages 19 to 44 form an integral part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS
*for the year ended 31 December 2015*

### 1. Accounting policies

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

### (a) Basis of preparation

These financial statements are prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework".

These financial statements are prepared on the going concern basis and in accordance with the provisions of The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) relating to insurance companies, and applicable accounting standards in the United Kingdom.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the Company has adopted FRS 101 as issued by the Financial Reporting Council for the year ended 31 December 2015. The financial statements have therefore been prepared in accordance with FRS 101: Reduced disclosure framework.

This is the first set of financial statements to be prepared by the Company in accordance with FRS 101. IFRS 1: First Time Adoption of International Financial Reporting Standards has been applied in preparing these financial statements. When preparing these financial statements, management has amended certain accounting and valuation methods applied in the previous UK GAAP financial statements and the comparative figures have been restated to reflect these adjustments.

The Company has elected to apply an exemption in IFRS 1 which permits the cumulative translation differences in respect of foreign operations represented in the foreign currency translation reserve to be deemed to be zero at the date of adoption of FRS 101. At 1 January 2014, the balance in the foreign currency translation reserve was reduced to zero with an equivalent adjustment to retained profits.

These financial statements are separate financial statements. In accordance with Section 400 of the Companies Act 2006, the Company is exempt from preparing group financial statements. QBE European Operations plc, incorporated in the United Kingdom, prepares consolidated group financial statements for the year ended 31 December 2015, in which the Company is included. The consolidated financial statements for QBE Insurance Group Limited, the ultimate parent company, are also publicly available.

Having assessed the proportion of the long-term business relative to the overall premium written by the Company and the provisions in SI 2008/410, the financial results and position arising from long-term business have been disclosed separately to the general business. The separate disclosure is consistent with the Prudential Regulation Authority (PRA) Insurance Annual Return (IAR) for 2014.

### (b) Disclosure exemptions

The Company's financial results are included in the consolidated financial statements of QBE Insurance Group Limited. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to the presentation of:

IAS 7: Presentation of a cash flow statement

IAS 8: Disclosures in respect of new standards and interpretations that have been issued but which are not yet effective

IAS 24: Disclosure of key management personnel compensation

IAS 24: Related party transactions entered into with other wholly owned entities included in the QBE Insurance Group Limited group accounts.

Equivalent disclosures have been given in the group accounts of QBE Insurance Group Limited The group accounts of QBE Insurance Group Limited are available to the public and can be obtained as set out in note 31.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

*for the year ended 31 December 2015*

### 1. Accounting policies (continued)

#### (c) Basis of accounting for insurance

The result is determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned portion of premiums, net of reinsurance as described below:

**(i) Premiums written**

Premium comprises amounts charged to policyholders, excluding taxes collected on behalf of third parties. The earned portion of premium received and receivable, including unclosed business, is recognised as revenue. Premium on unclosed business is brought to account based upon the pattern of booking of renewals and new business. Unclosed business is insurance written close to the year end for which the date of attachment of risk is prior to the year end, and where an estimate is made due to insufficient information being available.

Long term business premiums, including those for inwards reinsurance business, are accounted for when due for payment.

**(ii) Unearned premiums**

Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns.

**(iii) Acquisition costs**

Acquisition costs (which include commission costs) are the costs associated with obtaining and recording insurance contracts. Acquisition costs are capitalised when they relate to the acquisition of new business or the renewal of existing business and are referred to as deferred acquisition costs. These costs are amortised on the same basis as the earning pattern of the premium, over the period of the insurance contract to which they relate. At the reporting date, deferred acquisition costs represent the capitalised costs that relate to the unearned premium. Acquisition costs are deferred in recognition of their future benefit and are measured at the lower of cost and recoverable amount.

**(iv) Claims incurred**

Claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

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

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction 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 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 Company's actuaries who apply recognised actuarial techniques considered appropriate for each portfolio, such as chain ladder and Bornhuetter-Ferguson methods. These methods take into account, among 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

**1. Accounting policies (continued)**

**(c) Basis of accounting for insurance (continued)**

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

example, one-off occurrences and changes in mix of business, policy conditions or the legal environment. The best estimate of reserves for the Company is produced and reviewed by a combination of internal and external actuarial review and is then assessed by QBE management with input from underwriting and claims experts.

As provisions for claims outstanding are based on information that 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 Company, 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 outcomes. Differences between the estimated cost and subsequent re-estimation or settlement of claims are reflected in the technical account for the year in which these claims are re-estimated or settled.

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

In accordance with accounting regulations, discounting of outstanding claims is permitted in certain circumstances. For statutory accounts, the outstanding reserves are discounted in respect of periodical payments for which separate assets are held of appropriate term and nature."

**(vi) Unexpired risks provision**

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

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

**(vii) Equalisation provision**

Amounts are set aside as equalisation provisions in accordance with the Prudential Regulatory Authority Handbook for the purpose of mitigating exceptionally high loss ratios in future years. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 3 to SI 2008/410 to be included within technical provisions.

**(viii) Outwards reinsurance**

Outwards reinsurance premiums written relate to business ceded during the year, including an estimate of any adjustment premiums payable, together with any differences between estimates in the prior years and that actually ceded. Outwards premiums are recognised as earned over the period of the policy having regard to the incidence of risk. Policies that respond with reference to the attachment point are earned in line with the related inwards written premiums. Policies that respond in relation to the date of loss are earned on a time apportionment basis unless there is a marked unevenness in the incidence of risk over the period of cover, when a basis that reflects the profile of risk is used. The unexpired proportion of the outwards premiums at the balance sheet date is carried forward as reinsurers' share of unearned premiums provision.

**(ix) Long-term business**

Business classified as long-term business consists of reinsurance of risk premium business, which is annual business with a sum payable on death of the policyholder, endowment assurances and annuities. Reinsurance of risk premium business is the majority of the business, and is written on an annual basis. Long-term business is shown in its separate technical account.

Claims outstanding are calculated in accordance with the regulations and guidelines of the PRA / FCA handbook, in particular those that relate to life insurance business as set out in SUP 4; the Interim Sourcebook for Insurers (IPRU (INS)) and the Prudential Sourcebook for Insurers (INSPRU). These require that the

## NOTES TO THE FINANCIAL STATEMENTS (continued)

*for the year ended 31 December 2015*

**1. Accounting policies (continued)**

**(c) Basis of accounting for insurance (continued)**

**(ix) Long-term business (continued)**

reserves must be sufficiently prudent to ensure that there is no significant foreseeable risk that the liabilities will not be met as they fall due.

The liabilities are calculated including unearned premium reserve, policy reserves notified by the cedant, estimates of incurred but not reported, and additional prudent reserves.

**(d) Expenses**

Acquisition costs, general overheads and other expenses are charged as incurred to the profit and loss technical account, net of the change in deferred acquisition costs. Investment expenses are charged to the profit and loss non-technical account.

The management and administration of the Company is carried out by QBE Management Services (UK) Limited and QBE Management (Ireland) Limited, fellow group undertakings, which also provide these services to other QBE EO companies. Administrative expenses, where recharged by QBE Management Services (UK) Limited and QBE Management (Ireland) Limited to the Company, and those incurred directly by the Company's branches are taken into account on an accruals basis. These expenses include the costs of staff, who in the UK are employed by QBE Management Services (UK) Limited and in Ireland by QBE Management (Ireland) Limited.

QBE Management Services (UK) Limited and QBE Management (Ireland) Limited operate both defined benefit and defined contribution pension schemes, the expense of which is included in the recharges.

The Company operates a defined contribution pension scheme for certain employees in Belgium. The pension entitlement of employees is secured through contributions by the Company to a separately administered pension fund. Payments are charged as expense as they fall due.

The Company also operates a defined benefit pension scheme. The costs of the defined benefit pension scheme are determined using the projected unit credit method. Actuarial gains and losses are recognised in the Statement of Total Recognised Gains and Losses in the year they arise. The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of scheme's assets.

A surplus is only recognised if it is either recoverable from reductions in future contributions, or if agreement is in place to recover it from the scheme.

**(e) Tangible assets**

Tangible assets are stated at cost less depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided at rates calculated to write off the cost less estimated residual values in equal amounts over the estimated useful lives of the tangible assets. The estimated lives are as follows:

| | |
|---|---|
| Office equipment | from three to five years |
| Computer equipment | from three to five years |

A review for impairment of a tangible asset is carried out if events or changes in circumstances indicate that the carrying amount of the tangible asset may not be recoverable. The recoverable amount is the higher of its fair value less costs to sell and its value in use. If the carrying value exceeds the recoverable amount the carrying value is reduced by writing the difference to the profit and loss account in that period.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

*for the year ended 31 December 2015*

### 1. Accounting policies (continued)

#### (f) Taxation

The charge for taxation is based on the result for the year adjusted for disallowable items. Deferred taxation is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet rate. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, as appropriate.

#### (g) Investments

Investments are designated as fair value through profit and loss on initial recognition. They are initially recorded at fair value, being the cost of acquisition excluding transaction costs, and are subsequently measured at fair value at each reporting date. Financial assets are managed on a fair value basis in accordance with the Company's documented investment strategy.

Listed investments are stated at fair value based on current bid prices quoted by the relevant exchanges. Unlisted investments are carried at directors' estimate of current fair value.

Other investments are stated at prices quoted by various recognised sources.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently stated at fair value determined using generally accepted valuation techniques, including the use of forward exchange rates for the valuation of forward foreign exchange contracts.

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

#### (h) Investment income

Interest income is recognised on an accruals basis. Dividends are recognised when the right to receive payment is established. Investment income includes realised and unrealised gains or losses on financial assets that are reported on a combined basis as fair value gains or losses on financial assets.

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

#### (i) Financial liabilities

Creditors are initially recognised at fair value, net of directly attributable transaction costs, and are subsequently stated at amortised cost through the profit and loss account using the effective interest method, with the exception of derivatives. They are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently stated at fair value determined using generally accepted valuation techniques, including the use of forward exchange rates for the valuation of forward foreign exchange contracts.

#### (j) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

## 1. Accounting policies (continued)

### (k) Foreign currency

The functional currency of the Company and its Belgian branch is the Euro (€). The functional currency of the Irish and Bermudian branches is the US dollar (US$). The Company presents its financial statements in Euros.

Foreign currency transactions are translated into functional currencies at the rates of exchange on the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date.

Exchange gains or losses are initially recognised in the profit and loss non-technical account as part of investment income, including gains and losses on foreign exchange derivatives.

The results and financial positions of the Irish and Bermudian branches are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the balance sheet date; and
- Income and expenses are translated at the average rate of exchange during the year.

All resulting exchange gains or losses are recognised through the SOCE as a separate component of equity.

## 2. Critical accounting estimates and judgments

The Company makes estimates and judgments in respect of the reported amounts of certain assets and liabilities. These estimates and judgments are determined by qualified and experienced employees with reference to historical data and reasoned expectations of future events, and are continually updated. Actual results may differ from these estimates.

The following are the critical judgements that the Company have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

**Outstanding claims provisions**

The Company's net outstanding claims provision comprises:

- the gross estimate of expected future claims payments;
- amounts recoverable from reinsurers based on the gross estimate;

**Gross estimate**

The provision for expected future payments includes claims reported but not yet paid; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER); and estimated claims handling costs, being the direct and indirect expenses incurred in the settlement of claims.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claims is generally available. Liability and other long tail classes of business, where claims settlement may not happen for many years after the event giving rise to the claim, typically display greater variability between initial estimates and final settlement due to delays in reporting claims, uncertainty in respect of court awards and future claims inflation. Claims in respect of property and other short tail classes are typically reported and settled sooner after the claim event, giving rise to more certainty. The estimation techniques and assumptions used in determining the gross estimate are described below.

The Company's process for establishing the gross estimate involves extensive consultation with internal and external actuaries, claim managers, underwriters and other senior management. This process includes regular in-house claims review meetings attended by senior divisional and management and detailed review by external actuaries at least annually. The determination of the amounts that the Company will ultimately pay for claims arising under reinsurance contracts involves a number of critical assumptions. Some of the uncertainties impacting these assumptions are as follows:

## 2. Critical accounting estimates and judgments(continued)

- changes in patterns of claims incidence, reporting and payment;
- volatility in the estimation of future costs for long tail classes due to the longer period of time that elapses before a definitive determination of the ultimate claims cost can be made;
- incidence of catastrophic events close to the balance sheet date;
- changes in the legal environment, including the interpretation of liability laws and the quantum of damages; and
- social and economic trends, for example price and wage inflation and interest rates.

The potential impact of changes in key assumptions used in the determination of the gross estimate on the Company's profit or loss are summarised in note 22.

Gross estimates for each class of business are determined by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development and payment. The final selected estimates are based on a judgmental consideration of the results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and the expected term to settlement of the class. Projections are based on both historical experience and external benchmarks where relevant.

Estimates are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from reinsurers based on the gross estimate.

### Assets arising from contracts with reinsurers

Assets arising from reinsurance recoveries under contracts with the Company's reinsurers are determined using the same methods described above. In addition, the recoverability of these assets is assessed at each balance date to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty credit risk and the contractual terms of the reinsurance contract. Counterparty credit risk in relation to reinsurance assets is considered in note 14 in conjunction with other assets.

## 3. Capital

The total amount of capital of the Company is €601,306,000 (2014 €521,711,000) consisting of its net assets.

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

The Company has defined its internal model as an integrated framework to support its objectives by managing risk and capital across the business. The internal model has broad scope including: capital modelling; risk identification; mitigation; assessment and monitoring, and is used in the day to day operation of the Company.

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)
*for the year ended 31 December 2015*

### 4. Segmental analysis

The Company operates in one segment, reinsurance acceptances, only.

**Analysis by geographic area**

| | Gross premiums written | | Profit / (loss) before tax | | Net assets | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | €'000 | €'000 | €'000 | €'000 | €'000 | €'000 |
| United Kingdom | - | - | - | - | 226,683 | 226,683 |
| Ireland | 135,328 | 112,849 | 56,922 | (2,782) | 29,677 | (21,168) |
| Belgium | 208,463 | 191,823 | 39,693 | 17,053 | 342,832 | 316,196 |
| Bermuda | 8,021 | - | 2,094 | - | 2,114 | - |
| | 351,812 | 304,672 | 98,709 | 14,271 | 601,306 | 521,711 |

**Gross premium by destination**

| | Gross premiums written | |
|---|---|---|
| | 2015 | 2014 |
| | €'000 | €'000 |
| United Kingdom | 15,990 | 12,949 |
| Other EU member states | 201,306 | 203,451 |
| The Americas and Caribbean | 71,708 | 33,881 |
| Asia | 42,645 | 34,471 |
| Other | 20,163 | 19,920 |
| | 351,812 | 304,672 |

### 5. Net operating expenses

| | 2015 | 2014 |
|---|---|---|
| | €'000 | €'000 |
| Acquisition costs | 71,336 | 69,100 |
| Change in deferred acquisition costs | 200 | (620) |
| Administrative expenses | 17,953 | 10,642 |
| Gross operating expenses | 89,490 | 79,122 |
| Reinsurance commissions and profit participation | (1,966) | (1,550) |
| Net operating expenses | 87,523 | 77,572 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

*for the year ended 31 December 2015*

### 6. Employees

The Company does not employ any staff in the UK or Ireland. All UK staff are employed by QBE Management Services (UK) Limited. All Irish staff are employed by QBE Management (Ireland) Limited. The Company is recharged for the services provided by these staff.

The Company holds contracts of employment with those staff employed by the Belgian and Bermudian branches.

Total employee costs for the year, including those recharged from QBE Management Services (UK) Limited and QBE Management (Ireland) Limited were:

| | 2015 €'000 | 2014 €'000 |
|---|---|---|
| Wages and salaries | 14,400 | 13,976 |
| Social security costs | 2,779 | 2,757 |
| Other pension costs | 1,748 | 2,192 |
| | 18,927 | 18,925 |

Employee costs that have been recharged include amounts in respect of share based payments granted by the ultimate parent company. Full details of these share based payments are included in the financial statements of QBE Management Services (UK) Limited and QBE Management (Ireland) Limited as these are the companies that employ the staff.

It is not practicable to allocate employee numbers for the above recharged costs, so these have been disclosed in aggregate in the statutory financial statements of QBE Management Services (UK) Limited and QBE Management (Ireland) Limited.

The average monthly staff numbers directly employed by the Belgium and Bermudian branch of the Company for the year was:

| | 2015 Number | 2014 Number |
|---|---|---|
| Underwriting | 13 | 10 |
| Claims | 7 | 5 |
| Administration | 69 | 70 |
| | 89 | 85 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

*for the year ended 31 December 2015*

### 7. Pension schemes

A proportion of the management and administration of the Company is carried out by QBE Management Services (UK) Limited and QBE Management (Ireland) Limited, fellow group undertakings. QBE Management Services (UK) Limited and QBE Management (Ireland) Limited operate defined contribution pension schemes and defined benefit pension schemes for their employees. Details of the pension scheme arrangements are disclosed in the financial statements of QBE Management Services (UK) Limited and QBE Management (Ireland) Limited along with the total amount of pension contributions paid.

The Company's employees in the Belgian branch are covered by pension scheme arrangements as follows:

#### (a) Defined benefit scheme

The Company's Belgian branch operates a defined benefit pension scheme (Secura NV scheme). The Secura NV scheme became part of the Company in 2012.

The pension contributions relating to the scheme are assessed in accordance with the advice of independent qualified actuaries so as to spread the cost over the service lives of employees.

The actuarial valuation was reviewed and updated by independent external actuaries as at 31 December 2015 for the purposes of inclusion in these financial statements.

The principal actuarial assumptions used at the year end were:

| | **2015** % | **2014** % |
|---|---|---|
| Expected return on plan assets | 1.8 | 1.8 |
| Discount rate | 1.8 | 1.8 |
| Inflation | 1.7 | 1.7 |

On retirement, the scheme pays out a lump sum based on the final salary of the employee. As a result, rate of increase of pensions and life expectancy are not assumptions needed in the valuation of the scheme.

The valuation of the scheme's liabilities has been determined using the projected unit method.

In addition, an assumption is made as to the life expectancy of members of the scheme. In conjunction with the scheme actuaries, the mortality tables used to calculate the liabilities are the Belgian mortality table MR and FR with an age correction of minus 3 years.

The scheme assets do not include any of the Company's own financial instruments or any property occupied by, or other assets used by the Company. The pension scheme is invested in a collective fund managed by KBC Group NV.

| | **Market value 2015 €'000** | **Market value 2014 €'000** |
|---|---|---|
| Collective fund | 10,589 | 9,385 |
| Total market value of assets | 10,589 | 9,385 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)
*for the year ended 31 December 2015*

### 7. Pension schemes (continued)

### (a) Defined benefit scheme (continued)

The overall expected long term rate of return on fund assets is based on historical and future expectations of returns for each of the major asset classes as well as the expected and actual allocation of scheme assets to these major classes.

| | 2015 €'000 | 2014 €'000 |
|---|---|---|
| **Analysis of the amount credited to other finance income:** | | |
| Expected return on scheme assets | 169 | 244 |
| Interest on scheme liabilities | (302) | (469) |
| Net charge | (133) | (225) |

| | 2015 €'000 | 2014 €'000 |
|---|---|---|
| **Analysis of the amount recognised in the statement of other comprehensive income (OCI):** | | |
| Actuarial (losses) / gain | (202) | 139 |
| Deferred tax credit / (charges) on actuarial losses | 52 | (47) |
| (Loss) / gain recognised in the OCI after tax | (150) | 92 |

The cumulative amount of actuarial gains and losses recognised in the statement of other comprehensive income is a loss pre tax of €1,841,000 (2014 €1,639,000).

There is no history of assets and liabilities or history of experience gains and losses before 2012, as the defined benefit pension scheme was transferred to the Company as of the start of 2012.

| | 2015 €'000 | 2014 €'000 | 2013 €'000 |
|---|---|---|---|
| **Wholly funded defined benefit obligation at 1 January** | (17,078) | (15,188) | (13,723) |
| Service cost | (696) | (697) | (764) |
| Interest cost | (302) | (469) | (363) |
| Actuarial losses | (603) | (811) | (827) |
| Benefits and expenses paid | 72 | 87 | 489 |
| Wholly funded defined benefit obligation at 31 December | (18,607) | (17,078) | (15,188) |
| **Fair value of scheme assets at 1 January** | 9,385 | 7,536 | 7,040 |
| Expected return on scheme assets | 169 | 244 | 183 |
| Actuarial gain on scheme assets | 401 | 950 | 66 |
| Benefits and expenses paid | (72) | (87) | (489) |
| Employer contributions | 706 | 742 | 736 |
| Arising from the transfer in of merged entities | - | - | - |
| Fair value of scheme assets at 31 December | 10,589 | 9,385 | 7,536 |
| Deficit in the balance sheet at 31 December | (8,018) | (7,693) | (7,652) |

In 2016 the Company plans to make contributions totalling €753,179 to the scheme.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

*for the year ended 31 December 2015*

### 7. Pension schemes (continued)

### (b) Defined contribution schemes

For those employees who are not members of the defined benefit scheme, the Belgian branch operates a defined contribution scheme. The pension entitlement of employees is secured through contributions to separately administered pension funds as appropriate. There are no outstanding pension accruals or prepayments for these schemes as at 31 December 2015 (2014 €nil). The charge for the year was €908,000 (2014 €1,269,000).

The Company has no significant exposure to any other post-retirement benefits obligations.

### (c) Medical scheme

The Company is committed to pay medical expenses of certain former employees on retirement. This is accounted for in the same way as the defined benefit pension scheme. The pension deficit in the balance sheet at 31 December 2015 was £518,000.

### 8. Directors' emoluments

The following aggregate emoluments were paid to directors of this Company, including by QBE Management Services (UK) Limited, in respect of services as directors of this Company for the year:

| | 2015 €'000 | 2014 €'000 |
|---|---|---|
| Aggregate emoluments (excluding pension contributions) | 1,843 | 2,124 |
| Compensation for loss of office | 14 | - |
| Company pension contributions to defined benefit scheme | 88 | 179 |
| Company pension contributions to money purchase scheme | 100 | 62 |
| | 2,045 | 2,365 |

| | Number | Number |
|---|---|---|
| Number of directors who are members of a defined benefit scheme | 2 | 2 |
| Number of directors who are members of a money purchase scheme | 8 | 9 |

| | €'000 | €'000 |
|---|---|---|
| Highest paid director: | | |
| Aggregate emoluments | 1,070 | 1,520 |
| Company pension contribution to money purchase scheme | 64 | 48 |

### 9. Investment income, expenses and charges

### (a) Investment income

| | 2015 €'000 | 2014 €'000 |
|---|---|---|
| Dividend income | 3,361 | 814 |
| Other interest receivable | 16,604 | 17,163 |
| Foreign currency exchange gains | 1,031 | - |
| | 20,996 | 17,977 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)
*for the year ended 31 December 2015*

### 9. Investment income, expenses and charges (continued)

### (b) Investment expenses and charges

| | 2015 €'000 | 2014 €'000 |
|---|---|---|
| Investment management expenses | 1,438 | 1,823 |
| Loss on the realisation of investments | 2,140 | 6,759 |
| Foreign currency exchange losses | - | 2,311 |
| | 3,578 | 10,893 |

### 10. Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging:

| | 2015 €'000 | 2014 €'000 |
|---|---|---|
| Auditors remuneration in respect of audit services | 166 | 161 |
| Auditors remuneration in respect of other services supplied pursuant to legislation | 63 | 57 |
| | | |
| Payments on operating leases | 496 | 496 |
| Depreciation charge for the year | 128 | 259 |

Fees paid to the auditors for the supply of other services are borne by other group companies and are disclosed in total in the QBE European Operations plc consolidated financial statements. There are no non audit fees in respect to QBE Re (Europe) Limited.

### 11. Tax on profit on ordinary activities

| | 2015 €'000 | 2014 €'000 |
|---|---|---|
| **Analysis of charge in year** | | |
| *Current tax:* | | |
| UK corporation tax | 5 | 43 |
| Adjustments to tax in respect of prior year | 104 | (415) |
| Foreign tax | 21,345 | 3,499 |
| Total current tax | 21,454 | 3,127 |
| *Deferred tax:* | | |
| Origination and reversal of timing differences | (43) | (62) |
| Total deferred tax | (43) | (62) |
| Tax charge on profit on ordinary activities | 21,411 | 3,065 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)

*for the year ended 31 December 2015*

### 11. Tax on profit on ordinary activities (continued)

**Factors affecting tax charge for the year**

The tax for the year is higher than (2014 lower) the standard rate of corporation tax in the UK, 20.25% (2014 21.5%). The differences are explained below:

| | 2015 €'000 | Restated 2014 €'000 |
|---|---|---|
| Profit on ordinary activities before tax | 98,709 | 14,271 |
| Profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 20.25% (2014 21.5%) | 19,989 | 3,068 |
| *Effects of:* | | |
| Differences in tax rates outside UK | 1,027 | 2,290 |
| Income exempt from tax | (245) | (210) |
| Permanent differences | (1,740) | (2,676) |
| Expenses not deductible for tax purposes | 2,276 | 1,008 |
| Adjustments to tax in respect of prior year | 104 | (415) |
| Current tax charge for the year | 21,411 | 3,065 |

**Factors affecting current and future tax charges**

As a result of a change in the UK main corporation tax rate from 21% to 20% which was substantively enacted on 2 July 2013 and effective from 1 April 2015, the current tax rate for the year is the composite rate of 20.25% (2014 21.5%). The Belgian and Irish corporation tax rates of 33.99% and 12.5% respectively have also been recognised on the relevant branch deferred tax balances.

A reduction to the UK corporation tax rate was announced in the July 2015 Budget which reduces the rate to 19% effective 1 April 2017, and 18% effective 1 April 2020. This change was substantively enacted on 26 October 2015 and is therefore recognised in these financial statements for the relevant deferred tax balances. The appropriate tax rate has been used, depending on when the timing/temporary differences are expected to be reversed.

There were no additional developments affecting the UK corporation tax rate in July 2015 budget.

### 12. Investments

**(a) Shares in group undertakings**

| Held by Company | Registered office | Class of share | Holding in company | Principal activity |
|---|---|---|---|---|
| QBE Services (Europe) Limited | Plantation Place, 30 Fenchurch Street, London, EC3M 3BD United Kingdom | Ordinary | 50% | Service company incorporated on 12 December 2014 |

QBE Services (Europe) Limited is a service company that was incorporated on 12 December 2014 and is 50% owned by QBE Insurance (Europe) Limited and 50% owned by QBE Re (Europe) Limited.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

*for the year ended 31 December 2015*

### 12. Investments (continued)

### (b) Other financial investments

| | 2015 Fair value €'000 | 2015 Cost €'000 | 2014 Fair value €'000 | 2014 Cost €'000 |
|---|---|---|---|---|
| Shares and other variable yield securities and units in unit trusts: | | | | |
| Shares - listed | 16,979 | 17,687 | - | - |
| Shares - unlisted | 22,095 | 19,542 | 21,665 | 19,542 |
| Other variable yield securities and units in unit trusts - unlisted | 103,069 | 97,920 | 26,901 | 24,143 |
| Debt securities and other fixed income - listed | 1,397,726 | 1,394,098 | 1,390,219 | 1,368,564 |
| Infrastructure loans | 10,000 | 10,000 | 27,572 | 27,572 |
| Deposits with credit institutions | 2 | 2 | 916 | 916 |
| Derivative financial instruments (note 13) | 2,827 | - | 609 | - |
| | 1,552,698 | 1,539,249 | 1,467,882 | 1,440,737 |

### (c) Valuation hierarchy

The table below shows the financial instruments carried at fair value using a fair value hierarchy that reflects the significance of inputs into the determination of fair value as follows. The table excludes the deposits with credit institutions.

| 2015 | Level 1 €'000 | Level 2 €'000 | Level 3 €'000 | Total €'000 |
|---|---|---|---|---|
| Shares – listed | 16,979 | - | - | 16,979 |
| Shares – unlisted | - | - | 22,095 | 22,095 |
| Debt securities and other fixed income - listed | 68,184 | 1,329,542 | - | 1,397,726 |
| Derivative financial instruments | - | 2,827 | - | 2,827 |
| Other variable yield securities and units in unit trusts - unlisted | - | 103,069 | - | 103,069 |
| Infrastructure loans | - | - | 10,000 | 10,000 |
| | 85,163 | 1,435,438 | 32,095 | 1,552,696 |

| 2014 | Level 1 €'000 | Level 2 €'000 | Level 3 €'000 | Total €'000 |
|---|---|---|---|---|
| Shares – listed | - | - | - | - |
| Shares – unlisted | - | - | 21,665 | 21,665 |
| Debt securities and other fixed income - listed | 47,555 | 1,342,664 | - | 1,390,219 |
| Derivative financial instruments | - | 609 | - | 609 |
| Other variable yield securities and units in unit trusts - unlisted | - | 26,901 | - | 26,901 |
| Infrastructure loans | - | - | 27,572 | 27,572 |
| | 47,555 | 1,370,174 | 49,237 | 1,466,966 |

The investments included in Level 3 have one or more inputs that are not based on observable market data. The following table presents the movements of Level 3 investments during the year.

## 12. Investments (continued)

| | 2015 €'000 | 2014 €'000 |
|---|---|---|
| Balance at 1 January | 49,237 | 38,788 |
| Purchases | - | 10,000 |
| Unrealised gains in profit and loss | 430 | 1,765 |
| Redemptions | (17,572) | (1,316) |
| Balance at 31 December | 32,095 | 49,237 |

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

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

Level 3 Valuation techniques are applied in which any one or more significant input is not based on observable market data. The fair value of Infrastructure loan prices are sourced from the investment manager who may use a combination of observable market prices or comparable market prices where available and carried book value where none exist.

## 13. Derivative financial instruments

| **Fair value** | 2015 €'000 | 2014 €'000 |
|---|---|---|
| **Foreign currency derivatives** | | |
| Other financial assets (note 12(b)) | 2,827 | 609 |
| Derivative financial instrument – liabilities | (5,766) | (8,341) |

**Foreign currency derivatives**

The Company uses forward foreign exchange derivatives in order to hedge its exposure to foreign currencies. These are valued using the underlying foreign exchange rates at the year end. Contractual amounts included foreign exchange contracts to buy the net equivalent of €233,593,000 (2014 €185,459,000).

The forward foreign exchange derivatives outstanding at the year end expired by 27 January 2016 (2014 28 January 2015).

During the year a loss of €18,703,000 (2014 €24,554,000 loss) relating to forward foreign exchange derivatives was recognised. This is included in the net foreign exchange gain of €1,031,000 (2014 €2,300,000 loss) in the profit and loss non-technical account.

**Fixed income derivatives**

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

During the year, a loss of €87,000 (2014 €279,000 loss) was included in the profit and loss non-technical account relating to these derivatives.

There are no contractual amounts for fixed income derivatives outstanding at the balance sheet date (2014 €nil).

## NOTES TO THE FINANCIAL STATEMENTS (continued)
*for the year ended 31 December 2015*

### 14. Financial risk management

The activities of the Company expose it to financial risks such as market risk, credit risk and liquidity risk. The Company's risk management framework recognised the unpredictability of financial markets and sought to mitigate potential adverse effects on the financial performance of the Company.

The key objectives of the Company's asset and liability management strategy was to ensure sufficient liquidity was maintained at all times to meet the Company's obligations, including its settlement of insurance liabilities and, within these parameters, to optimise investment returns for the Company.

### (a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors. Market risk comprises three types of risk: currency risk (due to fluctuations in foreign exchange rates), interest rate risk (due to fluctuations in market interest rates) and price risk (due to fluctuations in market prices).

**Currency risk**

The Company is exposed to foreign currency risk in respect of its foreign currency exposures and forward foreign exchange derivatives are used to protect the currency positions.

The risk management process covering forward foreign exchange derivatives involved close senior management scrutiny. All forward foreign exchange derivatives were subject to delegated authority levels provided to management, and levels of exposure were reviewed on an ongoing basis.

The table below shows the impact on profit / (loss) and equity of changes in the value of the Company's financial instruments because of movements in foreign exchange rates.

| | | 2015 | | 2014 | |
|---|---|---|---|---|---|
| | Movement in variable % | Profit / (loss) €'000 | Equity €'000 | Profit / (loss) €'000 | Equity €'000 |
| US dollar | +10 | - | (2,535) | - | (742) |
| | −10 | - | 2,535 | - | 742 |
| UK pound sterling | +10 | (303) | (303) | (40) | (40) |
| | −10 | 303 | 303 | 40 | 40 |

The above is shown net of taxation at the standard rate of 20.25% (2014 21.5%).

The Company managed its exposure to foreign currencies based on the balance sheet by currency, which included insurance assets and liabilities.

## 14. Financial risk (continued)

### (a) Market risk (continued)

**Interest rate risk**

The Company was exposed to interest rate risk arising on interest bearing assets. Assets with floating interest rates exposed the Company to cash flow interest rate risk. Fixed interest rate assets exposed the Company to fair value interest rate risk. The Company's strategy was to invest in high quality, liquid fixed interest securities and cash and to actively manage duration. The investment portfolios were actively managed to achieve a balance between cash flow interest rate risk and fair value interest rate risk bearing in mind the need to meet the liquidity requirements of the business.

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

| 2015 | | Fixed interest rate maturing in | | | | |
|---|---|---|---|---|---|---|
| | Floating Interest rate €'000 | 1 year or less €'000 | 1 to 2 years €'000 | 2 to 3 years €'000 | Over 3 years €'000 | Total €'000 |
| Interest bearing financial assets | 707,005 | - | 410,737 | 81,846 | 217,937 | 1,417,525 |

| 2014 | | Fixed interest rate maturing in | | | | |
|---|---|---|---|---|---|---|
| | Floating interest rate €'000 | 1 year or less €'000 | 1 to 2 years €'000 | 2 to 3 years €'000 | Over 3 years €'000 | Total €'000 |
| Interest bearing financial assets | 521,883 | 635,066 | 155,686 | 103,122 | 23,896 | 1,439,653 |

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

| | Movement in variable % | 2015 Profit/(loss) €'000 | 2014 Profit/(loss) €'000 |
|---|---|---|---|
| Interest rate movement – fixed interest securities | +0.5 | (5,517) | (4,013) |
| | -0.5 | 2,831 | 1,872 |

The above is shown net of taxation at the standard rate of 20.25% (2014 21.5%).

**Equity price risk**

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

| | Movement in variable % | 2015 Profit/(loss) €'000 | 2014 Profit/(loss) €'000 |
|---|---|---|---|
| DJ Euro Stoxx | +20 | 5,628 | 2,245 |
| | -20 | (5,628) | (2,245) |
| Emerging Markets | +20 | 2,089 | - |
| | -20 | (2,089) | - |

The above is shown net of taxation at the standard rate of 20.25% (2014 21.5%).

14. **Financial risk (continued)**

**Property price risk**

Property price risk is the risk that the fair value of property will fluctuate because of changes in property market prices. The Company is exposed to property price risk indirectly through investments in unlisted property trusts in key developed markets.

| | Movement in variable % | 2015 Profit/(loss) €'000 | 2014 Profit/(loss) €'000 |
|---|---|---|---|
| Property price – United States | +10 | 2,389 | 2,690 |
| | -10 | (2,389) | (2,690) |
| Property price – Europe | +10 | 4,787 | - |
| | -10 | (4,787) | - |

The above is shown net of taxation at the standard rate of 20.25% (2014 21.5%).

**(b) Credit risk**

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

Credit risk exposures are calculated regularly and 99.3% (2014 96.7%) of total fixed interest and cash investments are with counterparties having a Moody's rating of A or better. The Company does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings. The Company only uses derivatives in highly liquid markets.

The reinsurers' share of claims outstanding is also exposed to credit risk. As at 31 December 2015, 19.5% (2014 23.7%) of the reinsurers' share of claims outstanding was with fellow group undertakings and 72.2% (2014 87.9%) of the remaining balance was with reinsurers with a standard rating of A or greater.

The Company holds letters of credit as security to mitigate credit risk exposure to reinsurers. At the balance sheet date the Company held £20,947,000 as collateral against credit risk.

The following table provides information regarding the carrying value of the Company's financial assets. All amounts were neither past due nor impaired.

| | 2015 Neither past due nor impaired €'000 | 2014 Neither past due nor impaired €'000 |
|---|---|---|
| Interest bearing investments | 1,417,525 | 1,439,653 |
| Other financial investments | 142,143 | 48,566 |
| Derivative financial instrument | 2,827 | 609 |
| Other debtors (see note 17) | 4,636 | 5,066 |
| Debtors arising out of reinsurance operations | 187,456 | 155,967 |

## 14. Financial risk (continued)

### (c) Liquidity risk

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

At 31 December 2015, the average duration of cash and fixed interest securities was 1.00 years (2014 0.73 years).

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

| | 2015<br>Within 1 year<br>€'000 | 2014<br>Within 1 year<br>€'000 |
|---|---|---|
| Amounts due to group undertakings | (3,089) | (2,032) |
| Derivative financial instruments | (5,766) | (8,341) |

The Company has no significant concentration of liquidity risk.

## 15. Deferred tax

| | 2015<br>€'000 | 2014<br>€'000 |
|---|---|---|
| **Deferred tax** | | |
| Deferred tax asset at start of year | 2,804 | 2,599 |
| Deferred tax charge in profit and loss account (note 11) | 43 | 62 |
| Other movements | 3 | - |
| Movement in provision – equity (note 7(a)) | 52 | 143 |
| Deferred tax asset | 2,902 | 2,804 |
| **Comprising:** | | |
| Pension – profit & loss movement | 123 | 77 |
| Pension – equity movement | 2,779 | 2,727 |
| Undiscounted deferred tax asset | 2,902 | 2,804 |

## 16. Other debtors

| | 2015<br>€'000 | Restated<br>2014<br>€'000 |
|---|---|---|
| Amounts due from group undertakings | 117 | 216 |
| Corporation tax | 519 | 850 |
| Other receivables | 4,000 | 4,000 |
| | 4,636 | 5,066 |

€nil of other debtors is due after more than one year (2014 €4,000,000).

## NOTES TO THE FINANCIAL STATEMENTS (continued)
*for the year ended 31 December 2015*

### 17. Debtors arising out of reinsurance operations

| | 2015 €'000 | 2014 €'000 |
|---|---|---|
| **Amounts due within 12 months** | | |
| Premium receivable | 96,857 | 100,626 |
| Provision premium receivable | (1,268) | (1,077) |
| Amounts due from reinsurance | 15,776 | 20,750 |
| Unallocated cash - reinsurance | 65 | 73 |
| Provision reinsurance receivables | (1,482) | (1,439) |
| Unclosed reinsurance written commission | 70,627 | 37,034 |
| | 180,575 | 155,967 |
| **Amounts due after more 12 months** | | |
| Amounts due from reinsurance | 6,881 | - |
| Total debtors arising out of reinsurance operations | 187,456 | 155,967 |

### 18. Tangible assets

| | Office equipment €'000 | Computer equipment €'000 | Total €'000 |
|---|---|---|---|
| **Cost** | | | |
| As at 1 January 2015 | 793 | 628 | 1421 |
| Additions | 10 | - | 10 |
| Disposals | (11) | (1) | (12) |
| At 31 December 2015 | 792 | 627 | 1,419 |
| **Accumulated depreciation** | | | |
| As at 1 January 2015 | (381) | (476) | (857) |
| Depreciation charge | (120) | (7) | 127) |
| Disposals | 11 | (78) | (67) |
| At 31 December 2015 | (490) | (561) | (1,051) |
| **Net book value at 31 December 2015** | 302 | 66 | 368 |
| Net book value at 31 December 2014 | 412 | 152 | 564 |

### 19. Called up share capital

| | 2015 €'000 | 2014 €'000 |
|---|---|---|
| **Called up, allotted and fully paid** | | |
| 20,082,852 (2014 20,082,852) ordinary shares of £1 each | 24,205 | 24,205 |

## NOTES TO THE FINANCIAL STATEMENTS (continued)
*for the year ended 31 December 2015*

### 20. Reconciliation of movement in net outstanding claims provision

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Gross | Reinsurance | Net | Gross | Reinsurance | Net |
| | **€'000** | **€'000** | **€'000** | **€'000** | **€'000** | **€'000** |
| | | | | | 8 | 8 |
| At 1 January | 1,231,800 | (122,988) | 1,108,812 | 1,173,566 | (104,279) | 1,069,287 |
| Incurred claims recognised in the statement of comprehensive income - general business | (120,632) | 17,957 | (102,675) | (207,899) | 32,721 | (175,178) |
| Incurred claims recognised in the statement of comprehensive income - Long-term business | (12,899) | 114 | (12,785) | (7,138) | 87 | (7,051) |
| Disposals | | | | | | |
| Claims payments - general business | (158,896) | 21,660 | (137,236) | (158,851) | 13,423 | (145,428) |
| Claims payments - Long-term business | (15,889) | (54) | (15,943) | (20,040) | (4,026) | (24,066) |
| Foreign exchange | 22,030 | (3,107) | 18,923 | 22,088 | 4,702 | 26,790 |
| At 31 December | 1,212,576 | (122,560) | 1,090,016 | 1,231,800 | (122,988) | 1,108,812 |

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### 21. Outstanding claims – claims development

| **2015** | **2012 €'000** | **2013 €'000** | **2014 €'000** | **2015 €'000** | **Total €'000** |
|---|---|---|---|---|---|
| At end of year | | 223,598 | 208,986 | 174,088 | |
| One year later | | 217,857 | 204,669 | - | |
| Two years later | | 207,933 | - | - | |
| Three years later | | - | - | - | |
| Current estimate of net cumulative claims cost | | 207,933 | 204,669 | 174,088 | |
| Cumulative net claims payments to date | | (95,260) | (95,852) | (17,418) | |
| **Net outstanding claims** | 711,856 | 112,673 | 108,817 | 156,670 | 1,090,016 |

At the start of 2012 the net outstanding claims liabilities of two wholly owned QBE group companies were transferred into the Company by way of a portfolio transfer. For financial reporting purposes the net outstanding claim liabilities that were transferred are disclosed in the 2012 underwriting year.

The Company writes business in currencies other than Euro. The translation of outstanding claims denominated in foreign currencies gives rise to foreign exchange movements which have no direct bearing on the development of the underlying claims. To eliminate this distortion, claims liabilities have been retranslated to the Euro at constant rate of exchange for each reporting year. All estimates of net cumulative claims cost and cumulative claims payments for the 4 most recent reporting years reported in functional currencies other than Euro have been retranslated to Euro using the exchange rate at the end of the reporting year.

## NOTES TO THE FINANCIAL STATEMENTS (continued)
*for the year ended 31 December 2015*

### 22. Impact of changes of key variables on the outstanding claims provision

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

| | Sensitivity % | Profit/(loss) 2015 €'000 | Profit/(loss) 2014 €'000 |
|---|---|---|---|
| Net claims outstanding | +5 | 43,464 | 43,521 |
| | -5 | (43,464) | (43,521) |
| Euro to US dollar exchange rate | +10 | 5,839 | 6,458 |
| | -10 | (5,839) | (6,458) |
| Euro to Pound sterling exchange rate | +10 | 8,616 | 8,875 |
| | -10 | (8,616) | (8,875) |

### 23. Maturity profile of net outstanding claims

| 2015 | 1 year or less €'000 | 1 to 2 years €'000 | 2 to 3 years €'000 | 3 to 4 years €'000 | 4 to 5 years €'000 | Over 5 years €'000 | Total €'000 |
|---|---|---|---|---|---|---|---|
| 2015 | 221,321 | 115,633 | 89,408 | 76,376 | 67,418 | 519,860 | 1,090,016 |
| 2014 | 244,294 | 122,900 | 85,671 | 74,018 | 65,671 | 516,258 | 1,108,812 |

### 24. Equalisation provision

The equalisation provision required to be made by the Company in accordance with the Prudential Regulation Authority Handbook is as follows:

| | 2015 €'000 | 2014 €'000 |
|---|---|---|
| At 1 January | 37,663 | 29,209 |
| Transfer during the year | 11,025 | 8,454 |
| At 31 December | 48,688 | 37,663 |

As explained in accounting policy 1(c)(vii), an equalisation provision is established in the Company financial statements. The effect of the movement in this provision is to decrease shareholder's funds by €11,025,000 (2014 decrease by €8,454,000). The increase in the provision during the year has the effect of decreasing the balance on the technical account and decreasing the profit of ordinary activities before tax by €11,025,000 (2014 decrease of €8,454,000).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

*for the year ended 31 December 2015*

### 25. Other creditors including taxation and social security

| | 2015 €'000 | Restated 2014 €'000 |
|---|---|---|
| Amounts due to group undertakings | 3,089 | 2,032 |
| Corporation tax | 1,636 | 2,646 |
| | 4,725 | 4,678 |

### 26. Operating lease commitments

Annual commitments of the Company under operating leases are as follows:

| | 2015 €'000 | 2014 €'000 |
|---|---|---|
| **Land and buildings** | | |
| Leases which expire: | | |
| Within one year | 72 | 72 |
| Between one and five years | 424 | 424 |
| | 496 | 496 |

### 27. Charges on assets

The Company had outstanding liabilities covered by the deposit of cash and investments in respect of undrawn letters of credit as per the following table, with Euro equivalents translated at the relevant balance sheet date:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Local currency '000 | €'000 | Local currency '000 | €'000 |
| Australian dollar | 5,804 | 3,892 | 10,916 | 7,365 |
| US dollar | 19,290 | 17,752 | 20,066 | 16,583 |
| Euro | 403 | 403 | 355 | 355 |
| Canadian dollar | 309 | 206 | 309 | 220 |
| Pound sterling | 600 | 814 | 600 | 773 |

Additionally, there are charges over the investment portfolio of €287,632,000 (2014 €276,854,000) in the Belgian branch, pledged in favour of different cedant companies as a guarantee covering the outstanding claims reserves from certain inward treaties the branch has entered into.

### 28. Presentation of prior year comparatives

On adoption of FRS 101 the Company has classified the forward foreign exchange contracts as derivative financial asset/ liabilities and present them on a separate line within the balance sheet. In prior years the derivatives financial assets/ liabilities were presented within other financial investments/ other creditors. There has been no impact to the profit and loss account or the value of net assets from this change in presentation.

The entity has elected to apply an exemption in IFRS 1 which permits the cumulative translation differences in respect of foreign operations represented in the foreign currency translation reserve to be deemed to be zero at the date of adoption of FRS 101. At 1 January 2014, the balance in the foreign currency translation reserve was reduced to zero with an equivalent adjustment to retained profits.

Certain current tax assets and liabilities originate in different countries. Balances that are not able to be offset are presented on separate lines within the balance sheet. There has been no impact to the profit and loss account.

## NOTES TO THE FINANCIAL STATEMENTS (continued)
*for the year ended 31 December 2015*

### 29. Available capital resources

| 2015 | Long-term business €'000 | General business €'000 | Total €'000 |
|---|---|---|---|
| Shareholder's funds | 16,340 | 584,966 | 601,306 |
| *Adjustments onto regulatory basis:* | | | |
| Adjustments to assets | - | (19,837) | (19,837) |
| Total available capital resources | 16,340 | 565,129 | 581,469 |

| 2014 | Long-term business €'000 | General business €'000 | Total €'000 |
|---|---|---|---|
| Shareholder's funds | 16,688 | 505,023 | 521,711 |
| *Adjustments onto regulatory basis:* | | | |
| Adjustments to assets | - | (13,107) | (13,107) |
| Total available capital resources | 16,688 | 491,916 | 508,604 |

### 30. Movements in capital resources for long-term business

| | 2015 €'000 | 2014 €'000 |
|---|---|---|
| Balance at 1 January | 16,688 | 12,599 |
| New business and other factors | (348) | 4,089 |
| Movement in the year in capital resources for long-term business | 16,340 | 16,688 |

Other factors above relates to the requirement by the PRA to separately disclose capital resources in relation to long-term business as discussed in the note 1(c)(ix). In addition the profit generated in the calendar year 2015 has been retained in the Company.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

*for the year ended 31 December 2015*

### 31. Capital resource sensitivities

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities. It is also sensitive to assumptions and experience relating to mortality and morbidity and, to a lesser extent, expenses and persistency. The most significant sensitivities arise from the following three risks:

- mortality risk in relation to annuity business, which would arise if the mortality of annuitants improved more rapidly than the assumptions used for reserving;
- market risk in relation to annuity business, which would arise if the return from the fixed interest investments supporting this business were lower than that assumed for reserving; and
- mortality risk in relation to term assurance business, which would arise if mortality of the lives insured were heavier than that assumed, possibly because of an epidemic or catastrophe.

The timing of any impact on capital would depend on the interaction of past experience and assumptions about future experience. In general, if experience had deteriorated or was expected to deteriorate and management actions were not expected to reduce the future impact, then assumptions relating to future experience would be changed to reflect it. In this way, liabilities would be increased to anticipate the future impact of the worse experience with immediate impact on the capital position.

### 32. Parent undertakings

The Company's ultimate parent undertaking and controlling entity is QBE Insurance Group Limited, which is incorporated in Australia. This is the largest group of undertakings into which the Company's financial statements are consolidated. The smallest group of undertakings into which the Company's financial statements are consolidated is headed by QBE European Operations plc, which is incorporated in the United Kingdom.

The Company's immediate parent company is QBE Holdings (EO) Limited, which is incorporated in the United Kingdom. QBE Holdings (EO) Limited is a wholly owned subsidiary of QBE European Operations plc.

The consolidated financial statements for QBE Insurance Group Limited and QBE European Operations plc are available from the Company's registered office at Plantation Place, 30 Fenchurch Street, London, EC3M 3BD.