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# **QBE Re (Europe) Limited**

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## **Annual Report**

**31 December 2017**



**Registered Number 1378853**

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# QBE RE (EUROPE) LIMITED

## ANNUAL REPORT

*for the year ended 31 December 2017*

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## **QBE RE (EUROPE) LIMITED**

### **DIRECTORS AND OFFICERS**

#### **Directors**

W-F Au \*  
T C W Ingram \*  
M G McCaig \*  
J W Parry  
R V Pryce  
S W Sinclair \*  
N J D Terry  
D J Winkett  
\* non-executive Director

#### **Company secretary**

A J Smith

#### **Registered office**

Plantation Place  
30 Fenchurch Street  
London  
EC3M 3BD

#### **Independent auditors**

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

# QBE RE (EUROPE) LIMITED

## 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 profitable growth.

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 and future developments

The results of the Company for the year are set out in the profit and loss account on pages 16 to 18. The profit after tax for the year was €41,688k (2016 €77,452k).

The Company declared and paid interim dividends totalling €nil on the ordinary shares during the year (2016 €19,000k). The Directors do not recommend the payment of a final dividend (2016 €nil).

The Company continues to write International Property and Casualty business from its Dublin-based branch; European non-life multiline reinsurance and worldwide life business from its Brussels-based branch, and North American Property, International Property and US Casualty business from its Bermuda-based branch.

### Key performance indicators

		2017	2016
Gross written premium	€m	430.8	413.3
Gross earned premium	€m	438.1	379.3
Net earned premium	€m	379.6	324.8
Claims ratio	%	61.1	69.3*
Commission ratio	%	19.4	20.3
Expense ratio	%	8.3	9.9
Combined operating ratio	%	88.8	99.5*

\* 2016 claims ratio and combined operating ratio are calculated before the elimination of the equalisation provision

Premium growth during 2017 was underpinned by new business activity, primarily due to the successful execution of growth strategies in the worldwide life business.

In line with the rest of the industry, the Company experienced an increase in large risk and catastrophe claims, including those arising from Hurricanes Harvey, Irma and Maria, and the Mexican earthquake (HIMM).

The 2016 financial statements and claims ratio included €40,515k pre-tax impact due to a change in the discount rate which is applied to certain lump sum bodily injury claims, known as the Ogden rate, to -0.75%. During 2017 the Ministry of Justice announced that this discount rate would be amended. The 2017 financial statements and claims ratio includes a reassessment of reserves that are sensitive to change in the Ogden discount rate, with an assumed rate of +0.25% applied. The 2017 financial statements and claims ratio also includes the impact of adjusting the discount rate applied to claims reserves anticipated to be settled by periodic payment order (PPO), with an assumed rate of +0.25% applied. The current Ogden discount rate as advised by the Ministry of Justice is -0.75%.

## QBE RE (EUROPE) LIMITED

### STRATEGIC REPORT (continued)

#### Strategy

As an integral part of the QBE European Operations division, the Company is a leading multi-line global reinsurer, underwriting business across a diverse range of products and geographies.

The strategic priorities of the Company have been developed in conjunction with the wider QBE Group strategy, and are outlined below:

Strategic priority	Description
Underwriting excellence	Maintaining best-in-class underwriting skill and discipline, and offering specialist products through the London market and European branches.
Customer and partner-led growth	Strengthening major customer and broker relationships, protecting profitable portfolios; and driving new, high quality business through an extensive distribution footprint.
Claims excellence	Implementing the global claims excellence program, including sharing claims expertise with other divisions across QBE Group.
Data and analytics	Driving the use of data and analytics in underwriting, claims and distribution, improving the quality of new and renewal business.
Operational efficiency	Developing an efficient and flexible business to contribute to a better customer experience.
World class talent	Attracting, retaining, motivating and rewarding the best people in the sectors.

#### Future outlook of the business environment

Whilst the pricing outlook for 2018 is marginally more positive, we see meaningful pricing corrections limited to loss impacted lines. Regardless of the market conditions, we remain committed to disciplined pricing and prudent risk selection.

Following the European Union referendum in June 2016 we are seeking authorisation for a new, licensed entity to be incorporated and regulated in Belgium, in order to provide certainty of support to policyholders and staff within Europe. A new legal entity named 'QBE Europe SA/NV' has been incorporated in Belgium and work is underway to progress the necessary regulatory and legal approvals required to enable the company to trade in time for 2019 renewals. As part of this plan, QBE Re (Europe) Limited will transfer into QBE Europe SA/NV, pursuant to the Directive on Cross Border Mergers of Limited Liability Companies.

We will ensure we are closely aligned and engaged with customers in all areas, especially in this time of heightened industry uncertainty. We aim to be active and visible across the industry in all key geographies, and our extended distribution network will be more valuable than ever as we seek to secure quality new business and retain our existing high quality portfolio.

## **QBE RE (EUROPE) LIMITED**

### **STRATEGIC REPORT (continued)**

#### **Principal risks and uncertainties**

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

#### **Strategic risk**

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

The Company manages strategic risk as follows:

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

#### **Insurance risk**

The Company defines insurance risk as the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations.

Our exposure to insurance risk arises from:

- Underwriting/pricing;
- Insurance concentrations; and
- Reserving.

The Company manages insurance risk as follows:

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

#### **Credit risk**

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

The Company manages credit risk as follows:

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

#### **Group risk**

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

The Company manages group risk as follows:

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

## **QBE RE (EUROPE) LIMITED**

### **STRATEGIC REPORT (continued)**

#### **Principal risks and uncertainties (continued)**

##### **Market risk**

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

The Company manages market risk as follows:

- Actively managing investment assets;
- Perform asset and liability management to actively manage our exposure to yield curve fluctuations;
- Maintaining a diversified portfolio; and
- Hedging residual non-functional currency net asset exposures.

##### **Liquidity risk**

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

The Company manages liquidity risk using the following:

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

##### **Operational risk**

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

The Company manages operational risk using the following:

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

##### **Solvency II and capital adequacy**

The Company applies a Prudential Regulation Authority (PRA) approved internal capital model for regulatory capital reporting. The internal model is 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.

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

The Company operates within its Board approved Capital Adequacy Framework, designed to ensure that the Company operates within a target range of capital, which exceeds the regulatory solvency capital requirements.

## **QBE RE (EUROPE) LIMITED**

### **STRATEGIC REPORT (continued)**

#### **Corporate governance**

During 2017, the Company's corporate governance structure and system of governance has continued to evolve, reflecting the Boards' ongoing commitment to ensuring that it remains efficient, relevant and supportive of the strategic aims of the Company. The structure continues to comply with all relevant regulatory and legal requirements. 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 Board seeks to adopt practices recommended by the Code, where practical and relevant.

Key changes to the corporate governance structure during the year included the formalisation of the Conduct Risk Group ('CRG') as a formal sub-group of the RCC. The CRG was originally established in 2013 and its responsibilities include the identification, assessment, mitigation and oversight of Conduct Risk. In particular, the CRG monitors and provides customer challenge to high product risk areas. Given the importance of its responsibilities, in November 2017 the RCC agreed that the CRG should become part of the formal corporate governance structure.

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

In May and June 2017, the Board undertook a Board Effectiveness Review. The Review was conducted by the Chairman of the Boards, supported by QBE EO Company Secretarial. A series of minor recommendations to support continuous improvement of effectiveness arising from the Review were discussed and agreed by the Boards.

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

The main QBE EO Boards and Board Committees met regularly during the year with strong attendance from all members. The Board of the Company met 12 times during 2017.



## QBE RE (EUROPE) LIMITED

### STRATEGIC REPORT (continued)

#### 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 resources are in place for the Company to meet its objectives and reviews the performance of management in delivering on the Company's strategic aims. The Board sets and instils the Company's values and culture in the light of those set by QBE Group and ensure that its obligations to its shareholder and other stakeholders of QBE Insurance (Europe) Limited are understood and met.

The Board is chaired by Tim Ingram and comprises four executive Directors and four independent non-executive Directors, all of whom are members of the Audit Committee. All the non-executive Directors are considered to be independent of management and free from any relationship that could materially interfere with the exercise of independent judgement.

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

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

#### Board Committees

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

QBE EO's key Committees comprise:


- Audit Committee
- Executive Management Board
- Investment Committee
- Remuneration and Nomination Committee
- Risk and Capital Committee

#### Business continuity management

An established business continuity management framework is in place to ensure the Company is resilient and able to respond effectively to incidents that threaten business continuity, including any material failures in significant outsourcing arrangements. It is designed to ensure 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 8 March 2018 and signed on its behalf by:

  
D J WINKETT  
Director

## QBE RE (EUROPE) LIMITED

### DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 December 2017.

#### 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 8.

#### Dividends

Interim dividends totalling €nil were declared and paid during the year (2016 €19,000k). No final dividend has been proposed (2016 €nil).

Company	2017 Final	2016 Final	2017 Interim	2016 Interim	2017 Total	2016 Total
Dividend per share	€nil	€nil	€nil	€0.95	€nil	€0.95

#### Overseas branches

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

#### Currency

The presentation currency of these financial statements is the Euro (€).

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. At the year end the Euro to US dollar exchange rate was 1.199 (2016 1.052).

#### 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 2017 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, makes recommendations for improvement and monitors progress towards completion via management action plans. Internal audit also provide 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. In the event of members of staff becoming disabled, every effort is made to ensure that their employment within QBE EO continues and the 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

Consultation with employees or their representatives has continued at all levels with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests. All employees are aware of the financial and economic performance of their business units and of QBE Group as a whole, and are rewarded according to the results of both through share schemes and performance-related bonus schemes.

## QBE RE (EUROPE) LIMITED

### 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 applicable United Kingdom Accounting Standards, comprising FRS 101, have 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.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for the shareholder to assess the company's performance, business model and strategy.

Each of the Directors, whose names are listed in Directors and Officers confirm that, to the best of their knowledge:

- the Company's financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.


#### 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.

On behalf of the Board:

  
D.J. WINKETT  
Director  
QBE Re (Europe) Limited  
Registered Number 1378853  
London  
8 March 2018

## QBE RE (EUROPE) LIMITED

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

## Report on the audit of the financial statements

### Opinion

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

give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;

have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and

have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the profit and loss account; the statement of other comprehensive income; the statement of changes in equity and the balance sheet; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

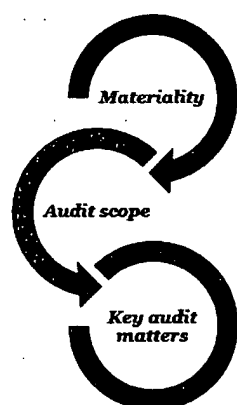
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

### Our audit approach

#### Overview



Overall materiality: €3.9 million (2016: £10.8 million), based on the amount that would change the Combined Operating Ratio by 1%.

Our audit over the financial statements of QBE Re (Europe) Limited requires us to scope significant components (which include branches) to gain sufficient coverage over the operations of the entity. In making scoping decisions we consider

those components which are individually financially significant;

those line items within the financial statements, such as gross premiums written, which are significant by virtue of size; and

those which have specific characteristics that are of higher risk.

As a result of these scoping decisions we have performed full scope audit procedures over the Irish and Belgian business and all claims provisions. This gave us coverage over 96% of the company's revenue, 100% of claims provisions and 97% of assets.

Our assessment of risk identified the following key audit matters:

Valuation of claims outstanding (including reinsurer's share of claims outstanding)

Valuation of estimated premiums

## QBE RE (EUROPE) LIMITED

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

#### *The scope of our audit*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at a significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the company financial statements, including but not limited to, the Companies Act 2006. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, enquiries of management, review of significant components auditors' work and review of internal audit reports in so far as they related to the financial statements.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

#### *Key audit matters*

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<i>Valuation of claims outstanding (and reinsurers' share of claims outstanding)</i> Claims outstanding (and reinsurers' share of claims outstanding) are presented on the face of the balance sheet as well as disclosed in notes 15 and 16 of the Annual Report. Technical provisions include both claims outstanding and reinsurers' share of claims outstanding. Claims outstanding represent a significant estimate in the financial statements based on the magnitude of both the amount recorded in the financial statements and the level of judgement required. The judgement includes both complex accounting treatments and complex methods and assumptions used to report and estimate technical provisions. Where complex estimates arise, estimation uncertainty increases and results in a higher risk in our audit. The estimations involved in setting gross claims outstanding also arise in applying the reinsurance programme in order to arrive at the estimate of the reinsurers' share of claims outstanding.	Our audit over claims outstanding (and reinsurers' share of claims outstanding) included work performed by our actuarial specialists and also covered our understanding and evaluation of the claims estimation process. In conducting our audit we performed the following procedures: Controls testing over: <ul style="list-style-type: none"><li>• Reserving governance;</li><li>• Actuarial peer reviews;</li><li>• Third party actuarial reviews;</li><li>• Reinsurance recovery calculations; and</li><li>• Data reconciliations.</li></ul> Testing of transactions and balances: <ul style="list-style-type: none"><li>• Testing by actuarial specialists of the methods and assumptions used by management to estimate technical provisions. Analysis of key indicators used for low risk classes;</li><li>• Audit of management's actual vs expected process and adjustments;</li><li>• Testing of large and catastrophe claims;</li><li>• Use of market benchmarking to assess claims provisions for catastrophe losses incurred in the year; and</li><li>• Testing of recoveries under reinsurance policies.</li></ul>

## QBE RE (EUROPE) LIMITED

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

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Data used in estimating technical provisions</i></p> <p>The estimation of technical provisions relies on the quantitative and qualitative attributes of underlying claims and recovery data being complete and accurate. Where this data is inaccurate or incomplete the estimate of technical provisions may be misstated.</p>	<p>Data testing:</p> <ul style="list-style-type: none"> <li>Reconciled data used in the reserving process to source systems;</li> <li>Tested qualitative and quantitative elements of underlying claims and reinsurance data.</li> </ul> <p>From the evidence obtained we found the assumptions and methodology for the estimate of claims outstanding (and reinsurers' share of claims outstanding) and the data used to be appropriate.</p>
<p><i>Valuation of estimated premium</i></p> <p>Estimated premiums, specifically estimated premium from delegated underwriters and unclosed premium form part of Gross Written premium and are presented on the face of the profit and loss account as well as disclosed in note 4 of the Annual Report. Estimated premiums represent a significant estimate in the financial statements, although the magnitude of the estimate and the judgement required is less than for claims outstanding.</p>	<p>Our audit over estimated premiums substantive testing, tests of controls and also covered our understanding and evaluation of the premium estimation process.</p> <p>In conducting our audit we have performed the following:</p> <p>Control testing over:</p> <ul style="list-style-type: none"> <li>The authorised limits for each underwriter; and</li> <li>The process for approving potential business and underwriting rules.</li> </ul> <p>Substantive testing:</p> <ul style="list-style-type: none"> <li>Testing qualitative and quantities information for a selection of policies; and</li> <li>Recalculation of unclosed premium.</li> </ul> <p>As a result of our testing we found management's estimate of premiums to be appropriate.</p>

#### *How we tailored the audit scope*

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

In tailoring the audit scope for QBE Re (Europe) Limited we assessed the risks within the entity and its various components. Our testing focused on the Dublin and Brussels branches where the vast majority of operations take place. The remaining branches were not financially significant enough to warrant full-scope audit procedures. We have tested technical provisions across all components due to the nature of the risks associated with that account. We relied on the work of component auditors from PwC Ireland and PwC Belgium in our audit of QBE Re (Europe) Limited.

## QBE RE (EUROPE) LIMITED

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

#### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall materiality</b>	€3.9 million (2016: €3.6 million).
<b>How we determined it</b>	In calculating materiality we determined the minimum movement in net earned premium or operating costs (including claims incurred) which would result in a 1% change in Combined Operating Ratio.
<b>Rationale for benchmark applied</b>	The Combined Operating Ratio ("COR") is a standardised measure of performance which allows for comparison across non-life insurance companies and, therefore, is a key consideration for the users of the financial statements. We have used COR as a benchmark as it gives a consistent indicator of the relative performance of the company.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €197,000 (2016: €181,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

#### Conclusions relating to going concern

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

the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

#### Reporting on other information

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

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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

#### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

## QBE RE (EUROPE) LIMITED

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

#### Responsibilities for the financial statements and the audit

##### *Responsibilities of the directors for the financial statements*

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

##### *Auditors' responsibilities for the audit of the financial statements*

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

##### *Use of this report*

This report, including the opinions, has been prepared for and only for the 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.

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## Other required reporting

### Companies Act 2006 exception reporting

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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### Appointment

We were appointed by the directors in July 1997 to audit the financial statements for the year ended 31 December 1997 and subsequent financial periods. The period of total uninterrupted engagement is 21 years, covering the years ended 31 December 1997 to 31 December 2017.



Andrew Moore (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
8 March 2018



# QBE RE (EUROPE) LIMITED

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

	Note	2017 €'000	2016 €'000
<b>Continuing operations</b>			
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	4	364,907	376,936
Outward reinsurance premiums		(55,930)	(46,892)
Net premiums written		308,977	330,044
Change in the gross provision for unearned premiums		7,264	(33,949)
Change in the provision for unearned premiums, reinsurers' share		(335)	(5,114)
Change in the net provision for unearned premiums		6,929	(39,063)
<b>Earned premiums, net of reinsurance</b>		315,906	290,981
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(172,249)	(167,630)
Reinsurers' share		1,719	24,402
Net claims paid		(170,530)	(143,228)
Change in the provision for claims			
Gross amount		(47,279)	(45,858)
Reinsurers' share		46,982	(11,536)
Change in the net provision for claims		(297)	(57,394)
<b>Claims incurred, net of reinsurance</b>		(170,827)	(200,622)
Net operating expenses	5	(94,643)	(90,258)
Change in the equalisation provision	6	-	48,688
<b>Balance on the technical account for general business</b>		50,436	48,789

The notes set out on pages 23 to 48 form an integral part of these financial statements

# QBE RE (EUROPE) LIMITED

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

*for the year ended 31 December 2017*

	Note	2017 €'000	2016 €'000
<b>Continuing operations</b>			
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	4	65,895	36,353
Outward reinsurance premiums		(2,172)	(2,528)
<b>Net premiums written</b>		<b>63,723</b>	<b>33,825</b>
Investment income		260	385
		63,983	34,210
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(32,951)	(18,580)
Reinsurers' share		361	136
<b>Net claims paid</b>		<b>(32,590)</b>	<b>(18,444)</b>
<b>Change in provision for claims, net of reinsurance</b>			
Long-term business provision; net of reinsurance			
Gross amount		(28,339)	(7,779)
Reinsurers' share		(111)	1,609
<b>Change in the net provision for claims</b>		<b>(28,450)</b>	<b>(6,170)</b>
		(61,040)	(24,614)
Net operating expenses	5	(10,509)	(7,632)
Investment expenses and charges		(2,598)	(771)
Unrealised losses on investments		(375)	585
<b>Balance on the technical account for long-term business</b>		<b>(10,539)</b>	<b>1,778</b>

The notes set out on pages 23 to 48 form an integral part of these financial statements

# QBE RE (EUROPE) LIMITED

## PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT

for the year ended 31 December 2017

	Note	2017 €'000	2016 €'000
<b>Balance on the general business technical account</b>		50,436	48,789
<b>Balance on the long-term business technical account</b>		(10,539)	1,778
Investment income	8(a)	21,900	29,665
Unrealised gains on investments		3,804	9,670
Investment expenses and charges	8(b)	(7,987)	(12,369)
Allocated investment return transferred to the long-term business technical account		2,713	(199)
<b>Profit on ordinary activities before tax</b>	9	60,327	77,334
<b>Tax on profit on ordinary activities</b>	10	(18,638)	118
<b>Profit for the financial year</b>		41,689	77,452

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 23 to 48 form an integral part of these financial statements

# QBE RE (EUROPE) LIMITED

## STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

	Note	2017 €'000	2016 €'000
<b>Profit for the financial year</b>		41,689	77,452
Items that may be reclassified to profit or loss:			
Currency translation differences		(17,247)	5,103
Items that will not be reclassified to profit or loss:			
Actuarial gain recognised on pension scheme	11(a),(b)	1,147	627
Corporation tax relief associated with actuarial movements on medical and pension schemes	11(a),(b)	(908)	(213)
Actuarial loss recognised on medical scheme	11(c)	(22)	(66)
Other comprehensive income for the year, net of tax		(17,030)	5,451
<b>Total comprehensive income for the year</b>		<b>24,659</b>	<b>82,903</b>

The notes set out on pages 23 to 48 form an integral part of these financial statements

# QBE RE (EUROPE) LIMITED

## STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

2017	Called up share capital €'000	Share premium account €'000	Other reserves €'000	Profit and loss account €'000	Total shareholders' funds €'000
<b>At 1 January</b>	24,205	487,201	7,304	146,499	665,209
Profit for the financial year	-	-	-	41,689	41,689
Currency translation differences	-	-	(17,247)	-	(17,247)
Actuarial gain recognised in the defined benefit schemes	-	-	-	217	217
Total comprehensive income	-	-	(17,247)	41,906	24,659
<b>At 31 December</b>	24,205	487,201	(9,943)	188,405	689,868

2016	Called up share capital €'000	Share premium account €'000	Other reserves €'000	Profit and loss account €'000	Total shareholders' funds €'000
<b>At 1 January</b>	24,205	487,201	2,201	87,699	601,306
Profit for the financial year	-	-	-	77,452	77,452
Currency translation differences	-	-	5,103	-	5,103
Actuarial gain recognised in the defined benefit schemes	-	-	-	348	348
Total comprehensive income	-	-	5,103	77,800	82,903
Dividends paid	-	-	-	(19,000)	(19,000)
<b>At 31 December</b>	24,205	487,201	7,304	146,499	665,209

The notes set out on pages 23 to 48 form an integral part of these financial statements

# QBE RE (EUROPE) LIMITED

## BALANCE SHEET

As at 31 December 2017

Assets	Note	2017 €'000	2016 €'000
<b>Investments</b>			
Other financial investments	13	1,609,214	1,567,965
Deposits with ceding undertakings		124,586	135,863
Derivative financial instruments	14	3,844	1,900
		1,737,644	1,705,728
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	15	224	2,355
Long-term business provision	15	1,919	2,091
Claims outstanding	15	148,741	108,246
		150,884	112,692
<b>Debtors</b>			
Debtors arising out of reinsurance operations	20	229,175	240,424
Deferred tax	21	1,634	7,484
Other debtors	22	33,370	30,170
		264,179	278,078
<b>Other assets</b>			
Tangible assets	23	340	291
Cash at bank and in hand		29,415	27,686
		29,755	27,977
<b>Prepayments and accrued income</b>			
Accrued interest		5,255	3,743
Deferred acquisition costs		12,145	9,858
		17,400	13,601
<b>Total assets</b>		<b>2,199,862</b>	<b>2,138,076</b>

The notes set out on pages 23 to 48 form an integral part of these financial statements


# QBE RE (EUROPE) LIMITED

## BALANCE SHEET

As at 31 December 2017

Liabilities	Note	2017 €'000	Restated 2016 €'000
<b>Capital and reserves</b>			
Called up share capital	24	24,205	24,205
Share premium account		487,201	487,201
Other reserves		(9,943)	7,304
Profit and loss account		188,405	146,499
<b>Total shareholders' funds</b>		<b>689,868</b>	<b>665,209</b>
<b>Technical provisions</b>			
Provision for unearned premiums	15	60,818	80,711
Long-term business provision	15	76,375	51,563
Claims outstanding	15	1,226,921	1,202,239
		<b>1,364,114</b>	<b>1,334,513</b>
Other provisions	25	1,391	1,175
Deposits retained from reinsurers		32,900	27,774
<b>Creditors</b>			
Creditors arising out of reinsurance operations		76,029	70,707
Derivative financial instruments	14	-	6,847
Other creditors including taxation and social security	26	24,022	17,944
		<b>100,051</b>	<b>95,498</b>
<b>Accruals and deferred income</b>		<b>4,614</b>	<b>6,042</b>
<b>Pension deficit</b>	11	<b>6,924</b>	<b>7,866</b>
<b>Total liabilities</b>		<b>2,199,862</b>	<b>2,138,076</b>

These financial statements on pages 16 to 48 were approved by the Board of Directors on 8 March 2018 and signed on its behalf by:

  
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 23 to 48 form an integral part of these financial statements

## QBE RE (EUROPE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2017*

#### 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. The financial statements incorporate the assets, liabilities, and results of the Company and are drawn up to 31 December each year.

##### (a) Basis of preparation

These financial statements are prepared in accordance with Financial Reporting Standard 101 “Reduced Disclosure Framework”. The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council.

These financial statements are prepared on the going concern basis, under historical cost convention 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.

These financial statements are separate financial statements. In accordance with Section 401 of the Companies Act 2006, the Company is exempt from preparing group financial statements. QBE Insurance Group Limited, the ultimate parent company which is incorporated in Australia, prepares consolidated financial statements for the year ended 31 December 2017, in which the Company is included.

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.

##### (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:

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 financial statements.

Equivalent disclosures have been given in the consolidated financial statements of QBE Insurance Group Limited. The consolidated financial statements of QBE Insurance Group Limited are available to the public and can be obtained from the Company’s registered office as set out in note 30.



## QBE RE (EUROPE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

#### 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

## QBE RE (EUROPE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

#### 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 the Company this includes discounting of outstanding reserves in respect of liabilities relating to periodical payment orders.

##### (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

During 2015 and prior years, amounts were set aside as equalisation provisions in accordance with the Prudential Regulatory Authority (PRA) Handbook for the purpose of mitigating exceptionally high loss ratios in future years. Following adoption of Solvency II reporting on 1 January 2016 this provision was released as it is no longer required as part of the regulatory framework.

##### (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.

## QBE RE (EUROPE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

#### 1. Accounting policies (continued)

##### (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 for the general business 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.

## QBE RE (EUROPE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

#### 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.

## QBE RE (EUROPE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

#### 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. The Company presents its financial statements in thousands of 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 Statement Of Changes in Equity as a separate component of equity.

##### (l) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provision are measured at management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are reassessed annually with changes recognised within administrative expenses.

The Company makes a provision for estimated cost of restoring leased offices to their original condition at the end of the lease term. The estimated cost of restoration is spread over the term of the lease and is recognised in the income statement within administrative expenses.

The Company makes a provision for expected costs of unused holiday entitlements that have accumulated at the end of the reporting period.

## QBE RE (EUROPE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

#### 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:

- 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 17.

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.

## **QBE RE (EUROPE) LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

*for the year ended 31 December 2017*

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

##### **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 19 in conjunction with other assets.

#### **3. Capital**

The total amount of capital of the Company is €689,868k (2016 €665,209k) consisting of its net assets.

The Company applies a Prudential Regulation Authority (PRA) approved internal capital model for regulatory capital reporting. 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.

The Company was in compliance with all externally imposed capital requirements throughout the year.

# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 4. Segmental analysis

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

#### Analysis by geographic area

	Gross premiums written		Profit before tax		Net assets	
	2017	2016	2017	2016	2017	2016
	€'000	€'000	€'000	€'000	€'000	€'000
United Kingdom	-	-	-	-	201,559	207,670
Ireland	118,038	130,714	16,760	70,290	105,145	100,739
Belgium	294,064	270,715	43,961	1,614	376,756	349,061
Bermuda	18,701	11,860	(394)	5,430	6,408	7,739
	430,802	413,289	60,327	77,334	689,868	665,209

#### Gross premiums written by destination

	2017	2016
	€'000	€'000
United Kingdom	11,160	16,586
Other EU member states	253,175	225,314
The Americas and Caribbean	101,686	107,481
Asia	32,308	38,340
Other	32,473	25,568
	430,802	413,289

### 5. Net operating expenses

	2017	2016
	€'000	€'000
Acquisition costs	81,285	83,036
Change in deferred acquisition costs	(4,853)	2,078
Administrative expenses	31,385	14,720
Gross operating expenses	107,817	99,834
Reinsurance commissions and profit participation	(2,665)	(1,944)
Net operating expenses	105,152	97,890



## QBE RE (EUROPE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

#### 6. Equalisation provision

	2017 €'000	2016 €'000
At 1 January	-	48,688
Released during the year	-	(48,688)
At 31 December	-	-

Following implementation of Solvency II reporting on 1 January 2016, the Company released the equalisation provision previously recorded on the balance sheet.

As explained in accounting policy 1(c)(vii), an equalisation provision was established in the Company financial statements in 2015 and prior financial years. Following adoption of Solvency II reporting from 1 January 2016, this provision was released, resulting in an increase to shareholder's funds of £48,688k. The release of the provision also resulted in an increase in the technical account and profit on ordinary activities before tax of £48,688k.

#### 7. 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 were:

	2017 €'000	Restated 2016 €'000
Wages and salaries	8,331	9,578
Social security costs	2,483	2,521
Other pension costs	1,103	1,210
	11,917	13,309

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

	2017 Number	2016 Number
Underwriting	12	12
Claims	6	4
Administration	69	72
	87	88

Details of the restatement are included in note 29.

# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 8. Investment income, expenses and charges

#### (a) Investment income

	2017 €'000	2016 €'000
Dividend income	5,080	3,847
Income from other investments	16,083	15,531
Realised gains on investments	737	154
Foreign exchange gains	-	10,133
	21,900	29,665

#### (b) Investment expenses and charges

	2017 €'000	2016 €'000
Investment management expenses	2,817	4,623
Realised losses on investments	4,047	7,746
Foreign exchange losses	1,123	-
	7,987	12,369

### 9. Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging:

	2017 €'000	2016 €'000
Auditors' remuneration in respect of audit services	141	156
Auditors' remuneration in respect of other services supplied pursuant to legislation	81	76
Payments on operating leases	372	498
Depreciation charge for the year	120	199

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 Insurance Group Limited consolidated financial statements.

There are no non audit fees in respect to QBE Re (Europe) Limited.

# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 10. Tax on profit on ordinary activities

	2017 €'000	2016 €'000
<b>Analysis of charge in year</b>		
<i>Current tax:</i>		
UK corporation tax at 19.25% (2016: 20%)	-	47
Adjustments to tax in respect of prior year	(661)	5
Foreign tax	14,357	4,625
<b>Total current tax</b>	<b>13,696</b>	<b>4,677</b>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	3,623	(4,795)
Change in tax rate	(8)	-
Adjustments to tax in respect of prior period	1,327	-
<b>Total deferred tax</b>	<b>4,942</b>	<b>(4,795)</b>
<b>Tax charge / (benefit) on profit on ordinary activities</b>	<b>18,638</b>	<b>(118)</b>

### Factors affecting tax charge for the year

The total tax for the year is higher than (2016 lower) the standard rate of corporation tax in the UK, 19.25% (2016 20.00%). The differences are explained below:

	2017 €'000	2016 €'000
Profit on ordinary activities before tax	60,327	77,334
Profit on ordinary activities before tax multiplied by standard rate of corporation tax in the UK of 19.25% (2016 20.00%)	11,613	15,467
<i>Effects of:</i>		
Differences in tax rates outside UK	5,842	(7,002)
Income exempt from tax	(2,048)	(242)
Permanent differences	(287)	(10,789)
Change in tax rate	(8)	-
Expenses not deductible for tax purposes	2,860	2,443
Adjustments to tax in respect of prior year	666	5
<b>Current tax charge / (benefit) for the year</b>	<b>18,638</b>	<b>(118)</b>

### Factors affecting current and future tax charges

A reduction to the UK corporation tax rate was announced in the July 2016 Budget which reduces the rate to 17% effective 1 April 2020. This change was enacted on 15 September 2016 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.

The Belgian Parliament enacted the corporate tax reform on 22 December 2017, and this reduces the Belgian corporate tax rate to 25% effective 1 January 2020. This change is therefore recognised in the Belgian branch deferred tax balances in these financial statements. The appropriate tax rate has been used, depending on when the timing/temporary differences are expected to be reversed.

The Irish corporation tax rate of 12.5% has also been recognised on the relevant branch deferred tax balances.

There were no additional developments affecting the UK corporation tax rate in July 2017 budget.

## QBE RE (EUROPE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

#### 11. 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 2017 for the purposes of inclusion in these financial statements.

The principal actuarial assumptions used at the year end were:

	2017 %	2016 %
Expected return on plan assets	1.3	1.8
Discount rate	1.3	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 2017 €'000	Market value 2016 €'000
Collective fund	10,707	11,461

# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 11. 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.

	2017 €'000	2016 €'000
<b>Analysis of the amount credited to other finance income:</b>		
Expected return on scheme assets	149	190
Interest on scheme liabilities	(234)	(327)
<b>Net charge</b>	<b>(85)</b>	<b>(137)</b>

	2017 €'000	2016 €'000
<b>Analysis of the amount recognised in the statement of other comprehensive income (OCI):</b>		
Actuarial gain	1,125	880
Deferred tax charges on actuarial losses	(900)	(213)
<b>Gain recognised in the OCI after tax</b>	<b>225</b>	<b>667</b>

The cumulative amount of actuarial gains and losses recognised in the statement of other comprehensive income is a loss pre tax of €1,157k (2016 loss €2,283k).

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.

	2017 €'000	2016 €'000	2015 €'000
<b>Wholly funded defined benefit obligation at 1 January</b>	<b>(18,483)</b>	<b>(18,607)</b>	<b>(17,078)</b>
Service cost	(732)	(691)	(696)
Interest cost	(234)	(328)	(302)
Actuarial gains / (losses)	630	(383)	(603)
Contributions	75	111	72
Benefits paid	1,963	1,415	-
<b>Wholly funded defined benefit obligation at 31 December</b>	<b>(16,781)</b>	<b>(18,483)</b>	<b>(18,607)</b>
<b>Fair value of scheme assets at 1 January</b>	<b>11,461</b>	<b>10,589</b>	<b>9,385</b>
Expected return on scheme assets	149	190	169
Actuarial gain on scheme assets	495	1,264	401
Expenses paid	(75)	(111)	(72)
Employer contributions	640	944	706
Distribution	(1,963)	(1,415)	-
<b>Fair value of scheme assets at 31 December</b>	<b>10,707</b>	<b>11,461</b>	<b>10,589</b>
<b>Deficit in the balance sheet at 31 December</b>	<b>(6,074)</b>	<b>(7,022)</b>	<b>(8,018)</b>

In 2018 the Company plans to make contributions totalling €672k to the scheme.

# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 11. 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 2017 (2016 €nil). The pension deficit in the balance sheet at 31 December 2017 was €233k (2016 €253k). The actuarial gain for the year was €22k (2016 - loss €253k). The deferred tax on the actuarial gain of €8k has been disclosed within the statement of comprehensive income.

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 2017 was €617k (2016 €591k). The actuarial loss for the year was €22k (2016 €66k).

### 12. 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:

	2017 €'000	2016 €'000
Aggregate emoluments (excluding pension contributions)	733	1,078
Company pension contributions to money purchase scheme	61	68
	794	1,146
	Number	Number
Number of Directors who are members of a money purchase scheme	4	5
	€'000	€'000
Highest paid director:		
Aggregate emoluments	534	857
Company pension contribution to money purchase scheme	53	57

### 13. Investments

#### (a) Shares in group undertakings

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

QBE Services (Europe) Limited is a service company and is 50% owned by QBE Insurance (Europe) Limited and 50% owned by QBE Re (Europe) Limited.

# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 13. Investments (continued)

#### (b) Other financial investments

	2017		2016	
	Fair value €'000	Cost €'000	Fair value €'000	Cost €'000
Shares and other variable yield securities and units in unit trusts:				
Shares - listed	42,745	43,046	18,058	17,611
Shares - unlisted	38	38	16,307	19,542
Other variable yield securities and units in unit trusts - unlisted	144,633	136,828	113,784	102,565
Debt securities and other fixed income - listed	1,391,402	1,412,072	1,395,352	1,385,046
Infrastructure loans	30,396	30,899	24,461	24,126
Deposits with credit institutions	-	-	3	3
	1,609,214	1,622,883	1,567,965	1,548,893

#### (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.

2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Shares – listed	42,745	-	-	42,745
Shares – unlisted	-	-	38	38
Debt securities and other fixed income - listed	41,783	1,349,619	-	1,391,402
Derivative financial instruments - assets	-	3,844	-	3,844
Other variable yield securities and units in unit trusts - unlisted	-	105,652	38,981	144,633
Infrastructure loans	-	14,153	16,243	30,396
	84,528	1,473,268	55,262	1,613,058
2016	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Shares – listed	18,058	-	-	18,058
Shares – unlisted	-	-	16,307	16,307
Debt securities and other fixed income - listed	160,094	1,235,258	-	1,395,352
Derivative financial instruments - assets	-	1,900	-	1,900
Other variable yield securities and units in unit trusts - unlisted	-	113,784	-	113,784
Infrastructure loans	-	9,949	14,512	24,461
	178,152	1,360,891	30,819	1,569,862

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.

# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 13. Investments (continued)

	2017 €'000	2016 €'000
Balance at 1 January	30,819	32,095
Purchases	43,201	4,365
Unrealised gains	(3,046)	(5,410)
Redemptions	(15,712)	(231)
Balance at 31 December	55,262	30,819

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.

### 14. Derivative financial instruments

Fair value	2017 €'000	2016 €'000
<b>Foreign currency derivatives</b>		
Derivative financial instrument – assets	3,844	1,900
Derivative financial instrument – liabilities	-	(6,847)

#### 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 €88,309k (2016 buy €112,384k).

The forward foreign exchange derivatives outstanding at the year end expired by 16 May 2018 (2016 25 January 2017).

During the year a gain of €16,785k (2016 loss €4,682k) relating to forward foreign exchange derivatives was recognised. This is included in the net foreign exchange loss of €1,123k (2016 gain €10,133k) in the profit and loss non-technical account.

#### Fixed income derivatives

The Company entered into fixed income derivative future contracts 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 gain of €43k (2016 loss €126k) 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 (2016 €nil).



# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 15. Technical provisions

2017

Gross	Provision for unearned premium €'000	Claims outstanding €'000	Net €'000
At 1 January	80,711	1,253,802	1,334,513
Movement per technical account	(7,264)	75,618	68,354
Foreign exchange	(12,629)	(26,124)	(38,753)
At 31 December	60,818	1,303,296	1,364,114

#### Reinsurance

At 1 January	2,355	110,337	112,692
Movement per technical account	(335)	46,871	46,536
Foreign exchange	(1,796)	(6,548)	(8,344)
At 31 December	224	150,660	150,884

2016

Gross	Provision for unearned premium €'000	Claims outstanding €'000	Net €'000
At 1 January	45,429	1,212,576	1,258,005
Movement per technical account	33,949	53,637	87,586
Foreign exchange	1,333	(12,411)	(11,078)
At 31 December	80,711	1,253,802	1,334,513

#### Reinsurance

At 1 January	8,186	122,560	130,746
Movement per technical account	(5,114)	(9,927)	(15,041)
Foreign exchange	(717)	(2,296)	(3,013)
At 31 December	2,355	110,337	112,692

# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 16. Outstanding claims – claims development

2017	2012 and prior €'000	Underwriting Year					Total €'000
		2013 €'000	2014 €'000	2015 €'000	2016 €'000	2017 €'000	
At end of year		202,653	200,316	173,707	207,302	208,697	
One year later		209,269	199,765	190,874	248,169		
Two years later		205,955	190,639	195,947			
Three years later		191,694	177,280				
Four years later		191,229					
Current estimate of net cumulative claims cost		191,229	177,280	195,947	248,169	208,697	
Cumulative net claims payments to date		(110,435)	(110,364)	(94,811)	(101,606)	(35,573)	
<b>Net outstanding claims</b>	<b>584,103</b>	<b>80,794</b>	<b>66,916</b>	<b>101,136</b>	<b>146,563</b>	<b>173,124</b>	<b>1,152,636</b>

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, all estimates of net cumulative claims cost and cumulative payments for the five most recent reporting years denominated in currencies other than Euro have been retranslated to Euro using exchange rates at the end of the current financial year.

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

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

	Sensitivity %	Profit / (loss) and equity 2017 €'000	Profit / (loss) and equity 2016 €'000
Net claims outstanding	+5	46,538	45,739
	-5	(46,538)	(45,739)
Euro to US dollar exchange rate	+10	1,119	5,279
	-10	(1,119)	(5,279)
Euro to Pound sterling exchange rate	+10	5,720	8,909
	-10	(5,720)	(8,909)

The above is shown net of taxation at the standard rate of 19.25% (2016 20.00%).

# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 18. Maturity profile of net outstanding claims

	1 year or less €'000	1 to 2 years €'000	2 to 3 years €'000	3 to 4 years €'000	4 to 5 years €'000	Over 5 years €'000	Total €'000
2017							
2017	214,230	115,527	89,257	73,497	69,096	591,029	1,152,636
2016	212,535	125,050	91,559	77,758	66,531	570,032	1,143,465

### 19. 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 recognises the unpredictability of financial markets and seeks to mitigate potential adverse effects on the financial performance of the Company.

The key objectives of the Company's asset and liability management strategy is to ensure sufficient liquidity is 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 involves close senior management scrutiny. All forward foreign exchange derivatives are subject to delegated authority levels provided to management, and levels of exposure are reviewed on an ongoing basis.

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

		2017		2016	
	Movement in variable %	Profit / (loss) €'000	Equity €'000	Profit / (loss) €'000	Equity €'000
US dollar	+10	(202)	(10,462)	(114)	(8,793)
	-10	202	10,462	114	8,793
UK pound sterling	+10	(82)	(82)	(178)	(178)
	-10	82	82	178	178

The above is shown net of taxation at the standard rate of 19.25% (2016 20.00%).

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

# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 19. Financial risk management (continued)

#### (a) Market risk (continued)

##### Interest rate risk

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

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

	Floating Interest rate €'000	Fixed interest rate maturing in				Total €'000
		1 year or less €'000	1 to 2 years €'000	2 to 3 years €'000	Over 3 years €'000	
Interest bearing financial assets	495,798	118,425	273,311	296,159	267,517	1,451,210

	Floating interest rate €'000	Fixed interest rate maturing in				Total €'000
		1 year or less €'000	1 to 2 years €'000	2 to 3 years €'000	Over 3 years €'000	
Interest bearing financial assets	766,215	185,405	23,362	77,166	413,733	1,465,881

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 %	2017 Profit / (loss) and equity €'000	2016 Profit / (loss) and equity €'000
Interest rate movement – fixed interest securities	+0.5	(9,240)	(11,076)
	-0.5	3,957	7,508

The above is shown net of taxation at the standard rate of 19.25% (2016 20.00%).

##### 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 %	2017 Profit / (loss) and equity €'000	2016 Profit / (loss) and equity €'000
Euro Stoxx	+20	7,160	4,927
	-20	(7,160)	(4,927)
Emerging Market Equities	+20	1,964	80
	-20	(1,964)	(80)

The above is shown net of taxation at the standard rate of 19.25% (2016 20.00%).

# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 19. Financial risk management (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 %	2017 Profit / (loss) and equity €'000	2016 Profit / (loss) and equity €'000
Property price – United States	+10	5,042	4,954
	-10	(5,042)	(4,954)
Property price – Europe	+10	2,428	2,639
	-10	(2,428)	(2,639)

The above is shown net of taxation at the standard rate of 19.25% (2016 20.00%).

#### (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 92.4% (2016 96.2%) of total fixed interest and cash investments are with counterparties having a Standard and Poor'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 2017, 28.7% (2016 25.5%) of the reinsurers' share of claims outstanding was with fellow group undertakings and 88.2% (2016 86.6%) of the remaining balance was with reinsurers with a Standard and Poor's 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 €27,018k as collateral against credit risk (2016 €29,909k).

The following table provides information regarding the carrying value of the Company's financial assets exposed to credit risk.

	Neither past due nor impaired €'000	Past Due By				Greater than 1 year €'000	Total €'000
	Up to 3 months €'000	3 to 6 months €'000	6 months to 1 year €'000				
<b>As at 31 December 2017</b>							
Interest bearing investments	1,451,210	-	-	-	-	-	1,451,210
Other financial investments	187,420	-	-	-	-	-	187,420
Derivative financial instruments – assets	3,844	-	-	-	-	-	3,844
Other debtors	9,038	-	-	-	-	-	9,038
Debtors arising out of reinsurance operations *	223,482	2,193	78	43	3,379		229,175
<b>As at 31 December 2016</b>							
Interest bearing investments	1,465,881	-	-	-	-	-	1,465,881
Other financial investments	129,770	-	-	-	-	-	129,770
Derivative financial instruments – assets	1,900	-	-	-	-	-	1,900
Other debtors	5,520	-	-	-	-	-	5,520
Debtors arising out of reinsurance operations *	234,970	1,978	466	95	2,915		240,424

\* Net of a provision for impairment

# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 19. Financial risk management (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 are sufficient liquid funds available to meet current obligations.

At 31 December 2017, the average duration of cash and fixed interest securities was 1.6 years (2016 1.9 years).

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

	2017 Within 1 year €'000	2016 Within 1 year €'000
Amounts due to group undertakings	5,705	279
Derivative financial instruments - liabilities	-	6,847

The Company has no significant concentration of liquidity risk.

### 20. Debtors arising out of reinsurance operations

	2017 €'000	2016 €'000
<b>Amounts due within 12 months</b>		
Premium receivable	17,753	27,872
Provision premium receivable	(951)	(1,023)
Amounts due from reinsurance	1,038	9,700
Unallocated cash - reinsurance	-	(36)
Provision reinsurance receivables	(1,391)	(1,490)
Unclosed gross written premium	209,897	203,039
Unclosed reinsurance written commission	2,829	2,362
	229,175	240,424

# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 21. Deferred tax

	2017 €'000	2016 €'000
<b>Deferred tax</b>		
Deferred tax asset at start of year	7,484	2,902
Deferred tax (charge) / credit in profit and loss account (note 10)	(4,942)	4,795
Other movements	-	-
Movement in provision – equity (note 11(a))	(908)	(213)
<b>Deferred tax asset</b>	<b>1,634</b>	<b>7,484</b>
<b>Comprising:</b>		
Pension – profit & loss movement	(24)	(93)
Pension – equity movement	1,658	2,566
Other timing differences	-	5,011
<b>Undiscounted deferred tax asset</b>	<b>1,634</b>	<b>7,484</b>

### 22. Other debtors

	2017 €'000	2016 €'000
Amounts due from group undertakings	7,835	-
Unsettled investment trade debtors	16,497	24,650
Corporation tax	8,811	5,520
Other receivables	227	-
	<b>33,370</b>	<b>30,170</b>

Enil of other debtors is due after more than one year (2016 Enil).

# QBE RE (EUROPE) LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

### 23. Tangible assets

	Office equipment €'000	Computer equipment €'000	Total €'000
<b>Cost</b>			
As at 1 January 2017	791	640	1,431
Additions	156	13	169
Disposals	(8)	(47)	(55)
At 31 December 2017	939	606	1,545
<b>Accumulated depreciation</b>			
As at 1 January 2017	(603)	(537)	(1,140)
Depreciation charge	(68)	(52)	(120)
Disposals	8	47	55
At 31 December 2017	(663)	(542)	(1,205)
<b>Net book value at 31 December 2017</b>	<b>276</b>	<b>64</b>	<b>340</b>
Net book value at 31 December 2016	188	103	291

### 24. Called up share capital

	2017 €'000	2016 €'000
<b>Called up, allotted and fully paid</b>		
20,082,852 (2016 20,082,852) ordinary shares of £1 each	24,205	24,205

### 25. Other provisions

Other provisions include a provision for annual leave relating to employees of the branches of the Company and a dilapidation provision to restore offices leased by the Company to their original condition at the end of the lease terms.

	Provision for annual leave €'000	Dilapidation €'000	2017 Total €'000
1 January 2017	1,175	-	1,175
Movements during the year	(29)	245	216
31 December 2017	1,146	245	1,391

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

	2017 €'000	2016 €'000
Amounts due to group undertakings	5,705	279
Unsettled investment trade creditors	18,317	17,665
	<b>24,022</b>	<b>17,944</b>



## QBE RE (EUROPE) LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

#### 27. Operating lease commitments

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

	2017 €'000	2016 €'000
<b>Land and buildings</b>		
Leases which expire:		
Within one year	-	59
Between one and five years	372	439
	372	498

#### 28. 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:

	2017		2016	
	Local currency '000	€'000	Local currency '000	€'000
Australian dollar	3,991	2,595	5,989	4,105
US dollar	18,277	15,231	17,721	16,850
Euro	639	639	403	403
Canadian dollar	309	205	309	219
Pound sterling	3,800	4,275	600	704

Additionally, there are charges over the investment portfolio of €344,617k (2016 €300,000k) in the Belgian branch, pledged in favour of different cedent companies as a guarantee covering the outstanding claims reserves from certain inward treaties the branch has entered into.

#### 29. Presentation of prior year comparatives

During the year the Company has made the following changes in presentation:

Annual leave provision of €1,175k was previously reported within Creditors arising out of reinsurance operations, this balance is now presented within Other provisions in the balance sheet.

Staff bonuses of €2,547k was previously reported within Creditors arising out of reinsurance operations, this balance is currently presented within Accruals and deferred income in the balance sheet.

In 2016, employee costs included recharged cost of €7,437k related to staff employed by fellow group undertakings. Note 7 Employees has been restated to disclose only staff cost of persons employed by the Company in the financial year. The 2016 recharged amounts of €7,437k are included within net operating expenses.

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

#### 30. 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 and smallest group of undertakings into which the Company's financial statements are consolidated. The immediate parent undertaking is QBE Holdings (EO) Limited, which is incorporated in the United Kingdom.

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