Made possible by QBE

QBE European Operations plc Annual report 2014

Contents

Front cover
All risk insurance

From design to construction and property management, we have the resources, understanding and expertise to ensure our customers' assets and liabilities are fully protected.

Highlights

Financial

Notwithstanding increasing competition and challenging economic conditions, QBE European Operations' focus on disciplined underwriting and customer service has produced a profit of £116m, with a combined operating ratio of 96.9%.

We have seen positive progress towards delivering our key strategic agenda, with a number of initiatives successfully completed during the year.

2014 Combined operating ratio

96.9%

2014 Profit after tax

£116m

Insurer strength ratings

S&P Ratings

	2014	2013
QIEL	**A+ (negative outlook)**	A+ (negative outlook)
QREL	**A+ (negative outlook)**	A+ (negative outlook)
Syndicate 386	**5/Stable**	5/Stable
Syndicate 2999	**5/Stable**	5/Stable

See Chief Executive Officer's report on pages 14 to 15

Non-financial

QBE European Operations Foundation

Volunteer days

395

(2013: 367)

Employee numbers

Average number of employees

2,600

(2013: 2,810)

Training spend

£2.1m

(2013: £1.6m)

Employee payroll giving rose

9.9%

Business model

Creating value

QBE European Operations (QBE EO) is a leading specialist insurer and reinsurer underwriting through Lloyd's and company markets. We create value for shareholders through disciplined underwriting and strength in capital management.

Customer

We operate via three major divisions: Retail, International Markets and Reinsurance, which are structured to mirror the way our customers and brokers do business. This enables us to closely understand and respond to our customers' needs.

See QBE EO at a glance on page 4

Capital management capabilities

Effective risk management supports achievement of QBE EO strategic objectives through efficient allocation of resources, and minimising surprises by gaining a detailed understanding of our risk and control environment. During 2014, we embedded One ERM (Enterprise Risk Management), a QBE Group initiative which aligns and harmonises global risk management functions.

See Chief Risk Officer's report on pages 22 to 25

Financial strength

We manage our balance sheet to maintain the financial strength to meet all our stakeholder requirements, minimise risk and provide flexibility for our future needs. Despite challenging market conditions, we have maintained a solid capital base through our disciplined approach to balance sheet management.

See Chief Financial Officer's report on pages 26 to 29

Investment management

Our investment portfolio is managed to deliver a low-risk investment return while providing sufficient liquidity to meet payment obligations. We maintain a diversified investment portfolio and hold sizeable allocations to high-quality corporate bonds. In order to generate stronger risk-adjusted returns over time, during 2014 we added small exposures to unlisted property and senior secured loans financing infrastructure assets.

See Chief Financial Officer's report on pages 26 to 29

Managing and paying claims

Our claims service has evolved to meet the increasingly diverse needs of our customers. QBE EO is committed to responsible claims management and our claim teams include industry specialists whose expertise helps us to provide efficient and effective customer service. During 2014, we developed a claims centre of excellence in Leeds, which aims to leverage operational strength and technical excellence.

See Chief Executive Officer's report on pages 14 to 15

People

We believe in building a quality team of people and creating a stimulating work environment to attract, retain and motivate our employees. Our people are a key differentiator; their skill, dedication and expertise creates value for our customers by fully understanding their needs and meeting their requirements. During 2014, QBE Group initiated the 10/10 Global Recognition Programme, designed to celebrate the people who consistently live the ONE QBE values.

See Our people on pages 30 to 31

QBE EO at a glance

QBE EO operates two insurance divisions, International Markets and Retail, as well as QBE Re, QBE Insurance Group's global reinsurance division. The customer-focused business model enables us to understand our customers' risk transfer requirements, supported by a quality service.

International Markets

The International Markets division, led by Chief Underwriting Officer Colin O'Farrell, serves a global customer base with wide-ranging portfolios of business across marine, energy, non-European property and casualty. Each team has specialist knowledge and expertise to support brokers and customers in finding effective solutions to covering complex risks.

Gross written premium

£829m

2014 Actual

More information on International Markets is available on pages 16 to 17

Retail

The Retail division, led by Managing Director David Hall, operates through a network of UK and European offices. These offer a local service to a wide range of customers, from SMEs to the largest multinationals, for their property, casualty, motor, financial and specialty insurance needs.

Gross written premium

£1,424m

2014 Actual

More information on Retail is available on pages 18 to 19

Reinsurance

The Reinsurance division, led by Chief Underwriting Officer Jonathan Parry, is part of QBE Re, the global reinsurance division of QBE Insurance Group, and offers the financial strength and stability, independence and global scale that customers seek. Teams of professional reinsurance underwriters provide class-specific expertise from offices in London, Brussels, Dublin and Bermuda, linking closely with colleagues in New York, to provide reinsurance support and capacity to the world's largest insurance markets.

Gross written premium

£410m

2014 Actual

More information on Reinsurance is available on pages 20 to 21

Made possible by QBE

Supporting the railways

The UK weather is renowned for causing chaos with public transport. A storm at the seaside town of Dawlish in southwest England last February did exactly that. Sweeping away the sea wall and railway track, this not only cut people off from the local surroundings, but also prevented them from accessing the wider UK.

Approach

As the insurer for Network Rail, QBE helped to ensure the complex reconstruction process got underway immediately. This involved:

- Helping engineers come up with innovative solutions to rebuild the sea wall;
- Supporting a 300-strong Network Rail team, known as the 'Orange Army' due to their distinct uniforms, in repairing the track; and
- Overcoming further flooding in February and March.

Outcome

Exactly two months after the initial storm, the Orange Army pulled out, leaving passengers to board the train once again at Dawlish Station for local and national destinations.

Strategic review

QBE Group strategy

The QBE Group-wide strategy is shown in the value creation model. This has four interlinked strategic ambitions. Each one helps us to achieve our business plans and targets. Underpinning them all is our commitment to world-class talent and leadership.

Leadership in our core business

See QBE EO strategy on pages 8 to 11

We are a recognised leader in all core disciplines, supported by market-leading underwriting professionals working closely with our claims and risk management teams.

We aim to work closely with brokers and customers to deliver market-leading solutions and to ensure that we are in a position to respond to customers' ever-changing demands.

Sustainable, profitable growth comes through continued investment of capital, resources and focus in our core businesses; we expect to generate an improved return for our chosen levels of risk.

Operational excellence - global reach and scale

See QBE EO strategy on pages 8 to 11

We benefit from being part of a global insurance group and aim to pass these benefits on to our customers.

Collaboration across QBE Group's worldwide businesses and skill sets enables us to identify and leverage best practice. This then enables us to build an efficient and scalable operating model to underpin profitable growth. As a result, we can provide better service to our customers and other stakeholders, building our competitive advantage within chosen market segments and enabling us to respond to the ever-changing competitive environment.

Financial strength and flexibility

See Chief Financial Officer's report on pages 26 to 29

We manage our balance sheet to minimise risk, retain financial strength to meet our stakeholder requirements and also provide the flexibility we need to deliver our future plans. We continue to carefully manage our investment portfolio by seeking low-risk strategies that will improve returns in a low interest rate environment, while also reducing the overall volatility of our portfolio. As part of this strategy, we made a cautious entry into unlisted property and infrastructure-related debt during the year.

Profitable growth and diversification

See Chief Executive Officer's report on pages 14 to 15

We have a strong distribution base throughout the UK, Europe and beyond. This adds value by enabling us to build relationships with customers.

To increase growth and profitability, our strategy is to maximise the value of our distribution platform and product portfolio through focus on our core specialisms. We also plan to grow throughout Europe in order to build leadership positions within our core businesses. By also improving access to our products and services, we aim to further develop the diversification of the business, thereby supporting profitable growth.

World-class talent and leadership

See QBE EO strategy on pages 8 to 11

Our people underpin QBE's value creation model and are ultimately our key differentiator. To that end, we have embedded the global ONE QBE values and introduced staff and leadership development programmes to make the best use of their talents, while increasing our talent pool with high quality and experienced external hires.

During 2014 we enhanced our commitment to diversity and inclusion, and refreshed the ongoing promise we make to our employees. This supports the development of our people and helps them realise their potential.

Strategic review continued

QBE EO strategy

Three key strategic agendas have been developed in alignment with the QBE Group strategy. These are performance, change and people.

Key strategic agenda	Description
Performance	The performance agenda leverages QBE Group's strategic ambition to achieve 'leadership in our core business'. In 2013 we reshaped our underwriting and distribution platform by implementing a market-facing underwriting structure to support future profitable growth. During 2014 we developed our Customer Value Proposition (CVP), which is the promise we make to our customers, focussing on providing the best possible service and creating real differentiation to mark QBE out from our competitors.
Change	The change agenda aims to develop an efficient and scalable operating platform, including claims management and IT capability. Throughout 2014 we focused on implementing our operational transformation programme, which uses the expertise within our global shared services centre (GSSC) to improve how we perform routine, transactional work, such as policy administration and credit control.
People	The people agenda aims to build a high-quality, engaged team and to create a stimulating work environment. The agenda incorporates a number of initiatives, including recruitment and retention, talent development programmes, recognition and remuneration. Our people are fundamental to our goal of building a platform for sustainable, profitable growth; this agenda supports them in their daily work as they bring the ONE QBE values to life.

Objectives

- **Underwriting performance** - deliver underwriting excellence in core markets through maintaining technical underwriting discipline, market leadership and commitment to customer service.
- **Customer experience** - develop a holistic customer proposition, listening to the needs of our customers and proactively offering a relevant and meaningful service. With the onus on the insurance industry to improve customer communication and engagement, we remain vigilant to changes in customer needs and believe our CVP helps us to develop stronger customer relationships.

Current position

The new underwriting structure, with three market-facing divisions - International markets and Retail, and Reinsurance - has now been embedded and key staff recruited. We have also established a reinsurance branch in Bermuda which will give us local access to this significant reinsurance market.

During 2014 we disposed of non-core businesses, withdrawing from the Aviation and Bloodstock classes, and exiting Hungary, Slovakia and the Czech Republic. We also completed a reinsurance transaction to dispose of certain Italian and Spanish medical malpractice liabilities. This enables us to focus on core businesses and product lines where we have strong positions.

- **Operational excellence** - implementing an operational transformation programme which leverages the GSSC to introduce an efficient operating model, delivers operational and cost efficiencies, and increases our capacity in order to support future profitable growth.
- **Claims hub** - creating a claims centre of excellence in Leeds to provide a timely and effective claims service, thereby increasing the benefit to our customers.

During 2014 we made good progress towards achieving many of our change objectives and QBE EO showed a significant commitment to put the operational transformation programme in place. We expect this to improve the quality, time and cost required to process routine transactions.

In addition, centralising our claims process and expertise in the Leeds claims hub will significantly improve our customer service.

- **Skill and expertise** - building a great team of people and creating a stimulating work environment which can attract, retain and motivate the best people in the market.
- **Refreshed employee commitment** - QBE's Employee Value Proposition was developed during 2014 and promotes three key elements: opportunity, culture and reward.
- **Recognise and celebrate outstanding individuals** - the 10/10 initiative aims to recognise individuals who consistently demonstrate the ONE QBE values and set strong, positive examples to the rest of the company.
- **Leadership academy** - utilise the QBE Leadership Academy to develop the skills and capability of our future leaders.

During 2014 we achieved significant progress on the people agenda. We made three changes to our Non-Executive Directors (see page 35) and completed the executive team with the arrival of David Hall as Managing Director of Retail. We have also developed greater depth in a number of senior positions across the business. In addition, we developed the Employee Value Proposition and the QBE Leadership Academy completed its first full year of operation.

Strategic review continued

QBE EO strategy

Key Performance Indicators (KPIs)

Performance continued

Combined operating ratio

96.9%

2014

(2013: 95.8%)

Change continued

Transition of routine processing to GSSC

Completes mid 2015

Development of Leeds claims hub

Office opened July 2014

People continued

Average number of employees

2,600

(2013: 2,810)

Training spend

£2.1m

(2013: £1.6m)

Target for 2015

Link to QBE Group strategy

Leadership in core business

During 2015 we will be implementing the CVP and build out of our industry specialism capabilities (underwriting, risk solutions and claims) in order to identify and respond more effectively to customer demands and maximise opportunities within our selected industry segments. Collaborating with other QBE Group divisions, and enhancing the value of our distribution outlets through our markets, will help us to maintain our strong underwriting discipline.

How the performance agenda supports the value creation model
The performance agenda supports our focus on core businesses where we are widely recognised as world class and can lead the market. By focusing our effort on these products and geographies, we can generate profitable growth. The depth, breadth and quality of our products and services, combined with an extended distribution footprint, create a market-leading customer value proposition for both brokers and clients.

See QBE Group strategy on pages 6 to 7

Operational excellence

During 2015 we will be completing the operational transformation program, with the final processes being transitioned to the GSSC in the middle of 2015. We will also be developing our information technology capability, with initiatives to strengthen the reliability and service of our IT infrastructure.

How the change agenda supports the value creation model
Operational excellence is a key strategic ambition within the value creation model. The change agenda furthers this ambition by building an efficient and scalable operating model that will support the business now and in the future. Furthermore, the GSSC gives us an opportunity to identify global best practice and extend these practices across the Group.

See QBE Group strategy on pages 6 to 7

World class talent and leadership

During 2015, we will roll out our refreshed employee commitment, with a particular focus on engaging and communicating with our people. The people agenda also utilises the resources of the QBE Leadership Academy, as well as implementing the actions highlighted by the Pulse Survey, to improve leadership behaviour and development.

How the people agenda supports the value creation model
Our commitment to world-class talent and leadership underpins the value creation model. The people agenda supports this commitment by creating a stimulating and supportive work environment, and by instilling the ONE QBE behaviours throughout QBE EO.

See QBE Group strategy on pages 6 to 7

Made possible by QBE

Moving millions every day

Our client is delivering one of the most ambitious infrastructure projects undertaken in the UK, which will dramatically change how people travel across London and the South East. Crossrail will increase central London's rail capacity by 10%, supporting regeneration and providing a direct link between London's main employment centres. More than 200 million people will travel on Crossrail each year.

Crossrail is a wholly-owned subsidiary of Transport for London. Europe's largest construction project is delivering 26 miles of new rail tunnels under London, tunnelling under the world's most valuable and unique buildings and around many existing subterranean constructions.

Approach

On the back of a lengthy relationship, we engaged with the client to understand their main project risk management processes and controls and potential hazards in the project.

Solution

QBE are the largest insurance provider on the project by a significant margin. Given the scope and potential of the project to cause loss - tunnelling under London is a huge risk in itself - this was a big commitment.

Crossrail services through central London will commence in late 2018.

Made possible by QBE

Combatting fraud

Criminal gangs are constantly looking for new ways to defraud companies. As a QBE policyholder discovered recently, one such method is to stage accidents with public transport vehicles and profit from the resulting personal injury claims.
An apparent accident on a bus in February 2011 led to 29 claims - of which 28 were from passengers - and exposure of approximately £400,000.

Approach

Having already identified a rise in similarly fraudulent activity, QBE immediately referred the case to our Insurance Fraud Enforcement department. This led to:

- A detailed, two-year investigation, supported by our specialist investigation unit and solicitors DAC Beachcroft; and
- Two perpetrators receiving criminal convictions and custodial sentences in November 2014 for conspiracy to defraud QBE.

Outcome

QBE saved our client from incurring a significant loss and demonstrated our commitment to prosecuting anybody attempting to defraud our policyholders and the wider insurance sector.

Chief Executive Officer's report

Leadership, performance and people

QBE EO had a successful year, delivering an improved performance and implementing several key strategic initiatives. We continue to exercise strong underwriting discipline in a very competitive market and remain focused on enhancing our value proposition to both clients and brokers.

Richard Pryce
Chief Executive Officer
QBE EO

At present, all areas of our business are affected by challenging market conditions and some sectors witnessed increased competition as the year progressed. Where necessary, we have been prepared to sacrifice premium income in order to protect capital and maintain our financial performance. The reduction in gross written premium reflects the organisation's commitment to disciplined and technical underwriting.

Strategic progress

We have successfully delivered the key initiatives that were identified during the year. Most notably, these have included the disposal of our aviation and bloodstock portfolios; the reinsurance of certain medical malpractice liabilities; and our exit from Central and Eastern Europe.

The divisional underwriting and distribution structure (shown on page 15) was developed and implemented during Q4 2013. It enables QBE EO to provide the customer-focused, cross-product insurance solutions required to meet the demands of wholesale, specialty, subscription and retail markets. The structure is now well established within QBE EO and places the organisation in a strong position for future growth.

During the year a reinsurance office was established in Bermuda. As well as broadening our distribution footprint and geographic diversification, it offers local access into this significant reinsurance market.

Central to the organisation's future success is the QBE EO customer value proposition, which embodies all aspects of underwriting, claims and risk management. During 2014, we have expanded this proposition with key recruitment and operational change.

At QBE EO we are fortunate to have a dedicated and skilled team, which has been enhanced during 2014. Attracting and retaining the best people is essential if we are to continue delivering exceptional value and service to all our stakeholders.

Operational improvement

2014 has been a significant year for the change agenda, with the very significant operational transformation programme to leverage best practice and introduce efficiencies into our business processing. We have also progressed initiatives around claims processing, with the development of a claims hub in Leeds.

Profit after tax

£116m
2014
(2013: £103m)

Combined operating ratio

96.9%
2014
(2013: 95.8%)

People agenda

The appointment during the year of David Hall as Managing Director of our Retail division completed the QBE EO's executive team. In addition, a combination of internal promotions and external hires continues to strengthen our specialist underwriting and business management teams. Our global leadership programme has proved a highly successful way of identifying and developing many of our talented people and preparing them for exciting career opportunities across the Group. We will continue to invest significant resources into the development of our employee value proposition.

I would like to thank all my colleagues for their support and contribution to the business during the year.

Business performance and KPIs

A combination of UK storms, European hailstorm claims and a reduction in gross written premium marked a challenging start to the year. However, QBE EO's underwriting performance improved steadily as the year progressed. Our combined operating ratio of 96.9% is particularly gratifying given that lower risk-free rates adversely impacted the underwriting result by £143m or 8.5% during the year. On a management basis, which excludes certain reinsurance contracts with QBE Group's captive reinsurer Equator Re, our combined operating ratio is 93.8%.

Notwithstanding these challenges, a significant contribution from all divisions ensured that we completed 2014 in a strong position. We retained a disciplined approach across our underwriting activities, remained focused on expense management and made positive strides towards enhancing our value proposition to clients and brokers alike.

Gross written premium and Net earned premium

Our planned portfolio and remediation activities were completed successfully during the year. In addition, given the difficult market conditions, we made a tactical decision to concentrate on core sectors, contributing to a reduction in overall gross written premium of 17.9%, or £596m in GBP terms, to £2,729m.

Net earned premium fell by 20.5% or £464m during 2014; this was impacted by the reinsurance disposal of our significant Italian and Spanish medical malpractice liabilities, which suppressed net earned premium by £221m. Much of our business continues to benefit from QBE Group's comprehensive global reinsurance programme, which is provided by QBE Group's captive Equator Re and highly rated external providers.

Combined operating ratio

The combined operating ratio reported on a statutory basis deteriorated slightly from 2013, with an increase of 1.1% to 96.9% (2013 95.8%). QBE EO's 2014 net claims ratio was distorted by the medical malpractice reinsurance transaction, as the table demonstrates.

FOR THE YEAR ENDED 31 DECEMBER		2014	2014 ex Medmal	2013
Gross written premiums	£m	**2,729**	2,729	3,325
Net earned premiums	£m	**1,798**	2,018	2,262
Net claims	£m	**(1,072)**	(1,292)	(1,410)
Net operating costs	£m	**(670)**	(670)	(756)
COR	%	**96.9%**	97.2%	95.8%

On a statutory basis, QBE EO's claims ratio improved by 2.7% on the previous year to 59.7% (2013 62.4%). A lower level rate of catastrophe losses and an improved large loss experience were offset by adverse movements in the interest rates at which we discount our outstanding claims.

The total operating cost ratio increased to 37.2%. Careful management of the organisation's headcount, combined with a reduction in IT costs and underwriting expenses, helped us achieve absolute cost savings. However, lower profit commission credit from Syndicate 386, coupled with suppressed net earned premium, pushed up the expense ratio. Nevertheless, both our operational transformation programme and real estate rationalisations remain on track and QBE EO should make further cost savings during 2015.

Profit after tax

The reported profit after tax increased to £116m (2013 £103m). Returns of 1.8% on the investment portfolio contributed to an increased investment return.

Outlook

Whilst we do not anticipate any improvement in market circumstances, we approach 2015 with confidence due to all of the hard work undertaken in the last 18 months.

Richard Pryce
Chief Executive Officer

International Markets

Product expertise and customer service

In each of our core product areas, QBE EO International Markets division is a recognised leader in the London international wholesale market. This strength is supported by a thorough understanding of our customers' business, underpinned by a strong customer service ethic and our claims handling and risk management skills.

Colin O'Farrell
Chief Underwriting Officer
International Markets division,
Joint Active Underwriter QBE
Syndicate 2999

Divisional overview

Established as part of our 2013 strategy review, International Markets serves a global customer base. We offer a range of core products including marine, natural resources, international liability, international property and political risks. Through Lloyd's and the London market, we can access worldwide wholesale underwriting and distribution business and we trade with customers across the globe. Product distribution is supported by our presence in the key markets of North America, Europe and the Middle and Far East.

Divisional structure and strategy

The division is structured along product and business class lines and every team has its own specialist skills and market expertise. Underwriters can use either QBE Lloyd's syndicate or QBE company security to fit customer and licensing requirements. Claims are handled by product-aligned expert adjusters who work closely with the underwriting teams and in-house engineering experts. Together they provide high quality customer service, risk management and bespoke solutions across a broad range of complex risks. We meet our clients' needs by leveraging this expertise across key wholesale and retail distribution centres and this flexibility is a central part of our client value proposition.

During 2014 we stopped writing Aviation risks. In May, Brit Global Speciality agreed to buy the renewal rights to our Lloyd's Aviation portfolio and take on the underwriting team. This move followed a strategic review which concluded that a different operating model offered the best opportunity for the team's growth and business development.

Marine
Our Marine business comprises the cargo, specie, hull and war, ports and liability underwriting portfolios as well as the British Marine franchise.

Cargo consists of a high-quality portfolio of international business; the team is recognised as a leader in high-tech, pharmaceutical and manufactured goods and excess stock, which are our preferred market segments.

Specie writes risks worldwide and specialises in areas such as armoured car, general specie, fine art, jewellers' block and financial institutions.

Gross written premium	Combined Operating Ratio
£829m	**86.2%**
2014 Actual	**2014 Actual**

The hull and war portfolios are written worldwide, with preferred segments including blue water hulls, mortgagees' interests, shipbuilders and war risks. Ports write cover for ports and terminals, intermodal transport and marine professionals' liabilities.

The portfolio is increasingly seeking to leverage QBE's global distribution network to develop and grow.

Liability operates across the global marine and energy liability markets. Our portfolio comprises pure marine risks, such as P&I, pollution and charterers and our international liability team write both offshore and onshore energy liabilities.

British Marine is a marine insurance brand that dates from 1876 and writes across both QBE company operations and QBE EO Lloyd's syndicates. We specialise in writing P&I for smaller vessels and 100% hull risks. Our strong customer service ethic is underpinned by a dedicated team of claims experts, who are supported by a network of 480 claims correspondents in more than 230 ports around the world.

Natural Resources
Natural Resources consists of our offshore and onshore energy portfolios.

Offshore energy is written worldwide and includes customers ranging from smaller, dedicated upstream entities to fully integrated energy companies. The portfolio specialises in offshore cover for assets in the North Sea and the Far East, particularly China.

The Onshore team underwrites a range of risks for oil and gas companies, from onshore wellheads to refineries and petrochemical plants. There are no geographic restrictions and the portfolio is particularly focused in the Middle East and Indonesia.

International Property & Political
Our specialist London market Direct and Facultative (D&F) team focuses on larger industrial and commercial international property risks and can provide bespoke solutions for the needs of multinational customers.

In London we distribute International property insurance through open market London brokers and QBE EO Lloyd's syndicates. The portfolio includes a combination of full value, primary and excess of loss.

Our Political Risk and Terrorism team writes a broad portfolio of worldwide risks. It complements existing risk classes, particularly onshore energy, cargo and specie.

International Liability
International Liability underwrites business worldwide for both direct and facultative reinsurance business. We write risks in more than 100 countries including Australia, New Zealand, South Africa and throughout Latin America, with historically strong customer relationships. We offer insurance across a range of industry sectors, including chemicals, construction, energy, engineering, entertainment and the food and drink industry.

Canada & Middle East
With offices in Toronto, Vancouver and Dubai, we underwrite a growing portfolio of property, casualty and motor classes, and support the wider QBE EO product range in Canada and the Middle East. All our offices have dedicated underwriting teams, who write risks predominantly through local and regional brokers and cover holders.

Financial performance

Gross written premium at £829m reflects the challenging competitive environment - with stronger than anticipated competition across most product lines - and our subsequent withdrawal from Aviation business, coupled with foreign exchange impact on written premiums. Through our strong underwriting discipline and our commitment to customer service, however, I am pleased to report a COR of 86.2%.

Market environment and outlook

All sections of our market are challenging and competition is clearly increasing across all product lines. Without any material market-changing events during 2014, the insurance market continued to grow across the world, with new entrants joining the market and existing carriers expanding their activities. Inevitably, this has brought about downward pressure on rates. It is difficult to see this changing until capital is redeployed elsewhere.

Global economic growth and interest rates are expected to remain persistently low. We therefore expect profitability during 2015 to result from historically strong underwriting discipline, technical expertise and customer service across all classes.

The year will also see increased focus on our overseas distribution platforms and we will continue to leverage QBE's global reach to remain at the forefront of collaboration across the Group.

Retail

Delivering customer value

The Retail division is an integrated, market-leading business which uses a broad range of geographic and product expertise to provide tailored solutions that are focused on our customers' needs. Our presence in the local market means we are closer to our customers than many competitors, underpinning our core philosophy of securing market-leading client engagement and value proposition delivery.

David Hall
Managing Director
Retail

Divisional overview

The Retail division was set up in October 2013, following a strategic review of QBE EO's underwriting structure, in order to allow us to build upon our comprehensive distribution network and improve support to meet the different demands of the market. The Retail division comprises three leading QBE EO businesses: UK & Ireland, European Markets and Financial & Specialty Markets. We serve a mainly European customer base through our network of UK and European offices; including the key continental Europe insurance markets of France, Germany, Spain, Italy and the Nordic region. Meanwhile, our Lloyd's platform gives us a global presence.

Divisional structure and strategy

To meet the needs of our diverse customer base, the division is structured geographically, with customers categorised by sector. During 2015 we will be implementing the CVP, a QBE group-wide initiative developed the previous year. By initiating changes in leadership behaviour, this will help us create a market-oriented, client-reflective business that is geared towards a whole account view in which a client solutions practice enables our underwriters to deliver bespoke programme solutions.

Our divisional strategy is to achieve sustainable profitable growth through market-leading client engagement and by delivering a joined-up value proposition for our customers. The strategy is underpinned by an underwriting-led business, which aims to attract and retain the best people and expertise across all of its functions, including claims and risk management.

Crucially, the new divisional structure enables us to improve our alignment with all our customers, whether they are insureds or brokers, and irrespective of size or location. Such alignment also enables us to implement our whole account philosophy, whereby we tailor our offering to meet all of the insurance needs of our customers.

During 2014, we refined our structure further to help us engage more effectively with all our customers. Specifically, we identified three distinct client sectors: Corporate and Large Commercial; Middle Market including Commercial Combined; and Small and Medium Enterprises (SME).

Corporate and Large Commercial focuses on large customers and operates across the entire division, with specialist underwriters offering cover for more than one product type for each customer.

Gross written premium	Combined Operating Ratio
£1,424m	**96.4%**
2014 Actual	**2014 Actual**

Our Middle Market sector focuses on those customers who require specialist expertise and can benefit from our risk-based approach.

The SME sector includes our successful and growing e-trading platform, Fast Flow. This is a cross-class portfolio of SME business that we introduced to benefit our smaller clients. It involves predominantly e-trade business and certain smaller managing general agency (MGA) deals; specialists for property, casualty and motor, as well as additional specialist lines, design products to maximise the efficiencies that come from e-trading.

UK & Ireland
We have broad distribution throughout the UK and also in Ireland, where we have a strong presence and reputation. We write most of our business through brokers via Lloyd's and company markets, as well as through MGAs, large cover holders and Fast Flow for our SME customers.

By making the most of our local presence, and by doing so in a joined up way across our business, we aim to improve our customer engagement and create sustainable organic growth. This growth will also come from focusing on our core specialisms in property, liability, motor and professional and financial lines, so that we only allocate capital to risk exposures that we understand well.

European Markets
Outside the UK and Ireland, our core territories are France, Germany, Spain, Italy and the Nordic region, where we are working to clearly differentiate ourselves from our competitors.

Our European Markets business focuses on our expertise in casualty liability, professional lines and property for large corporate and middle market clients. For the most part, we connect with our customers through international brokers, selective local independent brokers and London market wholesalers. As with our UK and Ireland business, implementing the CVP will help us to develop our customer relationships and generate growth.

Financial & Specialty Markets
This business focuses on Europe, Canada and the UK, where we underwrite a large portfolio of professional and financial institutions via the London market and a number of broker relationships. We have gained an excellent reputation throughout our key territories for the service we provide multinationals. In addition, we are expanding our SME business, where D&O and PI coverage has become more important, and developing our environmental liability work. This is helped by our new centre of excellence, which provides us with product leadership, a common governance structure and a consistent risk appetite.

Financial performance
The past year has been challenging; the market has been competitive, with new entrants and surplus capacity across all major lines of business. Despite this, we achieved our gross written premium target and were slightly ahead of plan at £1,424m. Although we were adversely affected in early 2014 by the UK storms and Network Rail losses, maintaining our underwriting discipline enabled the division to record a COR of 96.4%.

Market environment and outlook
During 2014 we completed a series of portfolio remediations, which have now enabled us to focus on increasing customer engagement, developing a more diverse client base and cross-selling products. All of this will help us build a platform for sustainable profitable growth.

We have a number of initiatives underway; developing whole account view underwriting, establishing a client solutions practice, enhancing our distribution management team and refining our target operating model, as well as industry-specific and technological developments. All of these will support the CVP, which will use our expertise, products and delivery to bring us closer to our clients.

For 2015, we plan to achieve a gross written premium target of £1,471m. The planned customer retention rate is 84.5%, reflecting our focus on retaining profitable customers and our intention to deliver improved value to our existing customer relationships.

We are confident that, through aligning our structure to the needs of our clients and brokers, we have established a framework which will help us to maximise new business opportunities. It will also provide a platform for our people to optimise their skills and ambition in support of our strategic intent and profitable growth plans to build the Retail business to a gross written premium of circa £2bn by the end of 2018.

Reinsurance

Global reinsurance expertise and service

QBE EO's reinsurance division is an integral part of the global QBE Re division and serves a wide range of customers worldwide through our offices in London, Brussels, Dublin and Bermuda. Thanks to teams of dedicated individuals, and the size and strength of QBE's business overall, we are able to offer our customers consistent, transparent and specialist reinsurance expertise.

Jonathan Parry
Chief Underwriting Officer
Reinsurance division,
Joint Active Underwriter
QBE Syndicate 2999

Divisional overview

As part of the QBE Group global reinsurance strategy, QBE EO's reinsurance division serves a diverse range of customers, from large global organisations to smaller, specialist companies. Most classes of reinsurance are underwritten, generating a well-balanced portfolio of property, casualty and specialty lines. We are able to provide top class customer service because of the depth of skill and experience within the division, underpinned by our strong risk management, claims expertise and our actuarial, research and development teams.

Divisional structure and strategy

Having a single brand and management team enables consistency in our decision-making and approach. We write business through syndicate 566 at Lloyd's (specialist reinsurance sub-syndicate under umbrella syndicate 2999), QBE Re in Brussels and QBE Re in Dublin. For 2015, we have established a reinsurance branch in Bermuda; this will enable us to write North American Property, International Property, and US Casualty Treaty. We continue to explore new initiatives to give our portfolio greater class and geographic diversity. Along with our very longstanding customer relationships, this should help alleviate the substantial reductions in GWP over the last two years.

Our major portfolios include:

International Property Treaty
This is the largest account in the portfolio. We write most business on a catastrophe excess of loss basis through syndicate 566 and QBE Re in Dublin. The portfolio is well spread geographically, focusing primarily on the United Kingdom, Europe, Japan, Australasia and Latin America. For much of our business, we prefer to take a lead position as this enables us to stay in close contact with our clients and develop a good understanding of their needs.

International Casualty Treaty
QBE EO is a recognised market leader in International Casualty Treaty business. We cover most liability classes in all territories, except the US, and write business on both an excess of loss treaty and proportional basis through syndicate 566 and QBE Re in Dublin.

North American Property and Casualty Treaty
Most of the Property Treaty portfolio originates from the US, with the rest coming from Canada, and we usually write the account on a catastrophe excess of loss basis. Meanwhile, our Casualty Treaty business is biased towards risk and catastrophe excess of loss treaty.

Gross written premium

£410m

2014 Actual

Combined Operating Ratio

85.7%

2014 Actual

It is split between standard lines - comprising general liability, Workers' Compensation Act, clash and motor covers - and professional lines, involving healthcare business. North American Property and Casualty are both written on Lloyd's paper from our London office.

Specialist Marine, Aviation and Personal Accident
The Marine portfolio is entirely written through syndicate 566 on a risk and catastrophe excess of loss basis. The portfolio covers all aspects of marine business and includes third party cover, such as P&I and pollution. It avoids attritional layers to focus instead on middle to high layers, and currently consists of business originating from more than 50 countries.

The aviation team provides cover for insurers and reinsurers of the world's major airlines, airports and aerospace product manufacturers. It writes business through excess of loss treaties. As a specialised insurer, syndicate 566 is a member of both the Atrium and SATEC Pools, which provides cover on satellite launch and in-orbit risks on a proportional basis.

QBE EO's Personal Accident business is split evenly. One half consists of risk and catastrophe excess of loss business; the other half involves primary direct and facultative insurance, including line slips and binders. Personal Accident business is written on Lloyd's paper from our London office.

Worldwide and Retrocession
This is the oldest portfolio within syndicate 566 and comprises catastrophe retrocession, catastrophe protections of direct and facultative accounts, and risk excess business. We value continuity and have been trading with our core customers for several decades, using the syndicate to target business with a high risk-to-reward ratio, while staying away from attritional loss activity.

Life and European Multiline
QBE Re Brussels branch writes a non-life portfolio of solely European-based customers, often protecting multiple product classes for each reinsured. The CVP is mainly based on technical expertise and service delivery, and the Brussels team maintains excellent long-term relationships with their customer base.

The branch also writes life reinsurance business on a worldwide basis. The life reinsurance activity is focused on biometric risks (mortality and morbidity), including health and workers' compensation.

Financial performance
Gross written premium at £410m reflects ongoing rate pressure and intense competition across our major lines of business. With the benefit of a benign catastrophe period, however, I am pleased to report an excellent underwriting result with COR at 85.7%.

Market environment and outlook
Against an extremely competitive market environment, during 2014 we recorded a customer retention ratio of 79.5% (plan 84.6%), demonstrating the strength of our customer service and depth of expertise within the division.

The Reinsurance industry has seen continued profitability in 2014, greatly helped by a benign catastrophe period. This profitability has not only encouraged new entrants from capital markets, but has also seen existing reinsurers chasing top-line growth at almost any cost. This excess capacity has put further pressure on pricing, with terms and conditions also starting to come under attack. The deteriorating market conditions, especially within property catastrophe business, is now spreading to other classes, and most lines of business are under intense competition. At this point in the cycle, it is essential to pick clients carefully; our longstanding commitment to core clients will help us during these difficult times.

Chief Risk Officer's report

Robust risk & capital management

QBE EO is committed to continuous development of our risk management framework to facilitate the effective identification and management of key risks. This is performed with reference to QBE Group's risk management framework, and in conjunction with the QBE Group wide economic capital model, to ensure the effective allocation of risk-based capital.

Philip Dodridge
Chief Risk Officer
QBE EO

Risk management overview

Effective risk management supports the achievement of QBE EO's strategic objectives through efficient allocation of resources, avoiding surprises and gaining a detailed understanding of our risk and control environment. The Enterprise Risk Management (ERM) function co-ordinates QBE EO's risk management processes and supports the Boards and Risk and Capital Committee in their responsibilities for risk and capital management.

Risk management strategy

QBE EO's risk management strategy puts structure around the risks to which QBE EO is exposed and defines the framework to manage those risks and meet strategic objectives.

During 2014 QBE EO embedded One ERM, a QBE Group initiative launched during 2013 to align and harmonise global risk management functions. A key component of this initiative is to hold regular risk and control workshops with all business units to identify and assess material risks to their strategic and business objectives. The process facilitates the integration of risk management into QBE EO's business management, thereby linking risk management with strategy and planning, as well as performance monitoring and evaluation.

Solvency II

Compliance with Solvency II regulation continues to be a key priority for QBE EO. Led by an executive-sponsored Solvency II steering group, we continued to prepare for the introduction of Solvency II regulation during 2014 and are proactively managing adherence to the tests and standards. Solvency II continues to be a focus into 2015 as we develop a number of our internal model processes and enhance our financial reporting.

QBE EO's internal model is at the core of its enterprise risk management framework. QBE EO 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 and risk identification, mitigation, assessment and monitoring, and is used in the day to day operation of QBE EO.

For example, the internal model was used as part of the review of QBE EO's Spanish and Italian medical malpractice portfolio during 2014. The internal model was used to help assess the uncertainty in the portfolio's held reserves and model the impact on capital requirements pre and post any potential transfer. The review ultimately resulted in the decision to reinsure the Spanish and Italian medical malpractice liabilities.

During 2014, we also began our operational transformation programme. This transfers a number of our finance, insurance administration and claims processes offshore to the QBE Group shared service company in the Philippines. The ERM function supported the programme through the project's design and delivery in order to capture and mitigate key transition and business-as-usual risks.

Risk management culture

We maintain a strong risk management culture. Supported by QBE Group's global risk management framework, this culture protects and advances the interests of our shareholder and policyholders. Within QBE EO, ONE QBE defines six values and associated behaviours that contribute to the careful assessment of risk and reward. These values include open-minded behaviour, business acumen and achieving excellent outcomes. When embedded throughout the business, these values and behaviours enable us to identify opportunities, maximise QBE EO's business activities and limit any potential downside.

To further integrate risk management into daily business activity and support a culture of effective risk management, during 2014 we added a specific risk management objective to all staff's performance objectives.

Risk appetite and tolerance

Risk appetite is the level of risk that the board and management are willing to take in pursuit of the organisation's strategic objectives. It is managed:

- through board-approved risk appetite statements and risk tolerances;
- through the capital adequacy objectives contained in the business plan, including return on risk-adjusted capital and through detailed risk limits;

Risk management framework elements

Our risk management framework consists of complementary processes that are embedded throughout QBE EO, consistent with our 'three lines of defence' approach.

These processes, in conjunction with QBE EO's governance structure, help to drive our desired risk culture.

- within the delegation of authority from the QBE Group CEO to the QBE EO CEO and onward to the management team; and
- within QBE EO policies relating to key risk areas.

Risk management framework

The risk management framework reflects the 'three lines of defence' approach, summarised as follows:

a. The Boards, underwriting divisions and corporate services form the first line of defence. They have direct responsibility for risk management and control.
b. The Risk and Capital Committee, ERM function and other control functions form the second line of defence. They are responsible for co-ordinating, facilitating and overseeing the risk framework's effectiveness and integrity. The ERM team's objective is to optimise return from risk by improving decision-making; providing the enterprise risk framework and reviewing and supporting its application; and by offering an independent viewpoint.
c. The Audit Committee, External Audit and the Internal Audit function form the third line of defence. They challenge the integrity and effectiveness of the framework and provide independent assurance across all our business functions.

Capital allocation

We use a QBE Group-wide economic capital model (ECM) 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 and QBE Group 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.

Key risks

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

Our main risks, as noted in the diagram on page 25, are regularly reported and discussed at the Risk and Capital Committee through the Own Risk and Solvency Assessment (ORSA). Of these, the risks currently in focus for active management are:

(Risk 1) Business product, market, distribution risk
Ongoing soft markets in many product lines requires continuous performance monitoring and active portfolio management in order to maintain planned margins. Selective growth is being supported by a number of business initiatives.

(Risk 19) Improper business practice
The insurance industry is experiencing a period of regulatory uncertainty with more demanding standards and increased scrutiny from the PRA and Lloyd's in the build up to the implementation of Solvency II. The FCA has also increased the focus on the conduct of insurers in their treatment of customers.

(Risk 8) Reserving
Significant uncertainty in the reserves arises from discounting for the time value of money under IFRS. In conjunction with QBE Group, the EO Investment Committee is reviewing options around moving more towards a position of matching asset and liability duration to reduce the short term impact of changes in the yield curves.

(Risk 18) Employment practices
Loss of key staff is an ongoing risk fuelled by a very buoyant employment market, particularly in London. QBE EO is strengthening its staff engagement via a programme to support its newly launched Employee Value Proposition.

(Risk 21) Technology and infrastructure failures; business and transaction processing
Several change programs are underway to gain efficiencies and provide a more resilient and scalable operating model. Key areas of focus during 2015 include upgrading the IT infrastructure, information security, data quality and financial reporting.

Chief Risk Officer's report continued

The following table provides some examples of the types of risk QBE EO faces, their mitigation and our risk strategy. The seven risk categories link to the QBE EO strategy and include 23 individual risk types.

Risk type	Risk definition	Mitigation
Strategic risk Risks 1 to 5	The current and prospective impact on earnings and/or capital arising from strategic business decisions, implementation of decisions and responsiveness to external change.	• We consider strategic options in light of the impact on return volatility and capital requirements; and • We plan and monitor capital levels on an ongoing basis, with reference to regulator, rating agency and economic requirements.
Insurance risk Risks 6 to 9	The risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations. Our exposure to insurance risk arises from: • Underwriting/pricing; • Insurance concentrations; • Reserving; and • Reinsurance.	• We analyse historical pricing and claims experience; • We set a tolerance to concentration risk; • We monitor and review performance; and • We conduct both an in-house and external actuarial review of our claims provisions, independent of our underwriting teams.
Credit risk Risks 10 to 12	The risk of default by borrowers and transactional counterparties, as well as the loss in value of assets due to deterioration in credit quality. Our exposure to credit risk arises from: • Reinsurance counterparty credit and other recoveries; • Premium and other counterparty credit; and • Investment counterparty default.	• We regularly review our exposure limits for approved counterparties in relation to deposits and investments; and • We maximise the amount of reinsurance that we place with highly rated counterparties and limit the concentration of our exposures.
Market risk Risk 13 and 14	The risk of variation in the value of investments due to market movements. Our exposure to market risk arises from: • Investment market movement risk; and • Foreign exchange rate movement risk.	• We actively manage investment assets; • We maintain a diversified portfolio; and • We hedge residual net asset exposures at an entity level.

The diagram demonstrates the seven risk categories and 23 individual risk types

1. Business product, market, distribution approach
2. Capital structure and management
3. Acquisition decision and negotiation
4. Tax planning and decisioning
5. Investment strategy

6. Underwriting and pricing
7. Insurance concentrations
8. Reserving
9. Reinsurance

10. Reinsurance counterparty credit and other recoveries
11. Premium and other counterparty credit
12. Investment counterparty default

13. Investment market movement
14. Foreign exchange rate movement

15. Liquidity risk

16. Internal fraud
17. *External fraud*
18. Employment practices
19. Improper business practices
20. Disasters and other events (including business continuity)
21. Technology and infrastructure failures
22. Business and transaction processing

23. Group risk

Risk type	Risk definition	Mitigation
Liquidity risk Risk 15	The risk of having insufficient liquid assets to meet liabilities falling due to policyholders and creditors.	• We hold minimum levels of liquid, short term money market securities; • We perform stress testing of liquidity needs relative to major catastrophe events; and • We match assets and liabilities in our major currency positions.
Operational risk Risks 16 to 22	The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk. Our exposure to operational risk arises from: • Internal fraud; • External fraud; • Employment practices; • Improper business practice; • Technology and infrastructure failures; and • Business and transaction processing.	• We actively monitor our key processes; • We conduct scenario reviews to identify and quantify potential exposures for mitigation; and • We maintain effective segregation of duties, access controls, authorisation and reconciliation procedures.
Group risk Risk 23	The risk to a division arising specifically from being part of the wider QBE Group, including financial impact and loss of support from the parent company.	• We take care in how we manage our relationship with QBE Group and Lloyd's; • We appoint independent non-executive directors on QBE EO Boards; and • We agree contractual arrangements in place for material services provided by other QBE Group divisions and companies.

Chief Financial Officer's report

Financial strength and flexibility

Against a backdrop of relatively benign catastrophe and large loss events, QBE EO produced a consistent financial performance, with several capital initiatives completed during the year to improve balance sheet strength.

David Winkett
Chief Financial Officer
QBE EO

I am pleased to report a net profit after tax of £116m in 2014, compared with £103m in 2013. This is a robust result, particularly when considering the difficult market environment and the impact of reducing risk-free rates, which adversely impacted our discounted claims experience by £143m.

Premium income

Gross written premium fell by 17.9% to £2,729m (reduction of £596m from £3,325m in 2013). The top line reduction was principally due to exiting non-core portfolios and portfolio remediation during 2014, as well as the effect of competitive market conditions. In order to protect our profitability and balance sheet strength, we chose to reduce gross written premium by renewing only quality customers in core product lines and territories.

On average, premium rates on renewed business declined by 1.3% during 2014, compared with an increase of 1.5% in 2013. Whilst the economic environment has stabilised or improved in most of our key markets, we are not yet seeing any meaningful increase in business activity. Although our Retail portfolio experienced renewal rate increases of around 1.0%, International Markets and Reinsurance experienced premium rate reductions averaging 3.9% and 3.3% respectively. Our Reinsurance division was particularly adversely impacted by a change in buying habits as customers restructured reinsurance programs and retained more risk in-house.

Consolidated IFRS financial performance

GROUP	2014 £m	2013 £m
Gross written premium	**2,729**	3,325
Net earned premium	**1,798**	2,262
Net claims incurred	**(1,072)**	(1,410)
Total acquisition costs	**(670)**	(756)
Underwriting result	**56**	96
Net investment return	**178**	156
Other charges	**(131)**	(187)
Profit before tax	**103**	66
Tax benefit	**1**	33
Profit from discontinued operations	**12**	5
Profit after tax	**116**	103

Combined operating ratio

GROUP	2014 %	2013 %
Claims ratio	**59.7**	62.4
Total operating cost ratio	**37.2**	33.4
Combined operating ratio	**96.9**	95.8

Chief Financial Officer's report continued

QBE Insurance (Europe) Limited
(S&P) A+ (negative outlook)

	2014 £m	2013 £m
Gross written premium	**1,400**	1,625
Profit/(loss) after tax	**48**	(25)
Combined operating ratio	**103.7%**	109.0%
Total assets	**5,507**	5,370

QBE Re (Europe) Limited
(S&P) A+ (negative outlook)

	2014 €m	2013 €m
Gross written premium	**305**	358
Profit after tax	**11**	57
Combined operating ratio	**96.1%**	73.3%
Total assets	**1,916**	1,923

Syndicate 2999
(LSA) 5/Stable

	2014 £m	2013 £m
Gross written premium	**888**	1,118
Profit before tax	**208**	169
Combined operating ratio	**74.0%**	80.7%
Total assets	**2,695**	2,877

Syndicate 386
(LSA) 5/Stable

	2014 £m	2013 £m
Gross written premium	**333**	449
Profit before tax	**48**	39
Combined operating ratio	**92.0%**	82.3%
Total assets	**1,469**	1,601

Table shows full syndicate results rather than QBE EO's 69.7% share.

QBE EO operates a streamlined legal entity structure comprising both Lloyd's and Company market entities

- QBE Casualty Syndicate 386 - is a specialist UK non-marine liability insurer. QBE EO has a 69.7% share in this syndicate, which writes across both the International Markets and Retail divisions.
- QBE Syndicate 2999 - is a wholly aligned syndicate which writes across the Retail, International Markets and Reinsurance divisions.
- QBE Insurance (Europe) Limited (QIEL) - is a specialist business insurer and writes primarily across the International Markets and Retail divisions.
- QBE Re (Europe) Limited (QREL) - is a specialist reinsurer within the Reinsurance division, and forms part of the global QBE Re reinsurance brand.
- The tables above show the locally reported UK GAAP performance.

Storms in the UK and a sizeable reduction in gross written premium made for a difficult start to the year. Thereafter, underwriting performance improved to record a profit after tax of £116m (2013 £103m). The reinsurance transaction to dispose of our significant Italian and Spanish medical malpractice liabilities reduced net claims incurred and net earned premium by £221m. Although broadly profit-neutral, the transaction reduced the level of balance sheet uncertainty in the net discounted claims estimate.

Claims experience
Despite a high incidence of large individual risk claims, the portfolio remediation activities and our exit from several classes earlier in the year led to an improvement in the attritional claims ratio. In turn, this contributed to an overall claims ratio of 59.7% (2013 62.4%). Notable catastrophe and large risk losses during 2014 included the UK storms, European hail storms and Hurricane Odile.

The discounted net claims ratio was adversely impacted by £143m or 8.5%, due to the very marked reduction during the year in risk-free rates across the major currencies in which we operate, including GBP, USD, EUR, CAD and AUD.

Total operating costs
Total operating costs, as measured through the combined commission and expense ratio, increased to 37.2% (2013 33.4%) during 2014. Despite an absolute reduction in expenses and commissions, the expense ratio increased because of the year-on-year reduction in net earned premium, caused by the reduction in gross written premium and impact of the Italian and Spanish medical malpractice reinsurance transaction. Lower Lloyd's premium charges contributed to a reduction in expenses, as did the QBE EO operational transformation programme, which has reduced headcount and related costs.

The continuing upward pressure on commission rates reflects the competitive nature of our main markets. However, the net commission costs decreased following a reduction in reinstatement premiums compared to 2013, as well as a change in business mix. This was primarily the increase in relative premium contribution of the lower commission business within the Retail division.

The following table outlines the divisional COR reported on a management basis. This excludes certain reinsurance contracts with QBE Group's captive reinsurer Equator Re.

YEAR ENDED 31 DECEMBER	2014 %
International Markets	86.2
Retail	96.4
Reinsurance	85.7
QBE EO	93.8

Consistent delivery of operating performance across the market cycle is a key objective for an insurer. I am pleased that all operating divisions have continued to be profitable during 2014, despite significant competitive and pricing factors, and notwithstanding the negative impact on claims from the interest rate environments.

Investment return
We have reported net investment return before financing costs of £178m (2013 £156m). The reported investment income comprises the return on the investment and cash holdings. Investment returns in 2014 were broadly in line with expectations, with solid returns supported by an increased allocation to growth assets. Our modest holding of infrastructure debt and unlisted property assets also generated good returns and we intend adding to these positions incrementally throughout 2015. The investment and cash portfolio achieved a net investment return of 1.8%, up from 1.4% in 2013.

Chief Financial Officer's report continued

Financial strength and flexibility

Tax

QBE EO has a tax credit for the year of £1m (2013 tax credit £33m), which is lower than the UK tax rate of 21.5%. This is primarily attributable to non-taxable items and non-recurring credits in 2014, combined with differences in tax rates across a number of our jurisdictions, principally Ireland.

Capital management

With shareholder's funds of £1.7bn, and total assets in excess of £13bn, QBE EO's strong balance sheet continues to be well positioned, benefiting from strong capital management and our robust investment strategy. Maintaining a strong and flexible balance sheet gives stakeholders confidence in our ability to pay claims, meet debt obligations and meet the requirements of our regulators.

QBE EO has a number of requirements for capital, whether to support our involvement in Lloyd's syndicates, or to underwrite within a jurisdiction where our company businesses operate.

We are subject to prudential regulation in a number of local jurisdictions, as well as regulation by the PRA, FCA and Lloyd's in the UK. QBE EO is also subject to the capital adequacy requirements of the European Union Insurance Groups Directive (IGD). We aim to hold capital significantly greater than the minimum requirements set by our regulators. Further capital requirements are determined by rating agencies, who provide ratings for our insurance carriers: Syndicate 386 and 2999, QIEL and QREL.

Capital resources

QBE EO holds a level of capital above its regulatory requirements. The amount of surplus capital that we hold at any one time is considered on an ongoing basis in order to take account of the current regulatory framework, any opportunities for organic or acquisitive growth, and our desire to maximise risk-adjusted returns.

Each year, all registered (re)insurance companies regulated by the PRA, the FCA and Lloyd's syndicates are required to perform an Individual Capital Assessment (ICA). The ICA defines the level of capital each entity is required to hold in order to ensure that it will be able to meet the ultimate value of liabilities arising from past business and also from new business expected to be written in the year.

Lloyd's corporate members are required to hold capital - Funds at Lloyd's (FAL) - in a trust at Lloyd's. FAL assets are intended to cover circumstances in which syndicates assets are insufficient to meet its liabilities. The level of FAL required depends on the capital level determined through the ICA of each syndicate.

The Economic Capital Assessment underpinning the FAL requirement for QBE EO is £1,197m for the 2015 underwriting year (2014 underwriting year £1,014m). This requirement is satisfied by Letters of Credit (LOC) of £1,092m (2013 £886m) and £105m held in fixed income investments (2013 £128m). FAL LOC are backed by a QBE Group guarantee.

Solvency II

In future our capital requirements will be assessed based on the requirements of the Solvency II directive. We remain committed to the introduction of Solvency II, with an executive-sponsored working group responsible for progressing and managing compliance with the new regulatory requirements, and overseeing the infrastructure and financial reporting changes necessary for compliance with the new regulation.

Reinsurance protection

Reinsurance is an important part of both our insurance risk management and capital management strategies. Not only does reinsurance support our underwriting strategy by enhancing our ability to write large or lead lines, it also enables QBE EO to mitigate the financial impact of catastrophes, such as hurricanes, and to manage capital to lower levels.

QBE EO operates a number of reinsurance programmes, including whole account quota share, facultative and treaty reinsurance, and participates in QBE Group's global reinsurance programme. In 2014, total spend on reinsurance protection was £990m, or 34.5% of gross earned premium (2013 £1,021m, 31.1%). The credit rating of reinsurance recoverables at 31 December 2014 is shown in the table on page 29.

Investment management
Total cash and investments under management at 31 December 2014 were £6,985m (2013 £6,881m).

At 31 December 2014, cash and fixed interest securities had a relatively short duration of 0.7 years (2013 0.6 years). The short duration portfolio did not benefit meaningfully from the rally in global bonds over the course of the year. However, our credit portfolio did reap the benefits of both additional credit spread income and modest gains from a degree of spread contraction, prompted in part by expectations of quantitative easing by the ECB.

Exposure to growth assets has been increased to 4.4% through a combination of additional exposure to existing asset classes and a modest new allocation to alternatives. We expect this allocation to progressively increase during 2015.

Liquidity management
QBE EO's cash and financial investments increased by £104m during 2014 to £6,985m (2013 increase of £195m to £6,881m). This is the result of strong positive operational cash flows, offset by dividends paid to our shareholder during the year.

We aim to maintain a strong liquidity position in order to ensure that we can respond quickly to events, such as the payment of claims following a major insured loss. We maintain our liquidity position by holding a proportion of investment assets in highly liquid funds and by maintaining an undrawn £50 million overdraft facility. We monitor the investment exposures and run tests to ensure that, even in realistic disaster scenarios, sufficient liquidity is available to us.

Foreign exchange
QBE EO reports in UK pound sterling but conducts business in a number of different currencies. Transactional foreign exchange risk arises on mismatches in operational net asset exposures. To manage these risks, we monitor operational net asset positions and hedge any material exposures. Our hedges are implemented by physically matching assets and liabilities, where practical, and are supplemented by the use of derivative contracts. This approach mitigates the risk that we cannot meet our obligations in local currency; it also reduces the risk of financial loss resulting from movements in exchange rates. The nature of QBE EO's business means that small mismatches in operational net asset positions occur throughout the year.

Borrowings
Total inter-group debt payable at 31 December 2014 was £1,636m (2013 £1,569m). There was no change in underlying borrowing profile or repayment terms during the year, with the reported change in GBP terms primarily due to exchange rate fluctuations.

Claims reserve
The estimate of QBE EO's reserves required to settle reported claims, and claims incurred but not reported, necessarily requires the application of judgement. Since the level of reserves can have a significant impact on profitability, such judgement is, therefore, an important part of financial management.

QBE EO has a reserving working group which monitors reserves on a monthly basis. Claims estimates are set by experienced claims technicians. The ultimate cost of outstanding claims, including claims incurred but not reported, is estimated by our actuaries, who apply recognised actuarial techniques. A best estimate of our reserves is produced and reviewed by internal and external actuaries and is assessed by management with input from underwriting and claims experts. More than 99% of our outstanding claims provision is reviewed annually by external actuaries working independently of QBE EO.

Our people

Global people culture

QBE has the vision to be the most successful global insurer and reinsurer in the eyes of our customers, our people, our shareholders and the community. The Human Resources function plays an integral part in achieving this vision. We strive to develop a globally aligned, people-centric culture which focuses on key objectives to support delivery of our business plans.

Cheryl Curtis
Chief Human Resources Officer
QBE EO*

Overview

The role of our Human Resources team is to ensure that we provide an inclusive, fair and diverse environment that is centred around our people. We aim to recruit the best people and to empower and develop them to the best of their abilities so that they can make things happen.

People strategy

In 2014, five key people priorities supported our strategic ambitions. These were:

- Designing an Employee Value Proposition to attract and retain the best people in the market;
- Using performance management to help us achieve our key objectives and plans;
- Supporting the delivery of business transformation, focusing on how we deliver a cost-efficient and scalable operating model to support future profitable growth;
- Delivering and embedding the QBE Global Remuneration Framework to link performance with reward more clearly; and
- Producing relevant people-related metrics to enable effective business decisions.

People and Culture

ONE QBE values

ONE QBE represents the six values that drive the day-to-day behaviours of all our people. They are at the very heart of what it feels like to work here and are an underlying driver of the global QBE people culture. They help us create an inclusive and dynamic business environment that values people and ensures continual success in an ever-changing marketplace by:

- Keeping an **open mind** to the views and ideas of others;
- **Networking** and sharing your knowledge and skills;
- **Empowering** and giving others the space to do what they do best;
- Adopting a **quality approach** and always keeping your promises;
- Demonstrating **business acumen** in your decision-making; and
- Aiming for **excellent outcomes** in everything you do.

Leadership

Our Global Leadership Academy enables us to continue investing in the development of our leaders. The Academy is part of our broader strategy to meet future business needs by strengthening our leadership capability and developing potential leaders who will help achieve QBE's key objectives and ONE QBE values.

During the Academy's second year 27% of our people leaders commenced a leadership programme and started their development journey. Almost half of our leaders will go through the programme by the end of 2015.

We remain focused on the Academy's return on investment, with participants improving their strategic focus, business performance and execution, as well as their ability to lead and engage people. All of this provides them with the skills and tools to help achieve business plans more effectively.

Average number of employees in 2014

2,600

(2013: 2,810)

Training spend in 2014

£2.1m

(2013: £1.6m)

* Director of QIEL, QUL QREL and QBE Management Services (UK) Limited

10/10

In March 2014, QBE launched a global 10/10 recognition scheme. This recognises the importance of our vision, mission and ONE QBE values by celebrating the people who score 'ten out of ten' by consistently living the values and making them happen.

10/10 identifies one person from each division to be the top seven ONE QBE role models. The winners are recognised in several ways, including a 10/10 year book, intranet videos and some celebratory events.

Some 1,162 nominations were made globally, from which each division selected their top 50 people, using a global criteria.

In January 2015, the EO Divisional winner was announced. Richard Sheffield, the EO winner, flew to Sydney in February with other divisional winners for a special programme of events, including dinner with John Neal. In early 2015 we distributed a global yearbook recognising everybody who was placed within the top 50.

Engagement

We are committed to developing an inclusive work environment and culture. In 2014, several initiatives have progressed to improve what QBE offers our people; these include development of the EO Employee Value Proposition (EVP).

The EVP is the promise we make and keep with our people in return for their contribution and performance. Various elements of the EVP have always been in place; these are now shared in a structured way and promote what our people value most about working for QBE EO. Our EVP sets out what we promise to offer our employees. It was fully launched in early 2015 and will be rolled out throughout the year.

In September 2014, we conducted our second annual staff Pulse Survey to gain a deeper insight into the factors that are important across our business. Participation rates increased, with 71% of our people providing feedback that will help shape our people strategy in the future. The priorities for 2015 are:

- Employee motivation and engagement;
- Leadership behaviour and development; and
- Prioritising customers in our decisions and interactions.

We are currently implementing a detailed EVP and staff Pulse Survey plan, with clear responsibilities and timelines to address priority areas during 2015.

Diversity

QBE is committed to creating a diverse, inclusive workplace and culture. To that end, the first meeting of the QBE Group Diversity and Inclusion (D&I) Council took place in Q1 2014, with Richard Pryce representing QBE EO.

We also have a QBE EO D&I Council, who have developed an EO D&I business case during 2014, conducted peer analysis and immersed ourselves in D&I people metrics. These actions will help develop a meaningful D&I action plan for 2015.

The EO Executive Committee assessed our workplace diversity and the inclusiveness of our current people practices, before developing a comprehensive plan to build a more diverse and inclusive culture in 2015. Our main actions for 2015 include attraction and recruitment; promotion; development and retention of diverse talent; and addressing people management capability by educating and raising awareness among our people. We will track progress by establishing a baseline for D&I categories and creating and implementing a D&I dashboard.

Performance management

We support our employees' career aspirations through our performance management process. We also have a well-resourced personal development planning process to identify and support their current and future needs.

In 2014, we have continued improving elements of our performance management process. We conducted a quality audit of all performance management documentation, manager coaching, and mid-year and end-of-year ratings calibration across business areas. These steps have reinforced our culture of strong performance management, building on work to strengthen and clarify the links between employees' performance and reward.

To support these efforts, we embedded enhanced People Management Objectives into the 2015 performance objectives of all people leaders. These contain clear performance targets, for which all people managers will be held accountable. The targets include enhancing engagement scores in the 2015 Pulse Survey; increasing diverse representation in our attraction, succession and development efforts; and adhering to rigorous performance management practices, including through meaningful career and development conversations.

QBE EO has a strong culture of personal and professional development, investing around 1% of our annual salary cost. This is supported by a comprehensive range of professional qualifications and memberships, management and leadership development, and personal and technical development.

Remuneration

We want to recognise and reward the value that our people bring to QBE EO, so we need to attract, motivate and retain high performers. Our remuneration offering is supported by a total reward package that is competitive, comprehensive and reviewed regularly.

To this end, in 2014 we completed the rollout of our new Global Remuneration Scheme. This aligns remuneration with our vision, strategic ambitions and ONE QBE values by clearly linking employees' earning potential with financial performance and individual behaviours.

QBE EO Foundation

Community engagement

The QBE EO Foundation is part of the global QBE Foundation, and is a UK registered charity. It enables QBE EO and our people to engage with the communities in which we operate.

The Foundation's philosophy is to support charities that help people overcome disadvantage, strengthen their abilities, and live more independently, successfully and productively. This mirrors our professional role in the insurance markets, where we assist people who find themselves in need through accident or misadventure.

The Foundation supports QBE Group's vision to help our local communities to develop and grow.

The objectives of the Foundation are:

- To make a difference in key areas that align with QBE's vision and values;
- To drive employee engagement by developing networking and a strong team-based culture; and
- To maximise the return and impact for the philanthropic resources that we collect, distribute and allocate.

The Foundation is part of the QBE Group's global corporate responsibility initiative to help our people make a difference in their communities. We achieve this by focussing our support on three key areas:

- Offering employees a paid volunteering day each year for a registered charity;
- Matching fundraising efforts pound for pound (up to £10,000 or equivalent) and matching donations made through payroll giving (up to £1,000 or equivalent) per month, per person, per calendar year; and
- Providing grants to charities that meet the Foundation's objectives and philosophy.

During 2014, we supported 120 charities within the UK and Europe with donations of 395 volunteer days and £0.8 million. The charities stretch from the very large to the very small and include healthcare, educational and community-based projects.

Macmillan Cancer Support

QBE employees in the UK chose Macmillan Cancer Support as their 2014 Charity of the Year. The partnership exceeded our target of £100,000 by raising over £118,000 for Macmillan. Staff activities including the QBE 'Fund a Nurse' Campaign and bake sales. The Macmillan City Takeover event, paired with our Macmillan Day, also raised more than £33,000.

Volunteer days taken during 2014

395

(2013: 367)

Employee payroll giving rose

9.9%

Youth Without Shelter

In 2014, employees in our Canadian offices partnered with Youth Without Shelter (YWS), who provide emergency shelter for homeless youths aged 16–24 in Toronto. Throughout 2014 the office raised £1,400 for the charity. Employees also took part in a volunteer day at the shelter to help make it a better home. They also donated 50 new blankets, cosmetics, stationery items and many other items.

Environment

Sustainable principles

QBE EO is a signatory to the ClimateWise principles, the global insurance industry's leadership group to drive action on climate change risk.

Our commitment to the ClimateWise principles includes the public disclosure of direct greenhouse gas emissions in accordance with the globally recognised Greenhouse Gas Protocol.

Responsibility for QBE EO environmental initiatives and environmental reporting sits with the QBE EO Corporate Real Estate Services team. Progress against environmental initiatives and impact measures is monitored and reported within QBE EO and QBE Group.

Throughout QBE EO, we seek to minimise our adverse impact on the environment wherever practical and cost-effective. For example, we use electronic processing and multi-function print devices in order to reduce paper and energy consumption. We also encourage and facilitate segregation of waste paper and other materials for recycling, and provide video and teleconferencing facilities in order to reduce the amount of business-related travel. We promote the use of video conferencing facilities where possible, and monitor its use.

As part of our commitment to environmental transparency, we evaluate our key suppliers' environmental credentials during procurement and tender reviews. We expect our key suppliers to demonstrate commitment to corporate social responsibility, including the use of sustainably sourced materials.

The ClimateWise principles outlined below provide a framework for signatories to build management of climate change into their business operations. ClimateWise principles 1 to 4 are those we support as part of our approach to climate awareness; principles 5 and 6 are those in which we measure and report environmental data:

1. Lead in risk analysis;
2. Inform public policymaking;
3. Support climate awareness amongst our customers;
4. Incorporate climate change into our investment strategies;
5. Reduce the environmental impact of our business; and
6. Report and be accountable.

Over the last three years, QBE EO has reduced the amount of office paper purchased by more than 40%, to just over 81 tonnes in 2014. More than 80% by weight of this paper is made from sustainable sources such as Forestry Stewardship Council (FSC) certified pulp or recycled paper.

QBE EO's reported greenhouse gas ('carbon') emissions during 2014 were:

10,674 tonnes*

823 tonnes

Scope 1 direct greenhouse emissions due to natural gas and oil consumption for heating

4,380 tonnes

Scope 2 indirect greenhouse emissions from electricity consumption; and imported heat or steam

5,471 tonnes

Scope 3 other indirect greenhouse emissions, primarily emissions relating to business travel

*of carbon dioxide equivalent (tCO_2e)

Monitoring and reporting of QBE EO's corporate greenhouse gas emissions includes emissions from three key sources; operation of QBE EO offices, and business travel by car and aeroplane.

Whilst 2014 is the eighth year that QBE EO has collated and reported greenhouse gas emissions data, material changes to Defra reporting guidelines and emission factors during the year prevent direct comparison with previously reported emissions.

The QBE Coaching Club made it possible

Investing in the future

QBE is working in partnership with the Rugby Football Union (RFU) to support the development of rugby through the QBE Coaching Club.

Our investment has been established to recruit and train 2,015 new level 2 coaches by September 2015, delivered through dedicated RFU-run courses. Now in its third year, we have already successfully delivered 1,500 new level 2 coaches and will achieve our target by the summer.

The initiative is a key pillar of the RFU's World Cup legacy programme, which is aimed at securing the future of the game in England.

We are proud to be creating opportunities for inspirational coaches like Rob (pictured above) to develop themselves and to improve the quantity and quality of coaching across the country.

Chairman's report

A year of development

2014 was a year of development for QBE EO. A number of strategic initiatives have been completed, or are underway, to build a sustainable platform for profitable growth. Furthermore, there has been significant investment towards implementation of the Solvency II regulatory requirements and enhancements to the organisation's governance structure and processes.

John Neal
Chairman
QBE EO

Recent years have seen a lower incidence of catastrophe and large losses across major insurance markets. This has encouraged both new and existing competitors to significantly increase the amount of capital available across all fields of operation.

This abundance of competition places significant pressure on our business and has impacted pricing, retention of high-quality customers, and growth plans. The strategic initiatives developed over recent years have been designed to leverage our competitive advantages so that we may position ourselves within this environment in a way that enables us to build a robust base for sustainable, profitable growth.

Strategic development

The year has seen significant strategic progress across the organisation as we have developed many initiatives across underwriting, operational and people-related areas. Such progress has largely been the product of impressive commitment on the part of many people, for whose contribution QBE EO is grateful. These initiatives have strengthened the foundations of our business and improved how we work together as ONE QBE, in order to leverage the global skill sets and economies of scale available across the QBE Group.

The business disposals programme has supported our efforts to streamline our core business, thereby enabling management to focus on further developing those businesses and portfolios where we have strong positions.

QBE EO Board and Audit Committee

During the year there were two changes to the QBE EO Board. Sir Brian Pomeroy left QBE EO on 30 September 2014 in order to focus on his new role as a non-executive director of the QBE Group Board. Brian's commitment to QBE EO has been exemplary and he has been an invaluable contributor to the business. I am very pleased that he is remaining within the QBE Group.

Tim Ingram became a non-executive director of QBE Insurance (Europe) Limited and QBE Underwriting Limited in March 2014. On 1 October 2014, he became the new Chairman of the QBE EO regulated companies and joined the Board of QBE EO.

Tim's appointment will ensure that the QBE EO regulated companies continue to be chaired by a non-executive director with a strong depth of experience in the financial services sphere and with a proven track record of strategic oversight and leadership.

There were three changes to the non-executive directors of our key regulated subsidiaries and members of the Board Committees during the year. Malcolm McCaig was appointed as a non-executive director of the regulated subsidiaries on 4 April 2014 and as Chairman of the Audit Committee on 15 May 2014. He brings a significant depth of experience and knowledge. In addition to the resignation of Sir Brian Pomeroy, Philip Olsen retired on 31 December 2014.

Solvency II

The QBE EO board continues to invest in developing the financial and reporting infrastructure necessary to comply with the new supervisory regime. This includes participation in all relevant submissions to Lloyd's of London and the Prudential Regulatory Authority.

Brand development

We continued our brand development through rugby-related sponsorship initiatives. As well as sponsoring the QBE Internationals, we demonstrated our commitment to grass roots rugby with our 2,015 for 2015 coaching development campaign.

The QBE Foundation

The QBE Foundation continues to grow and develop, and provides an excellent platform for engaging with the communities in which we operate. As I outlined in my last report, during 2014 we focused on our staff volunteering programme by encouraging our people to engage with specific causes or charities in their communities. As a result, we have seen an increase in the number of volunteer days taken, and I look forward to further developments throughout 2015.

This Strategic report on pages 1 to 39 was approved by the Board of directors on 27 April 2015 and is hereby signed on its behalf.

By order of the Board,

John Neal
Chairman

Corporate Governance

QBE EO's ongoing commitment to maintaining the highest standards of corporate governance was further enhanced during 2014 through the implementation of an updated system of governance.

This was designed to promote efficient, considered and effective decision making, as well as improved reporting and co-operation throughout QBE EO. The new system has led to a deeper understanding of the role of each Committee and an improved flow of information to, and delegation from, the QBE EO Boards. Each Committee acts in accordance with Board-approved terms of reference; promoting a clear and appropriate level of delegated authority, with Committees elevating matters for consideration by the relevant QBE EO Boards where necessary or appropriate.

During 2014, ongoing analysis of corporate governance best practice resulted in the expansion of the role of the Remuneration Committee to encompass Board composition and nominations to the main QBE EO Boards, becoming the Remuneration and Nomination Committee. In addition, Stuart Sinclair was appointed as a Senior Independent Director of the main regulated QBE EO Boards.

We recognise the necessity of seeking continuous improvement in the output and value of the system of governance. In late 2014, QBE EO underwent an externally and independently facilitated review of Board and key Committee effectiveness. The provider was asked to identify ways of enabling QBE EO Boards and Committees to work more effectively in fulfilling their governance roles, whilst fostering greater challenge and supporting non-executive director engagement. The output of the Board effectiveness review will be considered during 2015.

During 2014, timely, accurate and appropriate information flow for the Boards has been further enhanced by embedding electronic Board reporting for all QBE EO main Boards and Committees. We have also restructured agendas and implemented enhanced Board and Committee reporting protocols and templates.

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

The QBE EO Boards and Board Committees met regularly during the year with strong attendance from all members. The Board met ten times during 2014.

During 2014, matters reserved for the Boards pursuant to Board Charters were expanded. In addition, terms of reference of Committees were considered and revised, particularly to reflect the role of the Committees in supporting validation of various elements of the internal model.

As a member of the QBE Group, QBE EO is not bound by the UK Corporate Governance Code. However, as a matter of best practice, the Board seeks to comply with the Code, where practical. QBE EO's main Boards and Committees also comply with the Lloyd's governance standards.

The Board of QBE EO

The QBE EO Board charter states that the role of the Board is to provide strategic guidance and oversight of QBE EO. This includes approving the strategic direction of QBE EO in line with the QBE Group's vision, values and strategic ambitions; monitoring the performance of management in the delivery of the strategy; and instilling the values of the QBE Group. Matters reserved for the Board include strategic issues, such as setting of annual business plans, approval of financial statements and dividends, the management and setting of risk appetite and the internal control framework of the Company. The Board is also responsible for delegating authority to Committees, and approving acquisitions and disposals.

The Board is chaired by John Neal, Chief Executive Officer of QBE Group. In addition, the Board comprises three executive directors and one non-executive director. The non-executive director is Chairman of the Boards of the main regulated companies within QBE EO.

The role of the Chairman of the Board is distinct from that of the Chief Executive Officer and each role is clearly established. Biographical details for each member of the Board are provided on page 38. The Board considers that the experience and areas of focus which each Board member brings to QBE EO results in a strong and balanced leadership team to set and monitor the strategy and values of QBE EO.

There were two changes to the Board of QBE EO during the year; these are summarised on page 96. In conjunction with QBE Group, the Board undertakes succession planning in accordance with the world-class talent and leadership objective, which underpins the strategic ambitions of QBE Group (see pages 6 and 7).

QBE EO has four non-executive directors who are all members of the Audit Committee and whose memberships of all QBE EO main regulated Boards and Committees are shown on page 39.

All the non-executive directors are considered to be independent of management and free from any relationship that could materially interfere with the exercise of their independent judgment; their biographical details are provided on page 39.

Key Committees

Board Committees

The Boards of QBE EO and the three key regulated companies in QBE EO ('Boards') have jointly constituted Board Committees. The Committees all comprise appropriately skilled members and are supported by attendees as necessary.

QBE EO's key Committees comprise:

- Audit Committee;
- Executive Committee;
- Investment Committee;
- Remuneration and Nomination Committee; and
- Risk and Capital Committee.

Audit Committee

Chairman

Malcolm McCaig

The Committee is comprised entirely of non-executive directors and supports the Board in overseeing the integrity and effectiveness of QBE EO companies' financial reporting. This includes monitoring the systems and financial controls which support such reporting. The Committee monitors the scope, effectiveness and outcome of external and internal audits and oversees how identified issues are dealt with.

Executive Committee

Chairman

Richard Pryce

The Committee supports the Chief Executive Officer in performing his role effectively, in particular in formulating recommendations for consideration and approval by the Boards and in delivering agreed strategy and plans. The Committee meets regularly and has recently introduced new ways of working together more effectively, including weekly 'huddles' and offsite away days. The Committee has constituted three management sub-groups to support its work in the key areas of underwriting, operations, and finance and reserving.

Investment Committee

Chairman

David Winkett

The key role of the Committee is to oversee the effectiveness of the investment strategy of the QBE EO entities. The Committee monitors investment performance and investment risks, considering expected returns, volatilities, correlation of asset classes and regulatory requirements and guidance.

Remuneration and Nomination Committee

Chairman

Wai-Fong Au

The Committee is comprised entirely of non-executive directors and reviews the design and operation of QBE EO's remuneration framework. It is responsible for making recommendations to the main QBE EO Boards regarding the structure, size and composition of such Boards (including skills, knowledge, experience, qualifications and diversity). In considering the remuneration framework, the Committee reviews factors including QBE EO's long-term strategic goals and financial soundness, with the aim of ensuring that QBE EO is able to attract, retain, reward and motivate talented employees and directors. The Committee keeps the executive and non-executive leadership needs of the companies under review, giving due consideration to succession planning.

Risk and Capital Committee

Chairman

Stuart Sinclair

The Committee supports the Boards in overseeing the integration and effectiveness of QBE EO's risk and capital management frameworks in order to support their strategic objectives, inform business plans and ensure that risks are identified, assessed and monitored in line with risk appetite. The Committee monitors the maintenance of adequate capital for the risks associated with the business activities of QBE EO. A focus of the Committee for 2014 has been implementation of the Solvency II regulatory programme.

Shareholder communications

As an internal holding company, QBE EO does not have external shareholders other than QBE Group. Shareholder communications are therefore dealt with by QBE Group, which sends a yearly and half-yearly report to all shareholders who elect to receive it. Reports are available on QBE Group's website, www.qbe.com, which also contains historical information and other details on QBE Group. Shareholders can discuss their shareholding with the shareholder services department, which is based in Sydney, Australia; or the share registrar, which is based in Melbourne, Australia.

QBE Group's AGM is held in Sydney in March or April each year. Shareholders are encouraged to attend the AGM in person or by proxy. Most resolutions in the notice of meeting have explanatory notes. During the AGM, shareholders may question the Chairman or the external auditor.

Board of directors

John Neal
Group Chief Executive Officer
QBE Insurance Group

John joined QBE EO in 2003 and was appointed to the Board in November 2004. He became Chairman in August 2012, following his appointment as Chief Executive Officer of QBE Group.

John joined QBE EO through the acquisition of Ensign Holdings Limited in 2003. In 2007 he was appointed Chief Operating Officer of QBE EO, before transferring to a global role at QBE Group in 2011.

Tim Ingram
Non-Executive Director

Tim has been a non-executive director of the main regulated subsidiaries of QBE EO since March 2014 and was appointed as Chairman of those Boards and member of the QBE EO Board in October 2014. He is a member of the Audit Committee, the Investment Committee, the Remuneration and Nomination Committee and the Risk and Capital Committee.

Tim has been Chairman of Collins Stewart Hawkpoint plc and of RSM Tenon plc, Senior Independent Director of Savills plc and Sage plc and non-executive director of ANZ Bank (Europe) Limited and Alliance Trust plc. From 2002 - 2010 he was Chief Executive of Caledonia Investments plc. Tim is currently Chairman of Greencoat UK Wind plc and the Wealth Management Association.

Richard Pryce
Chief Executive Officer
QBE EO

Richard joined QBE EO and was appointed to the Board in September 2012. He became Chief Executive Officer of QBE EO in October 2013. He is a member of the Group Executive Committee of QBE Group.

Richard has over 30 years' experience within the insurance industry, including as President of ACE UK responsible for its London market specialty business, including Lloyd's operations and the company's property and casualty business in the UK and Ireland.

Philip Dodridge
Chief Risk Officer
QBE EO

Phil joined QBE EO in 2000 and was appointed to the Board in March 2007. He became Chief Risk Officer in June 2009.

Before joining QBE EO, Phil spent ten years as a consultant actuary at Watson Wyatt's general insurance practice. His experience covers a wide range of areas, including business planning, capital modelling, reserving, catastrophe aggregate management, reinsurance and performance monitoring.

David Winkett
Chief Financial Officer
QBE EO

David joined QBE EO in 2000 and was appointed as Chief Financial Officer and joined the Board in September 2004.

David chaired the Lloyd's Market Association Finance Committee between 2008 and 2010 and is a member of the Lloyd's Investment Committee. A Chartered Accountant, he spent ten years at PricewaterhouseCoopers, where he worked extensively with Lloyd's, London market and international insurance companies.

Audit Committee

Malcolm McCaig
Non-Executive Director

Malcolm has been a non-executive director of the main regulated subsidiaries of QBE EO since April 2014 and was appointed as Chairman of the Audit Committee in May 2014. He is a member of the Remuneration and Nomination Committee and the Risk and Capital Committee.

Malcolm has been an independent director and business adviser since 2007, following nine years as a partner at major accounting firms. Malcolm was previously a non-executive director of Jubilee Managing Agency Limited and Crest Nicholson Holding plc. Malcolm is a non-executive director of One Savings Bank plc, Unum Limited, Punjab National Bank (International) Limited and Tradition (UK) Limited.

Tim Ingram
Non-Executive Director
Age 67

See biography on previous page.

Wai-Fong Au
Non-Executive Director

Wai has been a non-executive director of the main regulated subsidiaries of QBE EO and member of the Audit Committee since June 2012. She is Chairman of the Remuneration and Nomination Committee and is a member of the Investment Committee and the Risk and Capital Committee.

Wai has over 20 years of experience working at a senior level in corporate and retail banking and commercial and retail insurance lines. She was UK Finance Director of the life and general assurance arm of Royal and Sun Alliance plc and Director of Global Services of Barclays Bank plc. Wai is a non-executive director of the Prudential Assurance Company and has a senior advisory role with Accenture plc.

Stuart Sinclair
Non-Executive Director

Stuart has been a non-executive director of the main regulated subsidiaries of QBE EO and member of the Audit Committee since November 2013. In October 2014, he was appointed as Senior Independent Director of QBE EO. He is Chairman of the Risk and Capital Committee and a member of the Remuneration and Nomination Committee.

Stuart was non-executive director of Liverpool Victoria and President and Chief Operating Officer of Aspen Re. He has also held senior positions at Royal Bank of Scotland plc and GE Consumer Finance.

Stuart is a non-executive director of Provident Financial plc, TSB Banking Group plc and Vitality Health Limited.

BOARD AND COMMITTEES	Wai-Fong Au	Stuart Sinclair	Tim Ingram	Malcolm McCaig
QBE EO			●	
QIEL	●	●	●	●
QUL	●	●	●	●
QREL	●	●	●	●
Audit Committee	●	●	●	●
Investment Committee	●		●	
Remuneration and Nomination Committee	●	●	●	●
Risk and Capital Committee	●	●	●	●

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2014.

Results and dividends

The consolidated statement of comprehensive income on page 43 reports comprehensive income after tax of £120,070,000 (2013 £56,096,000). Interim dividends of £255,000,000 were paid on the ordinary shares during the year (2013 £100,199,000), no final dividend is proposed (2013 nil). Further commentary is set out in the Strategic report on pages 1 to 39.

Strategic report

The Strategic report, which includes details of QBE EO's principal activities, development, performance and KPI's, risk management framework and governance framework, is set out on pages 1 to 39.

QBE EO is wholly owned by QBE Group, an Australian listed company that prepares consolidated financial statements in accordance with Australian equivalents to International Financial Reporting Standards (IFRS) and the requirements set out by the Australian Accounting Standards Board (AASB). QBE EO prepares consolidated financial statements in accordance with IFRSs as adopted by the European Union. In addition, the financial statements continue to be prepared in accordance with applicable law though the requirements of AASB have been considered in order to produce consistent disclosures to the Group's financial statements where possible.

Overseas operations

QBE EO has no branches; however certain subsidiaries of QBE EO have overseas operations and/or branches. The QBE EO group has overseas operations in Australia, Belgium, Bermuda, Canada, Denmark, France, Germany, Italy, Singapore, Spain, Sweden, and the United Arab Emirates.

During 2014 QBE Insurance (Europe) Limited ceased writing new or renewal business within Bulgaria, Ireland, Norway, Romania and Switzerland. Branches of QBE (Insurance) Europe Limited in Estonia and Belgium are in run-off.

During December 2014, QBE Insurance (Europe) Limited accepted a binding offer to dispose of the insurance operations of its branches in the Czech Republic, Hungary and Slovakia. In February 2015, a subsidiary of QBE EO also accepted a binding offer to sell its shareholding in QBE Ukraine. Both disposals are expected to be completed during 2015.

Directors

The directors of the Company who were in office during the year and up to the date of the signing of the financial statements are shown on page 96.

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 2014 for the benefit of the then directors. This provision remains in force for the benefit of the directors and provides indemnity protection in relation to certain losses, expenses and liabilities that they may incur in the actual or purported execution and/or discharge of their duties.

Corporate responsibility

Details of QBE EO's social and environmental policies are set out in the Strategic report on pages 1 to 39.

Internal audit

QBE EO's internal audit department provides assurance to the Audit Committee as to the effectiveness of systems and controls, makes recommendations for improvement and monitors progress towards completion via management action plans. Internal audit also provides 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 with the Group continues and the appropriate training is arranged. It is the policy of the Group 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 their 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 the Group as a whole, and are rewarded according to the results of both through share schemes and performance-related bonus schemes. Employee representatives are consulted to ensure employee views are considered in decision-making likely to affect their interests.

Post-balance sheet events
Up to and including the date of the signing of these financial statements, there have been no post-balance sheet events that require disclosure.

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 Group and Company financial statements in accordance with IFRSs as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). 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 Group and Company and of the profit or loss of the Group 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 IFRSs as adopted by the European Union and IFRSs issued by IASB 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 Group and 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 Group and 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 Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the Group's and Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to auditors
Each 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 Group's and Company's auditors are aware of, any relevant audit information.

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

By order of the Board,

D.J. Winkett

D J Winkett
Director
QBE EO
Registered Number 2641728
London

27 April 2015

Independent auditors' report to the members of QBE European Operations plc

Report on the financial statements

Our opinion

In our opinion:

- QBE EO's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2014 and of the group's profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

QBE EO's financial statements comprise:

- the consolidated and Parent Company balance sheets as at 31 December 2014;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the statement of directors' responsibilities set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

Andrew Moore

Andrew Moore (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
London
4 June 2015

Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTE	2014 £000	RESTATED 2013 £000
Gross written premium		**2,729,242**	3,324,888
Unearned premium movement		**141,962**	(43,824)
Gross earned premium revenue	5(i)	**2,871,204**	3,281,064
Outward reinsurance premiums		**(990,316)**	(1,021,006)
Deferred reinsurance premium movement		**(82,423)**	1,624
Outwards reinsurance premium expense	5(ii)	**(1,072,739)**	(1,019,382)
Net earned premium		**1,798,465**	2,261,682
Gross claims incurred	5(ii)	**(1,699,241)**	(1,950,434)
Reinsurance and other recoveries revenue	5(i)	**626,971**	540,660
Net claims incurred		**(1,072,270)**	(1,409,774)
Gross commission expense	5(ii)	**(430,773)**	(494,934)
Reinsurance commission revenue	5(i)	**73,640**	84,941
Net commission		**(357,133)**	(409,993)
Other acquisition costs	5(ii)	**(209,151)**	(219,904)
Underwriting and other expense	5(ii)	**(103,549)**	(126,506)
Underwriting result		**56,362**	95,505
Investment and other income - policyholders' funds	5(i)	**66,556**	67,936
Investment expenses - policyholders' funds	5(ii)	**(7,269)**	(38,743)
Insurance profit		**115,649**	124,698
Investment and other income - shareholder's funds	5(i)	**128,598**	144,489
Investment expenses - shareholder's funds	5(ii)	**(10,011)**	(18,146)
Financing and other costs	5(ii)	**(124,608)**	(175,107)
Amortisation and impairment of intangibles	5(ii)	**(7,068)**	(9,578)
Profit before income tax		**102,560**	66,356
Income tax credit	7	**1,081**	32,505
Profit after income tax from continuing operations		**103,641**	98,861
Profit for the year from discontinued operations	35	**12,152**	4,617
Profit after income tax		**115,793**	103,478
Other comprehensive income/(expense)			
Items that may be reclassified to comprehensive income			
Net movement in foreign currency translation reserve		**2,401**	(43,485)
Net movement in cash flow hedges		**(894)**	585
Items that will not be reclassified to comprehensive income			
Gains/(losses) on remeasurements of defined benefit pension schemes	20	**3,343**	(6,390)
Movement in deferred tax liability relating to pension liability		**(650)**	2,290
Movement in revaluation reserve		**77**	(382)
Other comprehensive income/(expense)		**4,277**	(47,382)
Total comprehensive income after tax		**120,070**	56,096
Profit after income tax attributable to:			
Equity holders of the parent		**115,739**	103,345
Non-controlling interests		**54**	133
		115,793	103,478
Total comprehensive income after tax attributable to:			
Equity holders of the parent		**120,016**	55,963
Non-controlling interests		**54**	133
		120,070	56,096

The notes set out on pages 48 to 93 form an integral part of these financial statements.

Consolidated statement of changes in equity

FOR THE YEAR ENDED 31 DECEMBER 2014

2014	CALLED UP SHARE CAPITAL £000	FOREIGN CURRENCY TRANSLATION RESERVE £000	REVALUATION RESERVE £000	CASH FLOW HEDGES RESERVE £000	ACCUMULATED LOSSES £000	SHAREHOLDERS' FUNDS £000	NON-CONTROLLING INTEREST £000	TOTAL EQUITY £000
At 1 January 2014	2,621,258	(46,321)	375	585	(769,914)	1,805,983	1,718	1,807,701
Profit after income tax	-	-	-	-	115,739	115,739	54	115,793
Other comprehensive income	-	2,401	77	(894)	2,693	4,277	-	4,277
Total comprehensive income	-	2,401	77	(894)	118,432	120,016	54	120,070
Dividend	-	-	-	-	(255,000)	(255,000)	-	(255,000)
Total equity	2,621,258	(43,920)	452	(309)	(906,482)	1,670,999	1,772	1,672,771

2013	CALLED UP SHARE CAPITAL £000	FOREIGN CURRENCY TRANSLATION RESERVE £000	REVALUATION RESERVE £000	CASH FLOW HEDGES RESERVE £000	ACCUMULATED LOSSES £000	SHAREHOLDERS' FUNDS £000	NON-CONTROLLING INTEREST £000	TOTAL EQUITY £000
At 1 January 2013	2,308,573	(2,836)	757	-	(768,960)	1,537,534	8,876	1,546,410
Profit after income tax	-	-	-	-	103,345	103,345	133	103,478
Other comprehensive income	-	(43,485)	(382)	585	(4,100)	(47,382)	-	(47,382)
Total comprehensive income	-	(43,485)	(382)	585	99,245	55,963	133	56,096
Ordinary share capital issued	312,685	-	-	-	-	312,685	-	312,685
Disposal of non-controlling interest	-	-	-	-	-	-	(7,291)	(7,291)
Dividend	-	-	-	-	(100,199)	(100,199)	-	(100,199)
Total equity	2,621,258	(46,321)	375	585	(769,914)	1,805,983	1,718	1,807,701

The notes set out on pages 48 to 93 form an integral part of these financial statements.

Consolidated balance sheet

AS AT 31 DECEMBER 2014

	NOTE	2014 £000	2013 £000
Assets			
Cash and cash equivalents	8	**198,384**	230,308
Investments	9	**6,774,717**	6,650,940
Derivative financial instruments	10	**56,204**	60,562
Trade and other receivables	11	**2,686,928**	3,056,582
Reinsurance and other recoveries on outstanding claims	18	**2,334,189**	2,345,223
Deferred insurance costs	12	**591,531**	706,719
Defined benefit plan surpluses	20	**28,330**	23,370
Property, plant and equipment	13	**43,385**	50,142
Deferred tax assets	14	**24,144**	69,392
Intangible assets	15	**198,694**	205,762
Held for sale assets	35	**66,521**	-
		13,003,027	13,399,000
Liabilities			
Derivative financial instruments	10	**86,755**	38,057
Trade and other payables	16	**3,265,472**	3,209,260
Current tax liabilities		**24,141**	23,636
Unearned premium	17	**1,391,814**	1,595,437
Outstanding claims	18	**6,455,712**	6,581,006
Provisions	19	**7,867**	2,030
Defined benefit plan deficits	20	**10,233**	10,490
Deferred tax liabilities	14	**34,568**	131,383
Held for sale liabilities	35	**53,694**	-
		11,330,256	11,591,299
Net assets		**1,672,771**	1,807,701
Equity			
Called up share capital	21	**2,621,258**	2,621,258
Revaluation reserve		**452**	375
Other reserves		**(44,229)**	(45,736)
Accumulated losses		**(906,482)**	(769,914)
Shareholder's funds		**1,670,999**	1,805,983
Non-controlling interests		**1,772**	1,718
Total equity		**1,672,771**	1,807,701

The notes set out on pages 48 to 93 form an integral part of these financial statements.

Parent Company balance sheet

AS AT 31 DECEMBER 2014

	NOTE	2014 £000	2013 £000
Assets			
Cash and cash equivalents		**1,216**	4,459
Investments	9	**59,987**	98,700
Derivative financial instruments	10	**39,085**	7,027
Trade and other receivables	11	**345,874**	42,663
Current tax assets		**25,164**	43,319
Deferred tax assets	14	**21,394**	16,469
Shares in controlled entities	33	**4,448,836**	4,483,254
		4,941,556	4,695,891
Liabilities			
Derivative financial instruments	10	**359**	28,286
Trade and other payables	16	**2,235,380**	1,721,883
		2,235,739	1,750,169
Net assets		**2,705,817**	2,945,722
Equity			
Called up share capital	21	**2,621,258**	2,621,258
Retained profits	21	**84,559**	324,464
Total equity		**2,705,817**	2,945,722

These financial statements on pages 43 to 93 were approved by the Board of directors on 27 April 2015 and signed on its behalf by:

D.J. Winkett

D J Winkett
Director

The notes set out on pages 48 to 93 form an integral part of these financial statements.

Consolidated statement of cash flows

FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTE	2014 £000	2013 £000
Reconciliation of operating profit to net cash flow from operating activities			
Profit before tax		**115,714**	71,907
Adjustments for:			
(Decrease)/increase in net technical provisions	6, 18	**(116,107)**	292,537
(Decrease)/increase in unearned premium reserve	17	**(204,357)**	63,721
Decrease/(increase) in deferred acquisition costs	12	**115,420**	(25,025)
Decrease in debtors	11	**369,738**	303,181
Increase/(decrease) in creditors	16, 19	**62,484**	(145,062)
Depreciation and impairment	13	**22,396**	24,487
Amortisation and impairment	15	**7,068**	9,578
Loss on disposal of property, plant and equipment	13	**322**	14,527
Cash flows from operations		**372,678**	609,851
Cash paid to the defined benefit pension scheme	20	**(1,224)**	(2,381)
Current tax paid	7, 14	**(51,894)**	(36,195)
Net cash flows generated from operating activities[1]		**319,560**	571,275
Net realised and unrealised investment (losses)/gains	5(i)	**(5,171)**	27,932
Net purchases of investments	9, 10	**(62,270)**	(372,803)
Purchases of property, plant and equipment	13	**(15,884)**	(17,107)
Loss on sale of interest in subsidiary	5(ii)	**-**	1,517
Disposal of subsidiary, net of cash disposed		**-**	2,990
Net assets of subsidiaries held for sale, net of cash	35	**(12,827)**	-
Net cash flows used in investing activities		**(96,152)**	(357,471)
Proceeds from the issuance of ordinary shares	21	**-**	312,685
Repayment of borrowings		**-**	(555,674)
Dividends paid to the owners of the parent	22	**(255,000)**	(100,199)
Net cash flows used in financing activities		**(255,000)**	(343,188)
Cash and cash equivalents at 1 January	8	**230,308**	362,429
Net increase/(decrease) in cash and cash equivalents	8	**(19,453)**	(129,384)
Cash and cash equivalents relating to subsidiaries held for sale	35	**(12,139)**	-
Effect of exchange rate fluctuations on cash and cash equivalents		**(332)**	(2,737)
Cash and cash equivalents at 31 December	8	**198,384**	230,308

1 Included within net cash flows from operating activities is outward flow of £1,879,000 (2013 £2,708,000 inward) relating to discontinued operations and assets held for sale. Further disclosures of assets held for sale are set out in note 35.

The notes set out on pages 48 to 93 form an integral part of these financial statements.

Notes to the financial statements

FOR THE YEAR ENDED 31 DECEMBER 2014

1 Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated. The consolidated financial statements incorporate the assets, liabilities, and results of the Company and its subsidiary undertakings (together the Group), and are drawn up to 31 December each year.

(i) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, applicable at 31 December 2014.

These financial statements have been prepared in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

a) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by certain exceptions noted in the financial report, with the principal exceptions being the measurement of financial assets at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value. The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions or estimates are significant are disclosed in note 3.

(ii) Principles of consolidation

a) Controlled entities

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at 31 December 2014 and the results of all controlled entities for the financial year then ended. Control is defined as the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of all transactions between controlled entities are eliminated in full. Non-controlling interests in the results and equity of controlled entities are shown separately in the consolidated statement of comprehensive income and balance sheet.

Where control of an entity commences during a financial year, its results are included in the consolidated statement of comprehensive income from the date on which control commences. Where control of an entity ceases during a financial year, its results are included for that part of the year during which the control existed.

b) Business combinations

Business combinations are accounted for using the acquisition method when control of an entity or business is obtained. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the controlled entity acquired, the difference is recognised directly in profit or loss. Costs of acquisition are expensed as incurred.

Where a cash settlement on acquisition is deferred, the future payable is discounted to present value. Where a cash settlement on acquisition is contingent on the outcome of uncertain future events, the fair value of the obligation is classified as a liability and is subsequently remeasured through profit or loss.

Non-controlling interests in an acquiree are recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis.

(iii) Premium revenue

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.

(iv) Unearned premium

Unearned premium is calculated based on the term of the risk and in accordance with the expected pattern of the incidence of risk underwritten.

At each balance date, the adequacy of the unearned premium liability is assessed on a net of reinsurance basis against the present value of the expected future cash flows relating to potential future claims in respect of the relevant insurance contracts, plus an additional risk margin to reflect the inherent uncertainty of the central estimate. The assessment is carried out at the operating segment level, being a portfolio of contracts subject to broadly similar risks and which are managed together. If the present value of expected future cash flows relating to future claims plus the additional risk margin exceeds the unearned premium liability less related intangible assets and related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. The resulting deficiency is recognised immediately through profit or loss.

(v) Outward reinsurance

Premium ceded to reinsurers is recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk. Accordingly, a portion of outward reinsurance premium is treated as a prepayment at the balance date.

1 Accounting policies continued

(vi) Claims

The provision for outstanding claims is measured as the central estimate of the present value of expected future claims payments plus a risk margin. The expected future payments include those in relation to claims reported but not yet paid; claims incurred but not reported (IBNR); claims incurred but not enough reported (IBNER); and estimated claims handling costs. Claims expense represents claims payments adjusted for the movement in the outstanding claims liability.

The expected future payments are discounted to present value using a risk-free rate.

A risk margin is applied to the central estimate, net of reinsurance and other recoveries, to reflect the inherent uncertainty in the central estimate.

(vii) Reinsurance and other recoveries

Reinsurance and other recoveries on paid claims, reported claims not yet paid, IBNR and IBNER are recognised as revenue.

Amounts recoverable are assessed in a manner similar to the assessment of outstanding claims. Recoveries are measured as the present value of the expected future receipts, calculated on the same basis as the provision for outstanding claims. A deduction is made for the expected value of salvage and other recoveries which are disclosed within other debtors.

a) Reinsurance to close (RITC)

Following the end of the third year, the underwriting account of each Lloyd's syndicate is normally closed by reinsurance into the following year of account. The amount of the RITC premium is determined by the managing agent, generally by estimating the net cost of claims notified but not settled together with the estimated net cost of claims incurred but not reported at that date and claims handling costs.

To the extent that the Group has increased or decreased its participation in a syndicate from one year of account to the next, the RITC paid is treated as a portfolio transfer from the closing year to the receiving year. The share of the RITC receivable is recognised as income in the period that the RITC contract is concluded, together with related claims incurred under the contract.

The payment of an RITC premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle the outstanding claims. The directors consider that the likelihood of such a failure of the RITC is remote, and consequently the RITC has been deemed to settle liabilities outstanding at the closure of an underwriting account.

(viii) 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.

(ix) 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 which are reported on a combined basis as fair value gains or losses on financial assets.

(x) Taxation

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting year in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting year and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

1 **Accounting policies** continued

(x) Taxation continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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.

(xi) Insurance profit

Insurance profit is derived by adding investment income on assets backing policyholders' funds to the underwriting result.

(xii) Cash and cash equivalents

Cash and cash equivalents includes cash at bank and on hand and deposits at call which are readily convertible to cash on hand and which are used for operational cash requirements.

(xiii) Investments

Investments comprise interest-bearing assets, equities and derivative financial instruments. Investments are designated as fair value through profit or loss on initial recognition. They are initially recognised at fair value, being the cost of acquisition excluding transaction costs, and are subsequently remeasured to fair value at each reporting date. The policy of management is to designate a group of financial assets or financial liabilities at fair value through profit or loss when that group is both managed and its performance evaluated on a fair value basis for both internal and external reporting in accordance with the Group's documented investment strategy.

For securities traded in an active market, the fair value is determined by reference to quoted market prices. Where quoted market prices in active markets are not available, fair value is determined using valuation techniques incorporating inputs that are observable for the asset. In the absence of quoted market prices in active markets and observable market inputs, valuation techniques or models which are based on unobservable inputs may be used.

All purchases and sales of investments that require delivery of the asset within the time frame established by regulation or market convention ("regular way" transactions) are recognised at trade date, being the date on which the Group commits to buy or sell the asset.

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

(xiv) Derivative financial instruments

Derivatives are initially recognised at fair value and are subsequently remeasured to fair value at reporting date. Derivatives which are not part of a hedging relationship are valued at fair value through profit or loss. Derivatives which are part of a hedging relationship are accounted for as set out in note 1(xv).

For derivatives traded in an active market, the fair value of derivatives is determined by reference quoted market prices. For derivatives that are not traded or which are traded in a market that is not sufficiently active, fair value is determined using generally accepted valuation techniques.

(xv) Hedging transactions

Borrowings and derivatives held for risk management purposes which meet the criteria specified in IAS 39: Financial Instruments: Recognition and Measurement are accounted for by the Group using fair value hedge accounting, cash flow hedge accounting or net investment in foreign operating hedge accounting as appropriate to the risks being hedged.

In accordance with the criteria for hedge accounting, when a financial instrument is designated as a hedge, the relevant entity formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The relevant entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge accounting is discontinued when:

- the hedge no longer meets the criteria for hedge accounting;
- the hedging instrument expires, or is sold, terminated or exercised;
- the hedged item matures, is sold or repaid; or
- the entity revokes the designation.

a) Fair value hedge accounting

Changes in the fair value of derivatives that qualify and are designated as fair value hedges are recognised through profit or loss, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the fair value hedging adjustment cumulatively made to the carrying value of the hedged item is, for items carried at amortised cost, amortised over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately through profit or loss.

1 Accounting policies continued

(xv) Hedging transactions continued

b) Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for in a manner similar to cash flow hedges. The gain or loss on the effective portion of the hedging instrument is recognised directly in equity and the gain or loss on the ineffective portion is recognised immediately through profit or loss. The cumulative gain or loss previously recognised in equity is recognised through profit or loss on the disposal or partial disposal of the foreign operation.

c) Cash flow hedge accounting

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially directly in shareholder's equity and transferred to profit or loss in the period when the hedged item will affect profit or loss. The gain or loss on any ineffective portion of the hedging instrument is recognised through profit or loss immediately. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item affects profit or loss. When a transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is immediately recognised through profit or loss.

(xvi) Receivables

Receivables are recognised at fair value and are subsequently measured at amortised cost less any impairment amount. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original term of the receivable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Any increase or decrease in the provision for impairment is recognised in profit or loss within underwriting expenses. When a receivable is uncollectable, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credited against underwriting expenses in profit or loss.

(xvii) Borrowings

Borrowings are initially measured at fair value net of transaction costs directly attributable to the transaction and are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised through profit or loss over the period of the financial liability using the effective interest method.

Hybrid securities are those which have both liability and equity components. On issue of hybrid securities, the fair value of the liability component, being the obligation to make future payments of principal and interest to investors, is calculated using a market interest rate for an equivalent non-convertible note. The residual amount, representing the fair value of the conversion option, is included in equity with no recognition of any change in the value of the option in subsequent periods. The liability is included in borrowings and carried on an amortised cost basis with interest on the securities recognised as financing costs using the effective interest method until the liability is extinguished on conversion or maturity of the securities.

(xviii) Property plant and equipment

Owner occupied properties are measured at fair value by reference to external market valuations. When a revaluation increases the carrying value of a property, the increase is credited to the revaluation reserve in equity and recognised in other comprehensive income. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised through profit or loss.

When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised through profit or loss. To the extent that the decrease reverses an increase previously recognised in other comprehensive income, the decrease is first recognised in other comprehensive income.

All other plant and equipment is stated at historical cost less accumulated depreciation and impairment.

Leasehold improvements, office equipment (including IT hardware and software), fixtures and fittings and motor vehicles are depreciated using the straight line method over the estimated useful life to the Group of each class of asset. Estimated useful lives are between three and five years for all classes. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Refer to note 1(xx).

(xix) Intangible assets

a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets acquired. For the purpose of impairment testing, goodwill is allocated to cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the business combination. For this purpose, the cash generating unit, or group of units, is determined principally by reference to how goodwill is monitored by management. The recoverability of the goodwill is tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

b) Other intangible assets

Other intangible assets are measured at cost. Those with a finite useful life are amortised over their estimated useful life in accordance with the pattern of expected consumption of economic benefits. Estimated useful lives are between three and 20 years. Intangible assets with an indefinite useful life are not subject to amortisation but are tested for impairment annually or more often if there is an indication of impairment. Intangible assets with a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

1 **Accounting policies** continued

(xx) Impairment of assets

Assets that have an indefinite useful life are tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped in cash generating units which are the lowest levels for which there are separately identifiable cash flows.

Impairment testing of goodwill is explained in note 1(xix).

(xxi) Provisions

Provisions for liabilities are made when the Group has a legal or constructive obligation to transfer economic benefits that are of uncertain timing or amount. Provisions are determined based on management's best estimate of the expenditure required to settle the obligation. Expected future payments are discounted to present value. The provision for contingent consideration in relation to business combinations is explained in note 1(ii)(b).

(xxii) Foreign currency

a) Functional currency

The functional currency of the Company is UK pound sterling (£). The Company and Group present their financial statements in thousands of UK pound sterling.

b) Translation of foreign currency transactions and balances

Items included in the financial statements of controlled entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). Foreign currency transactions are translated into functional currencies at the rates of exchange at the date of the transactions. At the balance date, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date. Resulting exchange gains and losses are included in profit or loss.

c) Translation of foreign operations

The results and balance sheets of all foreign operations that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing balance date rates of exchange; and
- income and expenses are translated at cumulative average rates of exchange.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of financial liabilities and other instruments designated as hedges of foreign operations, are taken to shareholder's equity and recognised in other comprehensive income. When a foreign operation is sold in whole or part, these exchange differences are recognised in profit or loss as part of the gain or loss on sale.

d) Hedging transactions

Derivatives and borrowings may be used to hedge the foreign exchange risk relating to certain transactions. Refer to note 1(xv).

e) Exchange rates

The principal exchange rates affecting the Group were:

	2014		2013	
	COMPREHENSIVE INCOME	BALANCE SHEET	COMPREHENSIVE INCOME	BALANCE SHEET
£/US$	**1.65**	**1.56**	1.57	1.66
£/€	**1.24**	**1.29**	1.18	1.20
£/A$	**1.83**	**1.91**	1.64	1.85

(xxiii) Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

(xxiv) Dividends

Provision is made for dividends which are declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at the balance date.

1 Accounting policies continued

(xxv) Employee benefits

a) Pension schemes

The Group participates in a number of pension plans and contributes to these plans in accordance with plan rules and actuarial recommendations, which are designed to ensure that each plan's funding provides sufficient assets to meet its liabilities.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays a fixed contribution into a fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior years. Contributions to defined contribution plans are expensed as incurred.

Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The liability or asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate or government bonds that are denominated in the currency in which the benefits will be paid, and that have a term to maturity approximating the term of the related pension liability. Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, and shown in other comprehensive income. Past service costs are recognised immediately in profit or loss.

b) Share based payments

Share based remuneration is provided in various forms to eligible employees and executives. All of the arrangements are equity settled, share based payments. The fair value of the employee services received in exchange for the grant of those instruments is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the instruments granted, excluding the impact of any non-market vesting conditions. The fair value at grant date of the options and conditional rights is calculated using a binomial model. The fair value of each instrument is recognised evenly over the service period ending at the vesting date. Non-market vesting conditions are included in assumptions about the number of instruments that are expected to become exercisable.

At each balance date, the Group revises its estimates of the number of options that are expected to become exercisable due to the achievement of vesting conditions. The Group recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income.

c) Profit sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders.

d) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates:

- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(xxvi) 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.

(xi) Discontinued operations and held for sale assets

A disposal group is classified as held for sale if it is available for immediate sale and its sale is highly probable, and where the value will be recovered principally through sale rather than continuing use. For this purpose, overseas branches as well as subsidiaries are classified where relevant. The net assets are measured at the lower of their carrying value and fair value less costs to sell. An operation is classified as discontinued on the date at which the operation meets the above criteria. Discontinued operations are presented separately in the income statement.

(xxvii) Parent entity financial information

Shares in controlled entities are recorded at cost less a provision for impairment in the parent entity balance sheet.

The Company has taken advantage of the exemption provided under s408 of the Companies Act 2006 not to publish its individual profit or loss statement and related notes.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

1 Accounting policies continued

(xxviii) Presentation of prior year comparatives

Prior year restatements have been made in respect of the following:

- the consolidated statement of comprehensive income and corresponding notes and note 24(vi) share based payment expense to reflect discontinued businesses as detailed in note 35;
- note 4(iv)(b) interest rate risk sensitivity analysis has been restated to align the calculation methodology with current year in order to achieve comparability;
- note 28 operating lease commitments as, following review of the 2013 commitment, an additional £7,186,000 has been included in the comparative; and
- note 30 related parties relating to amounts transacted between the Group and related parties where the comparative has been amended to show gross transactions rather than net.

There has been no impact to net profit after income tax or the value of net assets from these changes in presentation.

2 New accounting standards and amendments

The new International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) and amendments detailed below are not mandatory until the operative dates stated. Early adoption is permitted where the standards have been endorsed by the EU.

TITLE		OPERATIVE DATE
IFRS 9	Financial instruments	**1 January 2018**
IFRS 14	Regulatory deferral accounts	**1 January 2016**
IFRS 15	Revenue from contracts with customers	**1 January 2017**

The Group and Company will apply the standards detailed above for the reporting periods beginning on the operative dates set out above. An initial assessment of the financial impact of the standards and amendments has been undertaken and they are not expected to have a material impact on the Group or Company's financial statements or accounting policies.

3 Critical accounting estimates and judgments

The Group is an international general insurance and reinsurance group underwriting most major commercial and personal lines classes of business. The class of business mix is shown in note 4(ii)(a) and an analysis of the Group's gross written and net earned premium from insurance and reinsurance business is shown in note 5. The head office function is located in the UK and exists to support the activities of divisional operations, which are described in the Strategic report.

In view of the geographic and product diversity, the Group has developed a strong, centralised risk management and policy framework designed to ensure consistency of approach across a number of operational activities, subject to the specific requirements of local markets, legislation and regulation. Such operational activities include underwriting, claims management, actuarial assessment of the claims provision and investment management. In addition, assessment of the net outstanding claims provision set at a divisional level is subject to detailed head office review. The probability of adequacy derived from the Group's insurance liabilities is measured by the Group's Chief Risk Officer.

Given the centralised approach to many of its activities and the product and geographic diversification, sensitivity analyses in respect of critical accounting estimates and judgments are presented at the consolidated Group level in order to provide information and analysis which is meaningful, relevant, reliable and comparable year on year. Sensitivity disclosure at business segment or product level would not provide a meaningful overview given the complex interrelationships between the variables underpinning the Group's operations.

The Group 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. The key areas in which critical estimates and judgments are applied are described below.

(i) Outstanding claims provision

The Group's net outstanding claims provision comprises:

- the gross central estimate of expected future claims payments;
- amounts recoverable from reinsurers based on the gross central estimate;
- a reduction to reflect the discount to present value using risk-free rates of return to reflect the time value of money; and
- a risk margin that reflects the inherent uncertainty in the net discounted central estimate.

3 Critical accounting estimates and judgments continued

(i) Outstanding claims provision continued

A net discounted central estimate is intended to represent the mean of the distribution of the expected future cash flows. As the Group requires a higher probability that estimates will be adequate over time, a risk margin is added to the net discounted central estimate to determine the outstanding claims provision.

a) Central 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 Group, 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 central estimate are described below.

The Group's process for establishing the central estimate involves extensive consultation with internal and external actuaries, claims managers, underwriters and other senior management. This process includes quarterly in-house claims review meetings attended by senior divisional and Group management and detailed review by external actuaries at least annually. The risk management procedures related to the actuarial function are explained further in note 4. The determination of the amounts that the Group will ultimately pay for claims arising under insurance and 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 insurance 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 central estimate and the probability of adequacy of the central estimate on the Group's profit or loss are summarised in note 3(i)(e).

Central 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 central 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.

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

The net central estimate is discounted at risk-free rates of return to reflect the time value of money. Details of the key assumptions applied in the discounting process are summarised in note 3(i)(d).

b) Assets arising from contracts with reinsurers

Assets arising from reinsurance recoveries under contracts with the Group'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 4(iii) in conjunction with other assets.

c) Risk margin

Risk margins are determined by management and are held to mitigate the potential for uncertainty in the central estimate. The determination of the appropriate level of risk margin takes into account similar factors to those used to determine the central estimate, such as:

- change in the mix of business, in particular the mix of short tail and long tail business and the overall weighted average term to settlement;
- prior accident year claims development; and
- the level of uncertainty in the net discounted central estimate due to actuarial estimation, data quality issues, variability of key discount and inflation assumptions and economic and legislative uncertainty.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

3 Critical accounting estimates and judgments continued

(i) Outstanding claims provision continued

c) Risk margin continued

The variability by class of business is measured using techniques similar to those used in determining the central estimate. These techniques determine a range of possible outcomes of ultimate payments and assign a likelihood to outcomes at different levels. These techniques use standard statistical distributions, and the measure of variability is referred to as the coefficient of variation. The appropriate risk margin for two or more classes of business or for two or more geographic locations combined is likely to be less than the sum of the risk margins for the individual classes. This reflects the benefit of diversification in general insurance. The statistical measure used to determine diversification is called the correlation. The higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class. For example, high correlation exists between classes of business affected by court cases involving bodily injury claims such as motor third party liability (CTP), workers' compensation and public liability.

The risk margin for the Group is determined by analysing the variability of each class of business and the correlation between classes of business and divisions. Correlations are determined for aggregations of classes of business, where appropriate, at the divisional level. Whilst there are estimation techniques for determining correlations, they are difficult to apply. The correlations adopted by the Group are generally derived from industry analysis, the Group's historical experience and the judgment of experienced and qualified actuaries.

The probability of adequacy is a statistical measure of the relative adequacy of the outstanding claims provision and is derived from a comparison of the risk margin with the net discounted central estimate. Using a range of outcomes, it allows a determination of the probability of adequacy represented by a risk margin. For example, a 90% probability of adequacy indicates that the outstanding claims provision is expected to be adequate nine times in 10. The probability of adequacy is not of itself an accounting policy or estimate as defined by IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors. The appropriate level of risk margin is not determined by reference to a fixed probability of adequacy.

d) Financial assumptions used to determine the outstanding claims provision

Discount rates

The Group's accounting policy requires that the outstanding claims provision shall be discounted for the time value of money using risk-free rates that are based on current observable, objective rates that relate to the nature, structure and terms of the future obligations. The policy also states that government bond rates may be an appropriate starting point in determining a risk-free rate. The Group generally uses currency specific risk-free rates to discount the outstanding claims provision. The weighted average risk-free rates for each currency and a weighted average discount rate for the consolidated Group are summarised below:

GROUP	2014 %	2013 %
UK pound sterling	**0.80**	0.95
European euro	**0.20**	0.63
US dollar	**0.74**	0.26
Australian dollar	**2.38**	2.83
Other	**1.15**	0.95

Weighted average term to settlement

The relevant discount rate is applied to the anticipated cash flow profile of the central estimate including related reinsurance recoveries, determined by reference to a combination of historical analysis and current expectations of when claims and recoveries will be settled. Details of the weighted average term to settlement of the Group's outstanding claims provision, analysed by currency, is summarised below.

GROUP	2014 YEARS	2013 YEARS
UK pound sterling	**3.33**	3.42
European euro	**5.10**	5.18
US dollar	**2.61**	2.72
Australian dollar	**4.01**	3.83
Other	**2.84**	3.51

e) Impact of changes in key variables on the outstanding claims provision

The impact of changes in key variables used in the calculation of the outstanding claims provision is summarised in the table below. Each change has been calculated in isolation from the other changes and each change shows the after tax impact on profit assuming that there is no change to any of the other variables. In practice, this is considered unlikely to occur as, for example, an increase in interest rates is normally associated with an increase in the rate of inflation.

The sensitivities below assume that all changes directly impact profit after tax. In practice, however, if the central estimate was to increase by 5%, at least part of the increase may result in a change in the level of risk margins rather than in a change to profit after tax, depending on the nature of the change in central estimate.

The impact of a change in interest rates on profit after tax due to market value movements on fixed interest securities is shown in note 4(iv)(b).

3 Critical accounting estimates and judgments continued

(i) Outstanding claims provision continued

e) Impact of changes in key variables on the outstanding claims provision continued

GROUP	SENSITIVITY %	PROFIT/(LOSS)[1] 2014 £M	2013 £M
Central estimate	+5	**(152)**	(155)
	-5	**152**	155
Risk margin	+5	**(15)**	(18)
	-5	**15**	18
Discount rate	+0.5	**46**	47
	-0.5	**(48)**	(49)
Weighted average term to settlement	+10	**13**	34
	-10	**(12)**	(34)

1 Net of tax at the Group's prima facie rate of 21.5% (2013 23%)

f) Liability adequacy test

A liability is required to be recognised when the premium relating to unearned risks is deemed insufficient to cover anticipated claims and costs. The ultimate combined ratio for unearned premium is assessed at a "managed together" level, which is each underwriting division. This shows that no provision for unexpired risks is required.

(ii) Retirement benefit obligations

The present value of the obligations arising from the Group's defined benefit plans is determined by external actuaries based on discount rate, inflation rate, mortality rate, salary growth and investment return assumptions.

The discount rate applied to the various plans is the interest rate on high quality corporate bonds where there is a sufficiently deep market or the appropriate government bond rate in the absence of such markets.

Mortality assumptions are affected by experience which indicates increasing longevity, particularly for certain age groups of the population. The Group has considered the consensus of professional opinions from a number of external actuaries in respect of the appropriateness of the mortality tables selected for use in the valuation of the defined benefit obligations for each of the Group's plans.

The potential impact of a 1% increase or decrease in the discount rate and inflation assumptions is summarised in note 20(iv). Movements in the assumptions are reflected directly in equity and do not impact net profit after tax.

(iii) Intangible assets

Goodwill and intangible assets with an indefinite useful life are tested annually for impairment or more frequently when changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The impairment review is based on the net present value of estimated future cash flows of the relevant asset, the relevant cash generating unit or relevant group of cash generating units. For details of key assumptions and estimates used, refer to note 15.

The discount rates used to value cash generating units at 31 December 2014 as part of the impairment testing of goodwill are included in note 15(ii). If the discount rates applied in these calculations were increased by 1% over the rates applied at 31 December 2014, the Group would not be required to reflect an impairment charge to assets (2013 nil).

4 Risk management

An overview of the Group's risk management framework, including its objectives and strategy, is provided in the Strategic report on pages 1 to 39.

Risk management is managed at the Group level, and is supported by QBE Group's risk management framework.

It is the Group's policy to adopt a rigorous approach to managing risk throughout the Group. Risk management is a continuous process and an integral part of quality business management. The Group's approach is to integrate risk management into the broader management processes of the organisation. It is the Group's philosophy to ensure that risk management remains embedded in the business and that the risk makers or risk takers are themselves the risk managers. Specifically, the management of risk must occur at each point in the business management cycle.

Risk management is a key part of our governance structure and our strategic and business planning. It underpins the setting of limits and authorities and it is embedded in the monitoring and evaluation of performance. This holistic approach to risk management allows all of the Group's risks to be managed in an integrated manner.

The Group's global risk management framework defines the risks that the Group's is exposed to and sets out the framework to manage those risks and meet strategic objectives whilst taking into account the creation of value for our shareholders. The framework is made up of complementary elements that are embedded throughout the business management cycle and culture. Key aspects include: governance, risk appetite and tolerance, delegated authorities, risk policies, measurement and modelling, risk and control self assessment, risk treatment, optimisation and ongoing improvement through management action plans and risk and performance monitoring.

A fundamental part of the Group's overall risk management strategy is the effective governance and management of the risks that impact the amount, timing and uncertainty of cash flows from insurance contracts. The operating activities of the Group expose it to risks such as market risk, credit risk and liquidity risk. The Group's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. The Group has established internal controls to manage risk in the key areas of exposure relevant to its business.

The Group's risk profile is described under the following broad risk categories:

(i) Strategic risk;
(ii) Insurance risk;
(iii) Credit risk;
(iv) Market risk;
(v) Liquidity risk;
(vi) Operational risk; and
(vii) Group risk.

Each of these is described more fully in sections (i) to (vii) below.

(i) Strategic risk

Please refer to the Strategic report on pages 1 to 39.

(ii) Insurance risk

Insurance risk is the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to the expectations. The Group's exposure to insurance risk arises from underwriting/pricing, insurance concentrations, reserving and reinsurance.

The Group's insurance risk strategy is to maintain an acceptable level of underwriting exposure within preferred business lines, products, geographies or distribution channels, managing insurance concentrations and the adequacy of claims reserves.

The Group mitigates insurance risk using the following:

- maintaining historical pricing and claims analysis;
- setting a tolerance to concentration risk;
- monitoring and performance review; and
- in-house and external actuarial review of claims provisions independent of underwriting teams.

The Group has established the following protocols to manage its insurance risk across the underwriting, claims and actuarial disciplines.

a) Underwriting risks

Underwriting authority is delegated to experienced underwriters for the forthcoming year following a detailed retrospective and prospective analysis of each class of business as part of the Group's annual business planning process. Delegated authorities reflect the level of risk that the Group is prepared to take.

4 Risk management continued

(ii) Insurance risk continued

a) Underwriting risks continued

The authorities include reference to some combination of:

- return on risk adjusted equity;
- gross written premium;
- premium per contract;
- sum insured per contract;
- aggregate exposures per zone;
- probable maximum loss and realistic disaster scenarios (RDSs);
- levels and quality of reinsurance protection;
- geographic exposures; and/or
- classes of business and types of product that may be written.

Limits in respect of each of the above are set at a portfolio, divisional and Group-wide level and are included within business plans for individual classes of business. They are adjusted at a local level to reflect a risk factor in respect of each controlled entity depending on previous underwriting results, the economic environment and other potential drivers of volatility.

Insurance and reinsurance policies are written in accordance with local management practices and regulations within each jurisdiction taking into account the Group's risk appetite and tolerance and underwriting standards. Non-standard and long-term policies may only be written if expressly included in the delegated authorities.

Pricing of risks is controlled by the use of in-house pricing models relevant to specific portfolios and the markets in which the Group operates. Experienced underwriters and actuaries maintain historical pricing and claims analysis for each portfolio and this is combined with a detailed knowledge of current developments in the respective markets and classes of business.

Concentration risk
The Group's exposure to concentrations of insurance risk is mitigated by a portfolio diversified across countries and hundreds of classes of business. Product diversification is achieved through a strategy of developing strong underwriting skills in a wide variety of classes of business. A combination of core and speciality products under the control of employees skilled in underwriting such products allows the Group to lead underwrite in many of the markets in which it operates.

The table below demonstrates the diversity of the Group's operations:

GROUP GROSS PREMIUMS WRITTEN	2014 £000	RESTATED 2013 £000
Direct insurance:		
Accident and health	**17,885**	22,357
Motor (third party liability)	**310,009**	309,025
Marine, aviation and transport	**156,435**	209,250
Fire and other damage to property	**421,932**	592,342
Third party liability	**830,655**	1,070,401
Credit and suretyship	**29,992**	27,284
Other	**70,890**	54,041
	1,837,798	2,284,700
Reinsurance acceptances	**891,444**	1,040,188
Total	**2,729,242**	3,324,888

The Group has potential exposure to catastrophe losses that may impact more than one operating division. Each year, the Group sets its tolerance to concentration risk. RDSs, using industry standard and the Group determined probable maximum losses and various catastrophe models, are calculated for each portfolio as part of the business planning process. These RDSs are aggregated across all portfolios and divisions to determine the Group's maximum event retention (MER) which is the estimated maximum net claim from a one in 250 year natural catastrophe event. The MER must be less than the Group's concentration risk tolerance, otherwise steps such as the purchase of additional reinsurance are taken to limit the exposure.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

4 Risk management continued

(ii) Insurance risk continued

b) Claims management and claims estimation risks

The Group's approach to determining the outstanding claims provision and the related sensitivities are set out in note 3. The Group seeks to ensure the adequacy of its outstanding claims provision by reference to the following controls:

- experienced claims managers work with underwriters on coverage issues and operate within the levels of authority delegated to them in respect of the settlement of claims;
- processes exist to ensure that all claims advices are captured and updated on a timely basis and with a realistic assessment of the ultimate claims cost;
- initial IBNR estimates are set by experienced internal actuaries in conjunction with the local product managers and underwriters for each class of business in each business unit. The valuation of the central estimate is primarily performed by actuaries who are not involved in the pricing function and who therefore provide an independent assessment;
- the determination of the risk margin is performed by senior management and the Board with input from the Group Chief Actuary;
- the aggregate outstanding claims provision for each controlled entity is assessed in a series of quarterly internal claims review meetings which are attended by senior divisional management and the Group Chief Actuary in order to ensure consistency of provisioning practices across all divisions; and
- approximately 99% (2013 99%) of the Group's central estimate is reviewed by external actuaries.

Despite the rigour involved in the establishment and review of the outstanding claims provision, the provision is subject to significant uncertainty for the reasons set out in note 3.

c) Outwards reinsurance

The Group limits its exposure to an individual catastrophe or an accumulation of claims by reinsuring a portion of risks underwritten. In this way, the Group can control exposure to insurance losses, reduce volatility of reported results and protect capital.

Effective governance and management of reinsurance protection is a fundamental part of the Group's risk management practices. The Group has in place systems, internal controls and processes to ensure that its reinsurance arrangements are appropriate to enable the Group to meet its obligations to policyholders, whilst protecting the wealth of its shareholders. This framework is outlined in the Group's reinsurance management strategy.

The senior authority for purchasing reinsurance is the Chief Executive Officer and/or the Chief Executive Officer of global underwriting operations.

The Group determines its exposure to and appetite for catastrophes and individual risks net of reinsurance as part of the business planning process. The resulting strategy is recommended to the chief executive officer and/or the chief executive officer of global underwriting operations, who provide the final approval on the reinsurance purchasing strategy.

The Group purchases significant levels of external reinsurance protection to ensure that the Group's net retention is aligned with its risk tolerance. In addition, the Group places a portion of its reinsurance placements through QBE Group's captive, Equator Re.

(iii) Credit risk

Credit risk is the risk of default by borrowers and transactional counterparties as well as the loss in value of assets due to deterioration in credit quality.

Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with counterparties. 97% (2013 95%) of total fixed interest and cash investments are with counterparties having a Moody's rating of A or better. The Group does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings. The Group only uses derivatives in highly liquid markets.

The reinsurers' share of claims outstanding is also exposed to credit risk. 56% (2013 59%) of the reinsurers' share of claims outstanding is with fellow Group undertakings. 94% (2013 88%) of the remaining balance is with reinsurers with S&P rating of A- or greater.

The following table provides information regarding the carrying value of the Group's financial assets, excluding amounts in respect of insurance contracts. All amounts are neither past due nor impaired at the balance date.

GROUP	2014 £000	2013 £000
Cash and cash equivalents	**198,384**	230,308
Investments	**6,774,717**	6,650,940
Derivative financial instruments	**56,204**	60,562
Amounts owed by group undertakings	**1,297,727**	1,656,508
Other receivables	**123,328**	89,937

4 Risk management continued

(iv) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to movements 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).

a) Currency risk

The Group is exposed to foreign currency risk in respect of its foreign currency exposures. The Group uses forward foreign exchange derivatives to manage these exposures.

The risk management process covering forward foreign exchange derivatives involves close senior management scrutiny, including regular Board and other management reporting. All forward foreign exchange derivatives are subject to delegated authority levels provided to management, and levels of exposure are reviewed on an ongoing basis.

The fair value of those derivatives designated as hedging instruments against its foreign currency exposure from net investments in foreign operations of £2,115,000 (2013 £3,847,000). During the year, a gain of £32,386,000 (2013 £10,370,000 loss) relating to such contracts was recognised in other comprehensive income.

The Group has also designated US$1,000,000,000 of Fixed Rate Reset Subordinated Callable Notes as a hedging instrument against its foreign currency exposure from the net investment in a subsidiary undertaking. The fair value of the subordinated notes at 31 December 2014 is £710,642,000 (2013 £633,810,000). During the year, a loss of £39,122,000 (2013 £12,529,000 gain) relating to the translation of the subordinated notes was recognised in other comprehensive income.

The fair value of those derivatives designated as hedges of future cash flows is an asset of £343,000 (2013 £138,000 liability). During the year, a gain of £894,000 (2013 £585,000 loss) relating to such contracts was recognised in other comprehensive income.

The table below shows the impact on profit after income tax and equity of changes in foreign currency exchange rates against the UK pound sterling on our major currency exposures.

		2014		2013	
GROUP	MOVEMENT IN VARIABLE %	PROFIT/(LOSS) £000	EQUITY £000	PROFIT/(LOSS) £000	EQUITY £000
AUD	+10	**1,613**	**(16,853)**	268	(18,588)
	-10	**(1,613)**	**16,853**	(268)	18,588
CAD	+10	**(43)**	**(43)**	(687)	(687)
	-10	**43**	**43**	687	687
EUR	+10	**(749)**	**(1,015)**	1,467	(646)
	-10	**749**	**1,015**	(1,467)	646
USD	+10	**(3,629)**	**(3,629)**	(10,178)	(10,178)
	-10	**3,629**	**3,629**	10,178	10,178

		2014		2013	
COMPANY	MOVEMENT IN VARIABLE %	PROFIT/(LOSS) £000	EQUITY £000	PROFIT/(LOSS) £000	EQUITY £000
EUR	+10	**-**	**-**	66	66
	-10	**-**	**-**	(66)	(66)
USD	+10	**17**	**17**	(8,668)	(8,668)
	-10	**(17)**	**(17)**	8,668	8,668

The above are shown net of taxation at the standard rate of 21.5% (2013 23%).

The Group and Company monitor their operational net asset positions and hedges material exposures. Foreign currency hedges are affected by physically matching assets and liabilities, supplemented by the use of derivative contracts.

b) Interest rate risk

The Group is exposed to interest rate risk arising on interest bearing assets. Assets with floating interest rates expose the Group to cash flow interest rate risk. Fixed interest rate assets expose the Group to fair value interest rate risk. The Group'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. Fixed income derivatives are also utilised in order to manage this exposure, however these are not perfectly correlated. Fixed income derivatives have been disclosed in note 10(iv).

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

4 Risk management continued

(iv) Market risk continued

b) Interest rate risk continued

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

2014 GROUP	FLOATING INTEREST RATE £000	FIXED INTEREST RATE MATURING IN 1 YEAR OR LESS £000	1 TO 2 YEARS £000	2 TO 3 YEARS £000	OVER 3 YEARS £000	TOTAL £000
Interest bearing securities	**2,188,325**	**3,226,979**	**399,049**	**591,069**	**267,827**	**6,673,249**
Financial liabilities	-	-	-	-	**(1,636,059)**	**(1,636,059)**
Net interest bearing financial assets/(liabilities)	**2,188,325**	**3,226,979**	**399,049**	**591,069**	**(1,368,232)**	**5,037,190**

2013 GROUP	FLOATING INTEREST RATE £000	FIXED INTEREST RATE MATURING IN 1 YEAR OR LESS £000	1 TO 2 YEARS £000	2 TO 3 YEARS £000	OVER 3 YEARS £000	TOTAL £000
Interest bearing securities	2,379,601	3,226,407	693,079	221,718	319,981	6,840,786
Financial liabilities	-	-	-	-	(1,587,690)	(1,587,690)
Net interest bearing financial assets/(liabilities)	2,379,601	3,226,407	693,079	221,718	(1,267,709)	5,253,096

The Group's sensitivity to movements in interest rates in relation to the value of fixed interest securities is shown in the table below. This sensitivity analysis is presented gross of any inter-dependencies between financial assets and liabilities.

GROUP	MOVEMENT IN VARIABLE %	2014 PROFIT/ (LOSS) £000	RESTATED 2013 PROFIT/ (LOSS) £000
Interest rate movement - fixed interest securities	+0.5	**(18,501)**	(16,107)
	-0.5	**15,939**	14,698

The above are shown net of taxation at the standard rate of 21.5% (2013 23%).

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

2014 COMPANY	FLOATING INTEREST RATE £000	FIXED INTEREST RATE MATURING IN 1 YEAR OR LESS £000	1 TO 2 YEARS £000	2 TO 3 YEARS £000	OVER 3 YEARS £000	TOTAL £000
Interest bearing securities	**19,078**	**28,580**	-	-	**13,552**	**61,210**
Net interest bearing financial assets	**19,078**	**28,580**	-	-	**13,552**	**61,210**

2013 COMPANY	FLOATING INTEREST RATE £000	FIXED INTEREST RATE MATURING IN 1 YEAR OR LESS £000	1 TO 2 YEARS £000	2 TO 3 YEARS £000	OVER 3 YEARS £000	TOTAL £000
Interest bearing securities	29,517	33,374	32,323	-	7,945	103,159
Net interest bearing financial assets	29,517	33,374	32,323	-	7,945	103,159

The Company's sensitivity to movements in interest rates in relation to the value of fixed interest securities is shown in the table below. This sensitivity analysis is presented gross of any inter-dependencies between financial assets and liabilities.

COMPANY	MOVEMENT IN VARIABLE %	2014 PROFIT/(LOSS) £000	RESTATED 2013 PROFIT/(LOSS) £000
Interest rate movement - fixed interest securities	+0.5	**(163)**	(185)
	-0.5	**160**	172

The above are shown net of taxation at the standard rate of 21.5% (2013 23%).

4 Risk management continued

(iv) Market risk continued

c) Equity price risk

Equity price risk is the risk that the fair value of a 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 financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

The potential impact of movements in the market value of equities on the statement of comprehensive income and balance sheet is shown in the sensitivity analysis below.

The impact has been shown on the basis that equity funds are fully exposed to market price fluctuations. Equity portfolios are from time to time hedged in order to manage this exposure. Exchange traded futures contracts used to provide the hedges are not perfectly correlated to the composition of the underlying equity fund. As at 31 December 2014, contractual amounts outstanding for exchanged traded equity derivatives were £56,961,000 (2013 nil). Further details have been provided in note 10(iii).

GROUP	MOVEMENT IN VARIABLE %	2014 PROFIT/(LOSS) AND EQUITY £000	2013 PROFIT/(LOSS) AND EQUITY £000
GBP - FTSE 100	+20	**3,617**	1,847
	-20	**(3,617)**	(1,847)
EUR - DJ EURO STOXX	+20	**5,037**	1,552
	-20	**(5,037)**	(1,552)
USD - S&P500	+20	**8,701**	-
	-20	**(8,701)**	-

The above are shown net of taxation at the standard rate of 21.5% (2013 23%).

The Company has no significant exposure to equity price risk.

d) Property price risk

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

GROUP	MOVEMENT IN VARIABLE %	2014 PROFIT/(LOSS) AND EQUITY £000	2013 PROFIT/(LOSS) AND EQUITY £000
United Kingdom	+10	**4,677**	1,978
	-10	**(4,677)**	(1,978)
United States	+10	**11,516**	-
	-10	**(11,516)**	-

The above are shown net of taxation at the standard rate of 21.5% (2013 23%).

The Company has no significant exposure to property price risk.

(v) Liquidity risk

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

At 31 December 2014, the average duration of cash and fixed interest securities was 0.7 years (2013 0.6 years).

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

	2014			2013		
GROUP - NON-DERIVATIVES	WITHIN 1 YEAR £000	BETWEEN 1 AND 5 YEARS £000	OVER 5 YEARS £000	WITHIN 1 YEAR £000	BETWEEN 1 AND 5 YEARS £000	OVER 5 YEARS £000
Trade and other payables	**(1,608,862)**	**(993,486)**	**(663,124)**	(1,601,622)	(967,774)	(639,864)
Derivatives	**(86,755)**	**-**	**-**	(38,057)	-	-

The Company has no significant concentration of liquidity risk.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

4 Risk management continued

(vi) Operational risk

Please refer to the Strategic report on pages 1 to 39.

(vii) Group risk

Please refer to the Strategic report on pages 1 to 39.

5 Income and expenses

(i) Income summary

GROUP	2014 £000	RESTATED 2013 £000
Gross earned premium revenue		
Direct and facultative	**2,440,277**	2,737,977
Inward reinsurance	**430,927**	543,087
	2,871,204	3,281,064
Other revenue		
Reinsurance and other recoveries revenue	**626,971**	540,660
Reinsurance commission revenue	**73,640**	84,941
	700,611	625,601
Other income		
Dividend income	**4,678**	2,109
Interest receivable - from Group undertakings	**64,924**	81,407
Interest receivable - other	**97,878**	111,618
Gains on repurchase of QBE Group debt securities	**21,303**	17,291
Net fair value gains on financial assets	**5,171**	-
Other income	**1,200**	-
	195,154	212,425
Total income	**3,766,969**	4,119,090

(ii) Expenses summary

GROUP	2014 £000	RESTATED 2013 £000
Outward reinsurance premium expense	**1,072,739**	1,019,382
Gross claims incurred	**1,699,241**	1,950,434
Gross commission expense	**430,773**	494,934
Other acquisition costs	**209,151**	219,904
Underwriting and other expenses	**103,549**	126,506
Net fair value loss on financial assets	**-**	27,932
Net fair value losses on sale of controlled entities	**-**	1,517
Investment expenses	**17,280**	27,440
Financing and other costs	**124,608**	175,107
	3,657,341	4,043,156
Amortisation and impairment of intangibles	**7,068**	30,638
Amortisation and impairment of intangibles included in underwriting and other expenses	**-**	(21,060)
	7,068	9,578
Total expenses	**3,664,409**	4,052,734

6 Claims incurred

(i) Claims analysis

GROUP	2014 £000	RESTATED 2013 £000
Gross claims incurred and related expenses		
Direct and facultative	**1,418,667**	1,739,494
Inward reinsurance	**280,574**	210,940
	1,699,241	1,950,434
Reinsurance and other recoveries		
Direct and facultative	**561,188**	534,500
Inward reinsurance	**65,783**	6,160
	626,971	540,660
Net claims incurred	**1,072,270**	1,409,774

(ii) Claims development

Current year claims relate to risks borne in the current reporting year. Prior year claims relate to a reassessment of the risks borne in all previous reporting years and include releases of risk margins as claims are paid in note 6(iii) below.

	2014			RESTATED 2013		
GROUP	CURRENT YEAR £000	PRIOR YEARS £000	TOTAL £000	CURRENT YEAR £000	PRIOR YEARS £000	TOTAL £000
Gross claims incurred and related expenses						
Undiscounted	**1,859,783**	**(322,132)**	**1,537,651**	2,062,431	35,934	2,098,365
Gross claims relating to held for sale assets	**(7,429)**	**(19,463)**	**(26,892)**	-	(13,311)	(13,311)
Discount	**(28,520)**	**217,002**	**188,482**	(5,807)	(128,813)	(134,620)
	1,823,834	**(124,593)**	**1,699,241**	2,056,624	(106,190)	1,950,434
Reinsurance and other recoveries						
Undiscounted	**529,376**	**(157,600)**	**371,776**	622,438	(39,383)	583,055
Reinsurance of Italian and Spanish medical malpractice liabilities	**5,179**	**215,774**	**220,953**	-	-	-
Reinsurance and other recoveries relating to held for sale assets	**(679)**	**(10,336)**	**(11,015)**	-	917	917
Discount	**(9,690)**	**54,947**	**45,257**	(1,868)	(41,444)	(43,312)
	524,186	**102,785**	**626,971**	620,570	(80,827)	539,743
Net claims incurred						
Undiscounted (including reinsurance of Italian and Spanish medical malpractice liabilities)	**1,325,228**	**(380,306)**	**944,922**	1,439,993	75,317	1,515,310
Net claims relating to held for sale assets	**(6,750)**	**(9,127)**	**(15,877)**	-	(14,228)	(14,228)
Discount	**(18,830)**	**162,055**	**143,225**	(3,939)	(87,369)	(91,308)
	1,299,648	**(227,378)**	**1,072,270**	1,436,054	(26,280)	1,409,774

(iii) Reconciliation of net claims incurred to claims development table

The development of the net undiscounted central estimate of outstanding claims for the 10 most recent accident years is shown in note 18(v). This note is a reconciliation of the amounts included in the table above and the current financial year movements in the claims development table.

	2014			RESTATED 2013		
GROUP	CURRENT YEAR £000	PRIOR YEARS £000	TOTAL £000	CURRENT YEAR £000	PRIOR YEARS £000	TOTAL £000
Net undiscounted central estimate movement - central estimate (note 18)	**1,290,483**	**(287,285)**	**1,003,198**	1,306,927	67,346	1,374,273
Central estimate relating to held for sale assets	**(6,750)**	**(9,127)**	**(15,877)**	-	(14,228)	(14,228)
Foreign exchange	**7,514**	**(28,916)**	**(21,402)**	66,199	(39,059)	27,140
Net undiscounted central estimate development	**1,291,247**	**(325,328)**	**965,919**	1,373,126	14,059	1,387,185
Claims settlement costs	**51,877**	**-**	**51,877**	44,997	(3,785)	41,212
Movement in discount	**(18,830)**	**162,055**	**143,225**	(3,939)	(87,369)	(91,308)
Movement in risk margin	**(22,876)**	**(64,105)**	**(86,981)**	21,870	63,944	85,814
Other movements	**(1,770)**	**-**	**(1,770)**	-	(13,129)	(13,129)
Net claims incurred - discounted	**1,299,648**	**(227,378)**	**1,072,270**	1,436,054	(26,280)	1,409,774

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

7 Income tax credit

ANALYSIS OF CREDIT IN YEAR	2014 £000	RESTATED 2013 £000
Current tax:		
UK corporation tax	**68,585**	77,708
Adjustments to tax in respect of prior year	**(14,601)**	(35,739)
Total current tax	**53,984**	41,969
Deferred tax:		
Origination and reversal of timing differences	**(62,892)**	(75,314)
Impact from change in UK tax rate	**(489)**	(5,437)
Adjustments to tax in respect of prior year	**8,316**	6,277
Total deferred tax	**(55,065)**	(74,474)
Tax credit on profit on ordinary activities	**(1,081)**	(32,505)

Factors affecting tax credit for the year

The total tax credit for the year is lower (2013 lower) than the standard rate of corporation tax in the UK, 21.5% (2013 23.25%). The differences are explained below:

	2014 £000	RESTATED 2013 £000
Profit on ordinary activities before tax	**102,560**	66,356
Profit on ordinary activities before tax multiplied by standard rate of UK corporation tax of 21.5% (2013 23.25%)	**22,050**	15,428
Effects of:		
Difference in tax rate	**(6,747)**	(13,364)
Income and expenses not subject to tax	**(17,117)**	(14,743)
Current year movement on derecognised tax assets	**1,725**	-
Adjustment to tax for future reduction in double tax relief	**5,293**	9,280
Adjustment in respect of discontinued operations	**-**	356
Adjustments to tax in respect of prior year	**(6,285)**	(29,462)
Total tax credit for the year	**(1,081)**	(32,505)

Factors affecting current and future tax charges

As a result of a change in the UK main corporation tax rate from 23% to 21% which was substantively enacted on 2 July 2013 and effective from 1 April 2014, the current tax rate for the year is the composite rate of 21.5% (2013 23.25%). A reduction to the UK corporation tax rate was announced in the March 2013 Budget which reduces the rate to 20%, effective 1 April 2015. This change was substantively enacted on 2 July 2013 and is therefore recognised in these financial statements for the relevant deferred tax balances.

There were no additional developments affecting the UK corporation tax rate in the March 2014 Budget.

There were no additional developments affecting the UK corporation tax rate in the March 2015 Budget which gained Royal Assent prior to these financial statements being signed.

8 Cash and cash equivalents

GROUP	2014 £000	2013 £000
Cash at bank and on hand	**144,125**	167,125
Cash management trusts	**13,526**	13,974
Term deposits	**40,733**	49,209
	198,384	230,308
Analysed as follows:		
Fixed interest rate	**40,733**	49,209
Floating interest rate	**157,651**	181,099
	198,384	230,308

Amounts in cash and cash equivalents are the same as those included in the cash flow statement.

Restrictions on use

Cash and cash equivalents includes balances readily convertible to cash. All balances are held to service operational cash requirements. Included in cash and cash equivalents are amounts totalling £78,209,000 (2013 £60,363,000) which are held in Lloyd's syndicate trust funds. In order to conduct underwriting business within some territories, Lloyd's syndicates are required to lodge assets in locally regulated trust funds. Under Lloyd's regulations, these amounts can only be used to pay claims and allowable expenses of the syndicates and cannot be withdrawn from the trust funds until allowed to be distributed as profit once annual solvency requirements are met.

9 Investments

GROUP	2014 £000	2013 £000
Fixed interest rate		
Short-term money	**2,401,342**	1,708,893
Government bonds	**1,000,300**	1,576,156
Corporate bonds	**1,011,390**	1,107,143
	4,413,032	4,392,192
Floating interest rate		
Government bonds	**284,055**	427,327
Corporate bonds	**1,726,368**	1,725,497
Infrastructure debt	**51,408**	45,679
	2,061,831	2,198,503
Growth assets		
Equities - listed	**121,105**	23,944
Equities - unlisted	**16,822**	16,518
Property trusts - unlisted	**161,927**	19,783
	299,854	60,245
	6,774,717	6,650,940

COMPANY	2014 £000	2013 £000
Fixed interest rate		
Short-term money	**28,580**	41,845
Government bonds	**3,283**	19,931
Corporate bonds	**10,269**	11,866
	42,132	73,642
Floating interest rate		
Government bonds	**1,107**	1,086
Corporate bonds	**16,748**	23,972
	17,855	25,058
	59,987	98,700

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

9 Investments continued

(i) Charges over investments and other assets

A controlled entity has given fixed and floating charges over certain of its investments and other assets in order to secure the obligations of the Group's corporate members at Lloyd's of London as described in note 21(ii) and note 26.

(ii) Valuation of investments

Cash and investments are initially recorded at fair value, being the cost of acquisition excluding transaction costs, and are subsequently remeasured to fair value at each reporting date.

For securities traded in an active market, the fair value is determined by reference to published closing bid price quotations.

For securities that are not traded and securities that are traded in a market that is not active, valuation is based on quoted 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.

Where no active market exists directly for instruments or instruments of a similar nature valuation techniques may be applied in which any one or more significant input is not based on observable market data, for example discounted cash flow analysis or option pricing models may be used for a small number of investments.

Infrastructure debt 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. Unlisted property trusts are valued using the current unit price as advised by the responsible entity, trustee or equivalent of the investment management scheme.

(iii) Fair value hierarchy

The following table presents the Group's investments measured at fair value at 31 December in a three level hierarchy.

2014 GROUP	LEVEL 1 £000	LEVEL 2 £000	LEVEL 3 £000	TOTAL £000
Short-term money	**8,585**	**2,392,757**	**-**	**2,401,342**
Government bonds	**587,528**	**696,827**	**-**	**1,284,355**
Corporate bonds	**-**	**2,737,758**	**-**	**2,737,758**
Equities - listed	**121,105**	**-**	**-**	**121,105**
Equities - unlisted	**-**	**-**	**16,822**	**16,822**
Infrastructure debt	**-**	**-**	**51,408**	**51,408**
Property trusts - unlisted	**-**	**161,927**	**-**	**161,927**
	717,218	**5,989,269**	**68,230**	**6,774,717**

2013 GROUP	LEVEL 1 £000	LEVEL 2 £000	LEVEL 3 £000	TOTAL £000
Short-term money	1,099	1,707,794	-	1,708,893
Government bonds	665,252	1,338,231	-	2,003,483
Corporate bonds	-	2,832,640	-	2,832,640
Equities - listed	23,944	-	-	23,944
Equities - unlisted	-	-	16,518	16,518
Infrastructure debt	-	-	45,679	45,679
Property trusts - unlisted	-	19,783	-	19,783
	690,295	5,898,448	62,197	6,650,940

All the Company's investments are classified as level 2. The following table presents the Company's investments measured at fair value at 31 December.

COMPANY	2014 £000	2013 £000
Short-term money	**28,580**	41,845
Government bonds	**4,391**	21,017
Corporate bonds	**27,016**	35,838
	59,987	98,700

Notes:

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

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

Level 3 Valuation techniques are applied in which any one or more significant input is not based on observable market data. The fair value of infrastructure debt 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.

9 Investments continued

(iii) Fair value hierarchy continued

Level three investments comprise of infrastructure debt (£51,408,000) and unlisted equities (£16,822,000). The following table presents the movements of level three investments during the year.

GROUP	2014 £000	2013 £000
At 1 January	**62,197**	15,880
Purchases	**8,067**	46,921
Realised gains in the statement of comprehensive income	**15**	-
Unrealised gains in the statement of comprehensive income	**1,421**	297
Redemptions	**(1,069)**	(942)
Foreign exchange	**(2,401)**	41
At 31 December	**68,230**	62,197

10 Derivative financial instruments

GROUP - FAIR VALUE	2014 £000	2013 £000
Foreign currency derivatives		
Derivative financial instruments - assets	**56,204**	60,562
Derivative financial instruments - liabilities	**(86,755)**	(38,057)

COMPANY - FAIR VALUE	2014 £000	2013 £000
Foreign currency derivatives		
Derivative financial instruments - assets	**39,085**	7,027
Derivative financial instruments - liabilities	**(359)**	(28,286)

(i) Credit risk

Credit risk arises from the potential failure of counterparties to meet their obligations under their respective contracts at maturity. Exposure to this risk arises on derivative financial instruments with unrealised gains such as forward foreign exchange contracts. As at year end, £56,204,000 (2013 £60,562,000) is receivable from such forward foreign exchange contracts.

(ii) Foreign currency derivatives

The Group uses forward foreign exchange derivatives in order to hedge its exposure to foreign currencies. These are valued using the underlying foreign exchange rates at the year end. Derivatives outstanding at the balance date include foreign exchange contracts to buy the equivalent of £1,280,391,000 (2013 £1,774,205,000 buy).

The forward foreign exchange derivatives outstanding at the year end expire between January and July 2015 (2013 January to August 2014).

During the year a loss of £19,306,000 (2013 gain of £26,697,000) relating to such contracts was recognised. This is included in net fair value gains on financial assets of £5,171,000 (2013 loss £27,932,000) in note 5.

(iii) Exchange traded equity derivatives

The Group entered into equity derivative contracts in order to protect the equity portfolios within the Group from the risk of adverse valuation movements.

During the year, a gain of £121,000 (2013 £664,000 gain) relating to these derivatives was included in net fair value gains on financial assets of £5,171,000 (2013 loss £27,932,000) in note 5.

Contractual amounts for exchange traded equity derivatives outstanding at the balance sheet date were £56,961,000 (2013 nil). These expired in March 2015.

(iv) Fixed income derivatives

The Group entered into fixed income derivative futures contracts to provide a partial hedge for the fixed income portfolios within the Group against movements in short-term interest rates.

During the year, a loss of £912,000 (2013 gain £107,000) relating to these derivatives was included in net fair value gains on financial assets of £5,171,000 (2013 loss £27,932,000) in note 5.

Contractual amounts for fixed income derivatives outstanding at the balance sheet date were £6,317,000 (2013 £242,481,000). These expired in March 2015.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

10 Derivative financial instruments continued

(v) Determination of fair value and fair value hierarchy

The Group's and Company's accounting policy in relation to the valuation of derivatives is set out in note 1(xiv). Derivatives are analysed in the table below using a fair value hierarchy which reflects the significance of inputs into the determination of fair value. The hierarchy is explained in more detail in note 9(iii).

All of the Group's and Company's derivatives are included as level 2.

GROUP	2014 £000	2013 £000
Forward foreign exchange contract (liabilities)/assets	**(30,551)**	22,505

COMPANY	2014 £000	2013 £000
Forward foreign exchange contract assets/(liabilities)	**38,727**	(21,259)

11 Trade and other receivables

GROUP	2014 £000	2013 £000
Trade debtors		
Premium receivable[1]	**370,758**	397,997
Reinsurance and other recoveries[1]	**216,125**	182,007
Unclosed premium	**636,671**	730,133
	1,223,554	1,310,137
Amounts owed by group undertakings	**1,297,727**	1,656,508
Accrued interest	**34,386**	34,007
Prepayments	**29,162**	15,670
Other	**102,099**	40,260
Trade and other receivables	**2,686,928**	3,056,582
Receivable within 12 months	**1,381,512**	1,540,236
Receivable in greater than 12 months	**1,305,416**	1,516,346
Trade and other receivables	**2,686,928**	3,056,582

1 Net of provision for impairment

Included in other debtors is £38,736,000 relating to subrogation recoveries (2013 £30,000,000).

COMPANY	2014 £000	2013 £000
Amounts owed by group undertakings	**345,492**	40,659
Accrued interest	**357**	620
Other	**25**	1,384
Trade and other receivables	**345,874**	42,663
Receivable within 12 months	**98,529**	42,663
Receivable in greater than 12 months	**247,345**	-
Trade and other receivables	**345,874**	42,663

Two subsidiary undertakings have made long-term loans to a fellow QBE Group company, QBE Investments (North America) Inc. These are included in amounts owed by group undertakings.

The first loan amounts to US$1,840,027,537 and was made on 5 June 2009. This loan is split into 4 Tranches: A: US$500,000,000; B: US$500,000,000; C: US$500,000,000; D: US$340,027,537. QBE Investments (North America) Inc pays interest on the Tranche Loans at the base rate of USD 6 Month LIBOR plus 5.29% for Tranche A, 5.25% for Tranche B, 5.43% for Tranche C, and 5.58% for Tranche D. The actual repayment of interest takes place every 31 May and 30 November, with the first payment made on 30 November 2009.

The first tranche of $500,000,000 was repaid in May 2012 and was replaced with a $300,000,000 loan, with half repaid on 31 May 2013 and half repaid on 31 May 2014. The second tranche of $500,000,000 was repaid on 10 December 2014. The total US$840,027,537 for the third and fourth tranches are to be repaid by 31 May 2019 with $500,000,000 due on 31 May 2016 and $340,027,537 due on 31 May 2019.

11 Trade and other receivables continued

The second loan amounts to US$286,000,000 and was made on 30 November 2009. QBE Investments (North America) Inc pays interest on this loan which is calculated using USD 6 Month LIBOR plus 4.25%. Interest payment dates and LIBOR reset dates are identical to the first loan with the first payment made on 31 May 2010. The US$286,000,000 is to be repaid on 30 November 2019.

The third loan amounts to US$400,000,000 and was made on 30 June 2010. QBE Investments (North America) Inc pays interest on this loan which is calculated using USD 6 Month LIBOR plus 3.85%. Interest payment dates and LIBOR reset dates are identical to the first loan with the first payment made on 30 November 2010. The US$400,000,000 was repaid on 31 May 2014.

The fourth loan amounts to US$200,000,000 and was made on 16 May 2011. QBE Investments (North America) Inc pays interest on this loan which is calculated using USD 6 Month LIBOR plus 2.25%. Interest payment dates and LIBOR reset dates are identical to the first loan with the first payment made on 30 November 2011. The US$200,000,000 is to be repaid on 15 May 2021.

The carrying value of these loans is deemed to be the fair value at 31 December 2014.

(i) Provision for impairment

	PREMIUM RECEIVABLE		REINSURANCE AND OTHER RECEIVABLES	
GROUP	2014 £000	2013 £000	2014 £000	2013 £000
At 1 January	**13,395**	19,058	**10,674**	20,690
Amounts recognised in comprehensive income	**5,771**	(5,663)	**1,594**	(10,016)
Amounts relating to held for sale assets	**(392)**	-	**(11)**	-
At 31 December	**18,774**	13,395	**12,257**	10,674

(ii) Fair value

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

(iii) Risk

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables. No receivables are pledged by the Group as collateral for liabilities or contingent liabilities. Information on the ageing and credit rating of balances in the table above, where relevant, is included in note 4. Note 4 also provides more information on the risk management policies of the Group.

12 Deferred insurance costs

GROUP	2014 £000	2013 £000
Deferred reinsurance premium	**337,260**	426,642
Deferred net commission	**165,071**	195,025
Deferred acquisition costs	**89,200**	85,052
Deferred insurance costs	**591,531**	706,719
To be expensed within 12 months	**503,777**	624,504
To be expensed in greater than 12 months	**87,754**	82,215
Deferred insurance costs	**591,531**	706,719

	DEFERRED REINSURANCE PREMIUM		DEFERRED NET COMMISSION		DEFERRED ACQUISITION COSTS	
GROUP	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
At 1 January	**426,642**	426,938	**195,025**	181,880	**85,052**	79,914
Costs deferred in financial year	**260,878**	331,020	**127,537**	146,370	**50,974**	64,688
Amortisation of costs deferred in previous financial years	**(348,507)**	(331,755)	**(150,505)**	(133,345)	**(43,333)**	(59,105)
Disposal	**-**	(29)	**-**	(450)	**-**	(681)
Held for sale assets	**(257)**	-	**(4,359)**	-	**(2,215)**	-
Foreign exchange	**(1,496)**	468	**(2,627)**	570	**(1,278)**	236
At 31 December	**337,260**	426,642	**165,071**	195,025	**89,200**	85,052

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13 Property, plant and equipment

2014 GROUP	MOTOR VEHICLES £000	OFFICE EQUIPMENT/ FIXTURES & FITTINGS £000	ASSETS IN THE COURSE OF CONSTRUCTION £000	LEASEHOLD IMPROVEMENTS £000	OWNER OCCUPIED PROPERTIES £000	TOTAL £000
Cost or revaluation						
At 1 January 2014	**912**	**122,318**	**5,651**	**16,203**	**3,137**	**148,221**
Exchange adjustments	**(56)**	**388**	**-**	**-**	**(7)**	**325**
Transfer	**-**	**5,895**	**(5,895)**	**-**	**-**	**-**
Revaluation	**-**	**-**	**-**	**-**	**77**	**77**
Additions	**190**	**758**	**14,197**	**739**	**-**	**15,884**
Disposals	**(305)**	**(1,261)**	**-**	**(612)**	**-**	**(2,178)**
Held for sale assets	**(493)**	**(1,324)**	**-**	**(156)**	**(5)**	**(1,978)**
At 31 December 2014	**248**	**126,774**	**13,953**	**16,174**	**3,202**	**160,351**
Cumulative depreciation						
At 1 January 2014	**(711)**	**(82,542)**	**-**	**(14,826)**	**-**	**(98,079)**
Exchange adjustments	**129**	**(386)**	**-**	**-**	**-**	**(257)**
Charge for year	**(89)**	**(19,432)**	**-**	**(1,100)**	**-**	**(20,621)**
Impairment	**-**	**(1,383)**	**-**	**-**	**-**	**(1,383)**
Disposals	**161**	**1,240**	**-**	**387**	**-**	**1,788**
Held for sale assets	**284**	**1,167**	**-**	**135**	**-**	**1,586**
At 31 December 2014	**(226)**	**(101,336)**	**-**	**(15,404)**	**-**	**(116,966)**
Net book value at 31 December 2014	**22**	**25,438**	**13,953**	**770**	**3,202**	**43,385**

2013 GROUP	MOTOR VEHICLES £000	OFFICE EQUIPMENT/ FIXTURES & FITTINGS £000	ASSETS IN THE COURSE OF CONSTRUCTION £000	LEASEHOLD IMPROVEMENTS £000	OWNER OCCUPIED PROPERTIES £000	TOTAL £000
Cost or revaluation						
At 1 January 2013	1,587	174,307	10,671	19,659	6,760	212,984
Exchange adjustments	(119)	(1,778)	-	-	249	(1,648)
Transfer	-	6,636	(6,636)	-	1,600	1,600
Revaluation	-	-	-	-	(382)	(382)
Additions	14	10,560	5,913	177	-	16,664
Disposals	(570)	(67,407)	(4,297)	(3,633)	(5,090)	(80,997)
At 31 December 2013	912	122,318	5,651	16,203	3,137	148,221
Cumulative depreciation						
At 1 January 2013	(1,024)	(119,274)	-	(16,216)	-	(136,514)
Exchange adjustments	(29)	(127)	-	-	-	(156)
Charge for year	(123)	(22,236)	-	(2,128)	-	(24,487)
Disposals	465	59,095	-	3,518	-	63,078
At 31 December 2013	(711)	(82,542)	-	(14,826)	-	(98,079)
Net book value at 31 December 2013	201	39,776	5,651	1,377	3,137	50,142

During 2013, the Group sold its 65.2% share in QBE Makedonija. Owner occupied properties owned by QBE Makedonija were disposed of as part of this sale.

The remaining owner occupied properties are freehold properties in Hungary and the UK. They are valued annually by the directors effective 31 December based on independent valuations.

All owner occupied properties were valued on the basis of capitalisation of net market rentals allowing for costs of reletting, having regard to comparable on-market sales and discounted future cash flows.

In accordance with the Group's accounting policy, owner occupied properties are measured at fair value.

14 Deferred tax

GROUP	GROUP 2014 £000	GROUP 2013 £000	COMPANY 2014 £000	COMPANY 2013 £000
Deferred tax assets	**24,144**	69,392	**21,394**	16,469
Deferred tax liabilities	**(34,568)**	(131,383)	**-**	-

(i) Deferred tax assets

GROUP	2014 £000	2013 £000
Movements in deferred tax assets are made up as follows:		
Deferred tax asset at start of year	**69,392**	72,587
Deferred tax assets relating to held for sale assets	**(1,829)**	-
Deferred tax assets set off against deferred tax liabilities	**(34,228)**	-
Deferred tax charge in comprehensive income	**(8,173)**	(3,714)
Other movements in deferred tax	**(1,018)**	519
Deferred tax asset at end of year	**24,144**	69,392
The elements of deferred tax are made up as follows:		
Accelerated capital allowances	**9,402**	9,777
Short-term timing differences	**10,650**	55,444
Employee compensation and benefits	**4,092**	4,171
Deferred tax asset in balance sheet	**24,144**	69,392

The Group has not brought into account £29,000,000 (2013 £57,000,000) of tax losses with an indefinite life, which includes the benefit arising from tax losses in overseas countries. This benefit will be brought into account when the directors believe it is probable that it will be realised. The benefit of these tax losses will only be obtained if:

- the Group derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- the Group continues to comply with the conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

COMPANY	2014 £000	2013 £000
Movements in deferred tax assets are made up as follows:		
Deferred tax asset at start of year	**16,469**	16,969
Deferred tax credit/(charge) in comprehensive income	**4,925**	(500)
Deferred tax asset at end of year	**21,394**	16,469
The elements of deferred tax are made up as follows:		
Losses recognised	**21,394**	16,469
Deferred tax asset in balance sheet	**21,394**	16,469

(ii) Deferred tax liabilities

GROUP	2014 £000	2013 £000
Movements in deferred tax liabilities are made up as follows:		
Deferred tax liability at start of year	**(131,383)**	(211,755)
Deferred tax credit in comprehensive income	**63,237**	78,188
Deferred tax asset set off against deferred tax liabilities	**34,228**	-
Other movements in deferred tax	**(650)**	2,184
Deferred tax liability at end of year	**(34,568)**	(131,383)
The elements of deferred tax are made up as follows:		
Lloyd's related timing differences [1]	**(61,666)**	(117,216)
Tax losses set off against deferred tax liabilities	**34,228**	-
Employee related timing differences	**(5,105)**	(4,142)
Claims equalisation reserve	**(2,025)**	(10,025)
Deferred tax liability in balance sheet	**(34,568)**	(131,383)

1 Profits or losses arising from the participation of a Lloyd's corporate member on a syndicate are taxed based on Lloyd's three-year accounting system. The taxable profit or losses from a syndicate year of account is treated as arising in the year following the 36 month closure of the year of account. A deferred tax balance is recognised based on the timing of the taxation of these profits or losses.

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15 Intangible assets

2014 GROUP	GOODWILL £000	CUSTOMER RELATIONSHIPS £000	PURCHASED SYNDICATE PARTICIPATION £000	TOTAL £000
Cost				
At 1 January 2014	**159,204**	**37,500**	**30,180**	**226,884**
At 31 December 2014	**159,204**	**37,500**	**30,180**	**226,884**
Cumulative amortisation				
At 1 January 2014	**-**	**(21,122)**	**-**	**(21,122)**
Amortisation during the year	**-**	**(7,068)**	**-**	**(7,068)**
At 31 December 2014	**-**	**(28,190)**	**-**	**(28,190)**
Net book value at 31 December 2014	**159,204**	**9,310**	**30,180**	**198,694**

2013 GROUP	GOODWILL £000	CUSTOMER RELATIONSHIPS £000	PURCHASED SYNDICATE PARTICIPATION £000	TOTAL £000
Cost				
At 1 January 2013	159,204	37,500	30,180	226,884
At 31 December 2013	159,204	37,500	30,180	226,884
Cumulative amortisation				
At 1 January 2013	-	(11,544)	-	(11,544)
Amortisation during the year	-	(9,578)	-	(9,578)
At 31 December 2013	-	(21,122)	-	(21,122)
Net book value at 31 December 2013	159,204	16,378	30,180	205,762

(i) Identifiable intangibles

Lloyd's syndicate capacity, insurance licences and some brand names are considered to have an indefinite useful life and no amortisation is charged. All remaining intangible assets are amortised over their finite useful lives and the amortisation charge is included in amortisation and impairment of goodwill/intangibles in the income statement. The most significant classes of intangible assets are detailed below:

a) Purchased syndicate participation

Purchased syndicate participation is an asset in respect of the aggregate of the premium limits of each member of that syndicate at a point in time. An existing capital provider has the first right to participate on the next year of account, giving the indefinite right to participate on all future years of account. The Lloyd's syndicate capacity intangible asset relates to the syndicate capacity acquired as part of the acquisition of QBE Underwriting Limited (formerly trading as Limit Underwriting Limited) in 2000 and costs incurred as a result of increasing capacity since that date. The Group has demonstrated a long-term commitment to developing its operations at Lloyd's. Since acquiring QBE Underwriting Limited, the Group has increased its share of ownership for all syndicates. The value of this asset is in the access it gives to future underwriting profits at Lloyd's. For these reasons Lloyd's syndicate capacity is deemed to have an indefinite useful life.

b) Customer relationships

Customer relationships comprise the capitalisation of future profits relating to insurance contracts acquired and the expected renewal of those contracts. It also includes the value of the distribution networks and agency relationships. Customer relationships will be amortised over a useful economic life of five years.

c) Impairment testing of identifiable intangible assets

The Group's accounting policy in respect of impairment testing of identifiable intangible assets is set out in note 1(xix). The recoverable amount of each intangible asset with an indefinite useful life has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

- cash flow forecasts relevant to the initial valuation of the identifiable intangible asset are reviewed, and updated if appropriate, by management. Cash flow forecasts are based on a combination of actual performance to date combined with management's expectations of future performance based on prevailing and anticipated market factors; and

- discount rates reflect a beta and a market risk premium sourced from observable market information and a specific risk premium appropriate to reflect the nature of the risk associated with the intangible asset or the cash generating unit to which the asset is allocated.

15 Intangible assets continued

(ii) Goodwill

Goodwill is allocated to cash generating units, or groups of units, expected to benefit from synergies arising from the acquisition giving rise to the goodwill. Cash generating units reflect the level at which goodwill is monitored by management. As the Group continues to acquire operations and reorganise the way that operations are managed, reporting structures may change giving rise to a reassessment of cash generating units and/or the allocation of goodwill to those cash generating units.

Goodwill is analysed as a single cash generating unit as follows:

	2014 £000	2013 £000
The Company and its subsidiary undertakings	**159,204**	159,204

The Group's accounting policy in respect of impairment testing of goodwill is set out in note 1(xix). The recoverable amount of each cash generating unit has been determined by reference to a value in use calculation based on the following key assumptions and estimates:

- cash flow projections, including investment returns, based on the latest three year business plan which has been approved by the Board. These forecasts are based on a combination of historical performance and management's expectations of future performance based on prevailing and anticipated market factors and the benefit of committed cost saving measures;
- terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year three. Growth rates reflect the long-term average of the countries relevant to the cash generating unit or group of cash generating units and are sourced from observable market information. The terminal growth rate of 2% has been used in management's impairment testing; and
- discount rates reflect a beta and market risk premium sourced from observable market information and a specific risk premium appropriate to reflect the nature of the business of each cash generating unit or group of cash generating units.

The pre-tax discount rates used were as follows:

	2014 %	2013 %
The Company and its subsidiary undertakings	**8.3**	8.7

16 Trade and other payables

GROUP	2014 £000	2013 £000
Deposits received from reinsurers	**17,570**	20,827
Creditors arising out of direct insurance operations	**121,885**	123,228
Creditors arising out of reinsurance operations	**1,309,715**	1,317,379
Amounts due to fellow QBE Insurance Group Limited subsidiaries	**454**	13,479
Amounts due to fellow QBE Insurance Group Limited subsidiaries (i)	**308,870**	307,760
Amounts due to fellow QBE Insurance Group Limited subsidiaries (ii)	**354,254**	332,104
Amounts due to fellow QBE Insurance Group Limited subsidiaries (iii)	**645,429**	603,993
Amounts due to fellow QBE Insurance Group Limited subsidiaries (iv)	**327,052**	325,313
Other creditors	**180,243**	165,177
Trade and other payables	**3,265,472**	3,209,260
Payable within 12 months	**1,608,862**	1,601,622
Payable in greater than 12 months	**1,656,610**	1,607,638
Trade and other payables	**3,265,472**	3,209,260

(i) In 2006, the Company issued £300,000,000 of capital securities to a fellow QBE Insurance Group Limited subsidiary. The securities have no fixed redemption date and may not be called for redemption or conversion by the investors. The securities are subordinated. Distributions are deferrable and not cumulative. However, if a distribution or principal amount is not paid by the Company and the guarantor does not pay the amount under the guarantee, then the capital securities are to be redeemed for QBE Insurance Group Limited preference shares. QBE Insurance Group Limited has fully and unconditionally guaranteed the Group's obligations under the capital securities. The fair value of the capital securities at 31 December 2014 is £309,408,000 (2013 £238,119,000).

(ii) In 2007, the Company issued US$550,000,000 of capital securities to a fellow QBE Insurance Group Limited subsidiary. The securities have no fixed redemption date and may not be called for redemption or conversion by the investors. The securities are subordinated. Distributions are deferrable and not cumulative. However, if a distribution or principal amount is not paid by the Company and the guarantor does not pay the amount under the guarantee, then the capital securities are to be redeemed for QBE Insurance Group Limited preference shares. QBE Insurance Group Limited has fully and unconditionally guaranteed the Group's obligations under the capital securities. The fair value of the capital securities at 31 December 2014 is £367,254,000 (2013 £329,462,000).

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16 Trade and other payables continued

(iii) In May 2011, the Company issued US$1,000,000,000 of Fixed Rate Reset Subordinated Callable Notes due 2041 to a fellow QBE Insurance Group Limited subsidiary. The securities may not be called for redemption by the investors. The securities are subordinated. Interest payments are deferrable, and no payments are due unless the Group satisfies certain solvency conditions. These notes are non-current liabilities. The fair value of the subordinated notes at 31 December 2014 is £710,642,000 (2013 £633,810,000).

(iv) In May 2011, the Company issued £325,000,000 of Fixed Rate Reset Subordinated Callable Notes due 2041 to a fellow QBE Insurance Group Limited subsidiary. The securities may not be called for redemption by the investors. The securities are subordinated. Interest payments are deferrable, and no payments are due unless the Group satisfies certain solvency conditions. These notes are non-current liabilities. The fair value of the subordinated notes at 31 December 2014 is £367,523,000 (2013 £343,574,000).

COMPANY	2014 £000	2013 £000
Amounts owed to group undertakings	**2,235,339**	1,719,015
Other creditors	**41**	2,868
Trade and other payables	**2,235,380**	1,721,883
Payable within 12 months	**162,856**	145,192
Payable in greater than 12 months	**2,072,524**	1,576,691
Trade and other payables	**2,235,380**	1,721,883

17 Unearned premium

(i) Unearned premium

GROUP	2014 £000	2013 £000
At 1 January	**1,595,437**	1,558,463
Deferral of premiums or contracts written in the year	**1,032,867**	1,208,160
Earning of premium written in previous years	**(1,200,961)**	(1,171,634)
Disposals	**-**	(3,600)
Held for sale assets	**(17,826)**	-
Foreign exchange	**(17,703)**	4,048
Unearned premium as at 31 December	**1,391,814**	1,595,437
To be earned within 12 months	**1,215,849**	1,445,179
To be earned in greater than 12 months	**175,965**	150,258
Unearned premium	**1,391,814**	1,595,437

(ii) Net premium liabilities

GROUP	NOTE	2014 £000	2013 £000
Unearned premium		**1,391,814**	1,595,437
Deferred insurance costs	12	**(591,531)**	(706,719)
Net premium liabilities		**800,283**	888,718

(iii) Liability adequacy test

A liability is required to be recognised when the premium relating to unearned risks is deemed insufficient to cover anticipated claims and costs. The ultimate combined ratio for unearned premium is assessed at a "managed together" level, which is each underwriting division. This shows that no provision for unexpired risks is required as at 31 December 2014 (2013 nil).

18 Outstanding claims

(i) Net outstanding claims

GROUP	2014 £000	2013 £000
Gross outstanding claims provision	**6,078,724**	6,117,037
Risk margin	**376,988**	463,969
Outstanding claims	**6,455,712**	6,581,006
Reinsurance and other recoveries on outstanding claims	**(2,334,189)**	(2,345,223)
Net outstanding claims provision	**4,121,523**	4,235,783
Analysed as follows:		
Net undiscounted central estimate	**3,868,003**	4,038,508
Discount	**(123,468)**	(266,694)
Net central estimate	**3,744,535**	3,771,814
Risk margin	**376,988**	463,969
Net outstanding claims provision	**4,121,523**	4,235,783
Gross outstanding claims provision		
Gross outstanding claims	**6,178,633**	6,405,755
Claims settlement costs	**106,828**	106,501
	6,285,461	6,512,256
Discount to present value	**(206,737)**	(395,219)
Gross outstanding claims provision	**6,078,724**	6,117,037
Less than 12 months	**1,795,847**	1,672,134
Greater than 12 months	**4,282,877**	4,444,903
Gross outstanding claims provision	**6,078,724**	6,117,037
Reinsurance and other recoveries on outstanding claims		
Reinsurance and other recoveries on outstanding claims[1]	**(2,417,458)**	(2,473,748)
Discount to present value	**83,269**	128,525
Reinsurance and other recoveries on outstanding claims	**(2,334,189)**	(2,345,223)
Less than 12 months	**(685,809)**	(665,759)
Greater than 12 months	**(1,648,380)**	(1,679,464)
Reinsurance and other recoveries on outstanding claims	**(2,334,189)**	(2,345,223)

1 Reinsurance and other recoveries on outstanding claims is shown net of a provision for impairment of £11,057,000 (2013 £12,417,000).

(ii) Maturity profile of net outstanding claims

GROUP	1 YEAR OR LESS £M	1 TO 2 YEARS £M	2 TO 3 YEARS £M	3 TO 4 YEARS £M	4 TO 5 YEARS £M	OVER 5 YEARS £M	TOTAL £M
2014	**1,224**	**781**	**530**	**382**	**274**	**931**	**4,122**
2013	1,132	783	553	427	295	1,046	4,236

An analysis of the weighted average term to settlement of the claims provision is included in note 3(i)(d).

(iii) Risk margin

The process used to determine the risk margin is explained in note 3(i)(c) and details of the risk-free discount rates adopted are set out in note 3(i)(d).

(iv) Reconciliation of movement in net outstanding claims provision

GROUP	2014 GROSS £000	2014 REINSURANCE £000	2014 NET £000	2013 GROSS £000	2013 REINSURANCE £000	2013 NET £000
At 1 January	**6,581,006**	**(2,345,223)**	**4,235,783**	6,594,728	(2,542,696)	4,052,032
Outstanding claims relating to held for sale assets	**(26,892)**	**11,015**	**(15,877)**	-	-	-
Increase in net claims incurred in current accident year	**1,823,834**	**(524,186)**	**1,299,648**	2,056,624	(620,570)	1,436,054
Movement in prior year claims provision	**(124,593)**	**(102,785)**	**(227,378)**	(92,879)	80,827	(12,052)
Incurred claims recognised in the statement of comprehensive income	**(1,672,349)**	**(615,956)**	**(1,056,393)**	1,963,745	(539,743)	1,424,002
Disposals	**-**	**-**	**-**	(5,855)	268	(5,587)
Claims payments	**(1,742,767)**	**687,621**	**(1,055,146)**	(1,718,724)	568,805	(1,149,919)
Foreign exchange	**(54,876)**	**(60,631)**	**(115,507)**	(252,888)	168,143	(84,745)
At 31 December	**6,455,712**	**(2,334,189)**	**4,121,523**	6,581,006	(2,345,223)	4,235,783

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

18 Outstanding claims continued

(v) Claims development - undiscounted at central estimate

GROUP	2004 AND PRIOR £M	2005 £M	2006 £M	2007 £M	2008 £M	2009 £M	2010 £M	2011 £M	2012 £M	2013 £M	2014 £M	TOTAL £M
Net central estimate												
At end of accident year		969	799	868	1,038	946	1,668	1,275	1,219	1,323	**1,290**	**11,395**
One year later		960	758	830	1,104	986	1,664	1,322	1,232	1,285		**10,141**
Two years later		842	699	897	1,086	980	1,658	1,353	1,179			**8,694**
Three years later		846	681	903	1,092	989	1,658	1,276				**7,445**
Four years later		856	654	904	1,077	1,029	1,627					**6,147**
Five years later		843	664	876	1,116	999						**4,498**
Six years later		850	668	889	1,083							**3,490**
Seven years later		825	684	857								**2,366**
Eight years later		826	674									**1,492**
Nine years later		836										**836**
Current estimate of net cumulative claims cost		836	674	857	1,083	999	1,627	1,276	1,179	1,285	**1,290**	**11,098**
Cumulative net claims payments to date		(770)	(665)	(813)	(1,005)	(904)	(941)	(974)	(658)	(549)	**(205)**	**(7,484)**
Net undiscounted central estimate	**241**	**66**	**9**	**44**	**78**	**95**	**686**	**302**	**521**	**736**	**1,085**	**3,863**
Foreign exchange												**(134)**
Net undiscounted central estimate at 31 December 2014												**3,729**
Discount to present value												**(123)**
Risk margin												**377**
Claims settlement costs												**107**
Outstanding claims relating to held for sale assets												**(17)**
Other												**49**
Net outstanding claims												**4,122**
Movement in accident year claims estimate	**7**	**10**	**(10)**	**(32)**	**(33)**	**(30)**	**(31)**	**(77)**	**(53)**	**(38)**	**1,290**	**1,003**
Reinsurance of medical malpractice	**1**	**5**	**14**	**31**	**39**	**48**	**27**	**20**	**14**	**17**	**5**	**221**

A reconciliation of the net central estimate development to the net incurred claims in the consolidated statement of comprehensive income is included in note 6(iii).

The Group writes business in currencies other than UK pound sterling. The translation of outstanding claims denominated in foreign currencies gives rise to foreign exchange movements which have no direct bearing on the development of the underlying claims. To eliminate this distortion, claims liabilities have been translated to the functional currencies of our controlled entities at constant rates of exchange for each accident year. All estimates of net central estimate claims cost and cumulative claims payments for the 10 most recent accident years reported in functional currencies other than UK pound sterling have been translated to UK pound sterling using the exchange rate at the end of the relevant accident year. Thus, for example, accidents reported in currencies other than sterling with an accident year of 2012 are translated into sterling at the 2012 year end rate. The difference between this and the 2014 balance sheet rate is shown in the foreign exchange line above.

The central estimate claims development table is presented net of reinsurance. With operations in a number of countries, hundreds of products, various reinsurance arrangements and with the Group's risk tolerance managed on a consolidated net basis, it is not considered meaningful or practicable to provide this information other than on a consolidated net accident year basis.

Outstanding claims in respect of acquisitions are included in the net central estimate claims cost in the accident year in which the acquisition was made. The exception is increased participation in Lloyds' syndicates where the increased share of the central estimate of the outstanding claims provision is allocated to the original accident year.

The net central estimate above for the years 2013 and prior includes the reinsurance of the Italian and Spanish medical malpractice liabilities as described in note 34. The effect of this is noted at the bottom of the claims development table.

19 Provisions

GROUP	VOLUNTARY PENSIONS £000	ANNUAL LEAVE £000	ONEROUS LEASE £000	TOTAL £000
1 January 2014	**1,201**	**829**	**-**	**2,030**
Movement during year	**(174)**	**105**	**5,906**	**5,837**
31 December 2014	**1,027**	**934**	**5,906**	**7,867**

GROUP	VOLUNTARY PENSIONS £000	ANNUAL LEAVE £000	TOTAL £000
1 January 2013	1,325	752	2,077
Movement during year	(124)	77	(47)
31 December 2013	1,201	829	2,030

The voluntary pension provision is an arrangement under which certain former employees of QBE Underwriting Limited (previously Janson Green Limited) receive retirement benefits, including enhanced pension payments and medical insurance, provided by the Group on an ex-gratia basis. The payments are adjusted for inflation on an annual basis. The costs are paid by the Group as they fall due and hence the arrangement is unfunded.

Since the commitments under the arrangement relate to past service the liability is provided for in full at the directors' estimate of the ultimate cost based on mortality tables. The provision assumes that future inflation in pension payments is offset by similar changes in the discount rate used to calculate the present value of such obligations. All adjustments to the provision are dealt with in the statement of comprehensive income.

20 Defined benefit pension

GROUP	2014 £000	2013 £000
Defined benefit pension surpluses	**28,330**	23,370
Defined benefit pension deficits	**(10,233)**	(10,490)

The Group's subsidiaries operate four defined benefit pension schemes. The Iron Trades scheme relates to former employees of QBE Insurance (Europe) Limited, the Janson Green scheme relates to former employees of QBE Underwriting Limited, the QBE Reinsurance (Europe) Ltd Pension & Life Assurance Plan ("QBE Re scheme"), relates to employees in Ireland, and the Secura NV scheme relates to employees in the Belgium branch of QBE Re (Europe) Limited. Each scheme is run independently of the sponsoring company by scheme trustees, and is run subject to the relevant local legislation.

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

Three schemes have been closed to future benefit accruals, the two UK schemes on 31 May 2006, and the Irish scheme on 31 December 2006. The Group retains the risk on employee service in these defined benefit schemes up until those dates. During 2014, full actuarial reviews were performed by independent qualified actuaries of both UK schemes. The assumptions used for the funding actuarial reviews are stricter than those required to be used for these financial statements. The reviews found that both schemes were in deficit on a funding basis. As a result, the Group agreed to make annual payments of £800,400 to the Janson Green scheme for 2014 and for each of the next two years. The 2014 payment was made in early January 2015. The Group also agreed to make annual payments of £560,000 to the Iron Trades scheme for the 22 months commencing January 2015. During 2012, an actuarial review on the QBE Re scheme was performed by independent qualified actuaries, which identified the scheme to be in deficit. The Group agreed with the trustees of the scheme to make three annual contributions of €1,243,000 commencing from 2012. The final payment under that agreement was made in 2014, and a further actuarial review will be carried out in 2015.

At the time of the acquisition of Secura NV in 2010, their pension scheme was valued as part of the fair value exercise by an independent external actuary.

The actuarial valuations were reviewed and updated by independent external actuaries as at 31 December 2014 for the purposes of inclusion in these financial statements.

(i) Defined benefit surpluses/(deficits)

Defined benefit retirement plan obligations are funded. The amounts recognised in the balance sheet for defined benefit plans are as follows:

GROUP	2014 £000	2013 £000
Present value of funded obligations	**(335,387)**	(301,702)
Fair value of pension assets	**353,485**	314,582
Surplus of funded pension	**18,098**	12,880

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

20 Defined benefit pension continued

(ii) Reconciliation

The movement in the defined benefit obligation and fair value of plan assets over the year is as follows:

2014 GROUP	PRESENT VALUE OF OBLIGATION £000	FAIR VALUE OF PLAN ASSETS £000	TOTAL £000
At 1 January	**(301,702)**	**314,582**	**12,880**
Current service cost	**(563)**	**(310)**	**(873)**
Interest (expense)/income	**(13,017)**	**13,701**	**684**
	(315,282)	**327,973**	**12,691**
Remeasurements:			
Return on plan assets, excluding amounts included in interest expense	**-**	**34,149**	**34,149**
Gain from change in demographic assumptions	**(28,163)**	**-**	**(28,163)**
Experience losses	**(2,643)**	**-**	**(2,643)**
	(30,806)	**34,149**	**3,343**
	(346,088)	**362,122**	**16,034**
Benefits and expenses paid	**9,247**	**(9,247)**	**-**
Employer contributions	**-**	**1,598**	**1,598**
Foreign exchange	**1,454**	**(988)**	**466**
At 31 December	**(335,387)**	**353,485**	**18,098**

The movement in the defined benefit obligation and fair value of plan assets over 2013 is as follows:

2013 GROUP	PRESENT VALUE OF OBLIGATION £000	FAIR VALUE OF PLAN ASSETS £000	TOTAL £000
At 1 January	(295,848)	313,250	17,402
Current service cost	(646)	(330)	(976)
Interest (expense)/income	(12,575)	13,451	876
	(309,069)	326,371	17,302
Remeasurements:			
Return on plan assets, excluding amounts included in interest income	-	(1,822)	(1,822)
Loss from change in demographic assumptions	(4,341)	-	(4,341)
Experience gains	(227)	-	(227)
	(4,568)	(1,822)	(6,390)
	(313,637)	324,549	10,912
Benefits and expenses paid	12,467	(12,467)	-
Employer contributions	-	2,234	2,234
Foreign exchange	(532)	266	(266)
At 31 December	(301,702)	314,582	12,880

The income recognised in the statement of comprehensive income of £100,000 (2013 charge of £100,000) has been included in underwriting expenses.

(iii) Principal actuarial assumptions

GROUP	2014 %	2013 %
Rate of increase to pensions in payment accrued before 1 September 2002 in Janson Green scheme	**5.0**	5.0
Rate of increase in other pensions in payment	**1.6 - 3.15**	2.0 - 2.8
Rate of increase in other deferred pensions	**2.1 - 2.25**	1.8 - 2.5
Discount rate	**1.8 - 3.8**	3.1 - 4.5
CPI Inflation	**1.6 - 2.1**	2.0 - 2.5
RPI Inflation (UK schemes only)	**3.1 - 3.25**	3.4

20 Defined benefit pension continued

(iv) Sensitivity analysis assets

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

GROUP	CHANGE IN ASSUMPTION	2014 INCREASE £000	2014 DECREASE £000	2013 INCREASE £000	2013 DECREASE £000
Discount rate	1%	**58,371**	**(68,323)**	49,445	(62,835)
Inflation rate	1%	**(39,521)**	**32,570**	(27,677)	23,044

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting year) has been applied as when calculating the pension liability recognised within the balance sheet.

(v) Analysis of pension assets

GROUP	2014 £000	2013 £000
Equities	**88,830**	82,690
Bonds	**249,874**	220,987
Property	**344**	305
Other	**14,437**	10,600
	353,485	314,582

21 Called up share capital

(i) Share capital

GROUP - CALLED UP, ALLOTTED AND FULLY PAID	2014 £000	2013 £000
"A" Ordinary Shares - 642,685,142 (2013 642,685,142) shares of £1 each	**642,685**	642,685
"B" Ordinary Shares - 1,978,572,962 (2013 1,978,572,962) shares of £1 each	**1,978,573**	1,978,573
	2,621,258	2,621,258

Ordinary shares in the Group entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of shares held. Ordinary shareholders rank after all creditors and are entitled to any residual proceeds.

There are no differences in rights and rank between the holders of "A" Ordinary Shares and holders of "B" Ordinary Shares.

During 2013, there was a permanent capital injection from QBE Group of £312,685,000.

Movements in share capital and equity during the year for the Group have been disclosed in the consolidated statement of changes in equity.

Movements in share capital and equity during the year for the Company are disclosed below:

2014 COMPANY	CALLED UP SHARE CAPITAL £000	RETAINED PROFIT £000	TOTAL EQUITY £000
At 1 January	**2,621,258**	**324,464**	**2,945,722**
Profit for the year	**-**	**15,095**	**15,095**
Dividends (note 22)	**-**	**(255,000)**	**(255,000)**
At 31 December	**2,621,258**	**84,559**	**2,705,817**

2013 COMPANY	CALLED UP SHARE CAPITAL £000	RETAINED PROFIT £000	TOTAL EQUITY £000
At 1 January	2,308,573	320,183	2,628,756
Issued share capital	312,685	-	312,685
Profit for the year	-	104,480	104,480
Dividends (note 22)	-	(100,199)	(100,199)
At 31 December	2,621,258	324,464	2,945,722

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

21 Called up share capital continued

(ii) Capital risk management

The Group has a number of requirements for capital, whether to support involvement in Lloyd's syndicates, or within a jurisdiction where the Company businesses operate; and is subject to prudential regulation in a number of local jurisdictions together with the PRA, FCA and Lloyd's in the UK. The Group is also subject to the capital adequacy requirements of the European Union Insurance Groups Directive (IGD) which the Group has complied with in 2013 and 2014.

The Group aims to hold capital in excess of the minimum requirements set by its regulators. Further capital requirements are required by rating agencies, who provide ratings for the Group's insurance carriers - Syndicate 386 and 2999, QBE Insurance (Europe) Limited and QBE Re (Europe) Limited. Furthermore, we aim to manage our capital levels to maintain the ratings necessary to meet stakeholder requirements, thereby supporting our financial strength and flexibility ambition. The amount of surplus capital held by the Group above its regulatory requirements is considered on an ongoing basis in light of the current regulatory framework, opportunities for organic or acquisitive growth and a desire to maximise returns for our shareholder. All externally imposed capital requirements have been complied with during the year.

Each registered insurance company regulated by the PRA is required to carry out a self assessment of the capital it requires, the Individual Capital Assessment (ICA). This is required to reflect the level of capital needed to ensure that the entity will be solvent in 99.5% of future foreseeable scenarios over a 12 month horizon. The Group has developed a stochastic risk-based capital model over the past four years, which incorporates the key risks being faced by each of the legal entities. The output from this model, which is tailored to the Group's risk profile, is reported to the Risk and Capital Committee, which in turn recommends it to the Board for adoption.

Lloyd's corporate members are required to hold capital, Funds at Lloyd's (FAL), in a trust at Lloyd's. These funds are intended to cover circumstances where syndicate assets prove insufficient to meet their liabilities. The level of FAL is dependent on corporate member's participations on syndicates and the level of the syndicate ICAs after they have been reviewed and accepted by Lloyd's.

The Group's capital model has been embedded in the business, and as well as assessing minimum capital requirements for Group undertakings, it has also been used to:

- allocate capital to class of business for business planning and performance monitoring;
- assess the effectiveness of existing reinsurance protections and new reinsurance strategies; and
- consider the implications of the new regulatory framework, Solvency II on the business.

22 Dividends

During the year, the Company declared and paid interim dividends of £255,000,000 (2013 £100,199,000) and a final dividend of nil (2013 nil) to ordinary shareholders.

COMPANY	2014 INTERIM	2014 FINAL	2014 TOTAL	2013 INTERIM	2013 FINAL	2013 TOTAL
Dividend per share	**9.73p**	**-**	**9.73p**	3.82p	-	3.82p

23 Business combinations

(i) Acquisitions

There were no material acquisitions in 2014 (2013 nil).

(ii) Disposals

There were no material disposals in 2014.

The following disposals took place in 2013:

- on 2 April 2013, a wholly-owned entity sold its 65.2% holding in QBE Makedonija for £12,786,000, giving rise to a loss on disposal of £1,517,000; and
- on 5 July 2013, a wholly-owned entity disposed of its 100% holdings in Limit No. 7 Limited and Limit No. 10 Limited, incurring total expenditure of £2. This gave rise to a nil gain or loss on disposal.

Further disclosure of companies dissolved or liquidated by the Group has been disclosed in note 33.

There have been no gains or losses arising from the sale of controlled entities in 2014 (2013 loss of £1,517,000).

24 Share based payments

(i) Share schemes

The Group's ultimate parent undertaking and controlling entity, QBE Group, at its 1981 AGM, approved the issue of shares from time to time under an Employee Share and Option Plan (the Plan), up to 5% of the issued ordinary shares in its capital. Any full-time or part-time employee of the QBE Group who is offered shares or options is eligible to participate in the Plan.

Under the Plan, ordinary shares of QBE Insurance Group Limited are normally offered at the weighted average market price during the five trading days up to the date of the offer. Likewise, the exercise price for options offered under the Plan is the weighted average market price during the five trading days up to the date of the offer.

In accordance with the terms of the Plan, for awards made up to and including March 2009 interest free loans were available to employees to subscribe for shares issued under the Plan. Prior to 20 June 2005, the terms of the loans were either personal recourse or non-recourse. With effect from 20 June 2005, only personal recourse loans were granted to employees to subscribe for shares under the Plan. The loans are repayable in certain circumstances such as termination of employment. The award of options and interest free loans was discontinued for awards made after March 2009.

QBE Insurance Group Limited recharges the Group the accounting cost of the options issued to its employees, and it is this cost that appears in these financial statements.

Currently equity is awarded within the Plan under the Short-Term Incentive (STI) plan and the Long-Term Incentive (LTI) plan. The current equity awards plans together with the legacy equity award plans are set out below.

a) Current QBE deferred equity plans

Short-term incentive plan

The Short-Term Incentive (STI) plan was introduced from 1 January 2014 and replaces the QBE Incentive Scheme (QIS). The STI plan is a short-term at-risk reward scheme that comprises both cash and deferred equity elements. The first awards under this plan will be made in March 2015 subject to performance hurdles in relation to 2014 financial performance being achieved.

Executives and key senior employees

STI award outcomes are based on:

- performance against Group statutory return on equity (ROE) target;
- individual performance management ratings; and
- for senior staff, performance against divisional return on allocated capital (RoAC) target.

STI awards are approved by the Group Board following recommendations made by the Remuneration Committee. The STI plan rules provide suitable discretion for the Remuneration Committee to adjust any formulaic outcome to ensure awards made under the STI plan appropriately reflect performance.

Any STI award is structured as follows:

- 67% of the award is delivered in cash (50% in the case of the Group CEO)
- 33% of the award is deferred as conditional rights to fully paid ordinary QBE shares (50% in the case of the Group CEO).

The conditional rights to ordinary QBE shares are deferred into two equal tranches. The tranches vest one and two years after the award date, subject to service conditions and malus provisions being met.

During the period from the date of the STI grant to the vesting date of the conditional rights, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of the company. These conditional rights are subject to the same vesting conditions as the original grant of conditional rights.

Notes to the financial statements continued

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24 **Share based payments** continued

(i) Share schemes continued

a) Current QBE deferred equity plans continued

Long-Term Incentive plan

The Long-Term Incentive (LTI) plan was introduced from 1 January 2014 and replaces the legacy LTI plan. The first awards made under this plan were made in March 2014 with performance hurdles applicable to financial years 2014 to 2017.

The LTI plan comprises an award of conditional rights to fully paid ordinary QBE shares without payment by the executive and certain key management. Vesting will be subject to two performance conditions measured over a three year performance period:

(i) Average Group statutory ROE over three years - for 50% of the award; and

(ii) Relative total shareholder return (RTSR) - for 50% of the award.

LTI vesting is phased - rights vest in three equal tranches upon satisfaction of the performance conditions, with vesting at the end of the three year performance period, and then the first and second anniversaries thereafter.

The RTSR peer group will generally consist of companies in the Dow Jones Insurance Titans Index group adjusted for those with most relevance to QBE's business operations.

"Good leaver" provisions (e.g. retirement, redundancy, ill health, injury) will apply such that a pro-rata amount of LTI conditional rights remain subject to the original performance and vesting conditions.

During the period from the date of the LTI grant to the vesting date of the conditional rights, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of the company. These conditional rights are subject to the same vesting conditions as the original grant of conditional rights.

The LTI rules provide suitable discretion to the Remuneration Committee to adjust any formulaic outcome to ensure vesting of LTI awards appropriately reflects performance. In particular, the ROE target has been set mindful of the risk-free rates assumed in the business plans. If the actual risk-free rate turns out to be materially different (up or down), the Remuneration Committee envisages adjusting the vesting outcome to reflect the actual risk-free rate over the performance period.

LTI vesting is subject to malus provisions which continue to apply beyond the performance period until conditional rights have vested in the fourth and fifth years.

b) Legacy QBE deferred equity plans

QBE Incentive Scheme

The QBE Incentive Scheme (QIS) is a short-term at-risk structure that comprises cash and deferred equity awards. It came into effect from 1 January 2010 and is applicable to deferred equity awards made in March 2011 to March 2014.

Executives

Under the QIS, the QBE Group Board could issue conditional rights to shares to the Group CEO who achieved predetermined performance targets. The maximum deferred equity award was based on an amount which is the lesser of 80% of the cash award earned or 100% of fixed remuneration at 31 December, in each case for the financial year immediately prior to the year in which the cash award is paid. The deferred equity award was used as the basis for calculating the number of conditional rights as follows:

- conditional rights to the value of 50% of the award converted to fully paid ordinary QBE Group shares after three years; and
- conditional rights to the value of 50% of the award converted to fully paid ordinary QBE Group shares after five years.

Other key senior employees

Other key senior employees of the Group were also eligible to participate in the QIS, with the maximum award restricted to the lesser of 66.67% of the cash award for that year or 100% of base (cash) salary as at 31 December for the financial year prior to the year in which the cash award was paid. The deferred equity award is used as the basis for calculating the number of conditional rights as follows:

- conditional rights to the value of 60% of the award amount converted to fully paid ordinary QBE shares after three years; and
- conditional rights to the value of 60% of the award amount converted to fully paid ordinary QBE shares after five years.

During the period from the date of the QIS grant to the vesting date of the conditional rights, further conditional rights are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares by QBE Group.

The shares issued pursuant to the conditional rights are issued without payment being made by the recipient (i.e. at a nil exercise price).

24 Share based payments continued

(i) Share schemes continued

b) Legacy QBE deferred equity plans continued

Other key senior employees continued

The shares issued pursuant to the conditional rights vest only if the individual has remained in the QBE Group's service throughout the vesting period. For awards made prior to 2012, the directors have the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice to terminate employment on that date. Vesting of the conditional rights is subject to service conditions and malus provisions being met.

Deferred Compensation Plan – legacy scheme applicable to the 2009 financial year

The terms of the Deferred Compensation Scheme (DCP) for the period from 1 January 2009 applicable for awards in March 2010 are set out below:

Executives

The then Chief Executive Officer of the Group was invited to participate in the DCP, under which he received conditional rights to fully paid ordinary shares of QBE Group. The maximum deferred equity award was based on an amount which was the lesser of 80% of the STI award earned or 100% of fixed remuneration at 31 December, in each case in the financial year immediately prior to the year in which the cash award was paid. The maximum DCP award used the same formula as described above in relation to the QIS deferred equity award.

Other key senior employees

Other key senior employees were invited to participate in the DCP, under which they received conditional rights to fully paid ordinary shares of QBE Group. The maximum DCP award was based on an amount which was the lesser of 66.67% of the STI award earned or 100% of base (cash) salary as at 31 December, in each case in the financial year immediately prior to the year in which the cash award is paid. The maximum DCP award was used as a basis for calculating the number of conditional rights using the same formula as described above in relation to the QIS deferred equity award.

During the period from the date of the DCP grant to the vesting date of the conditional rights, further shares are issued under the Bonus Share Plan to reflect dividends paid on ordinary shares of the QBE Group.

The shares issued pursuant to the conditional rights will only vest if the individual has remained in the QBE Group's service throughout the vesting period. The Directors have the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice to terminate employment on that date. The extent of vesting of the conditional rights is subject to service conditions and malus provisions being met.

Deferred Compensation Plan – legacy scheme applicable to the 2008 and prior financial years

For DCP awards made in March 2009 and prior, the Directors were able to issue conditional rights to shares and options to subscribe for shares to senior management who have already achieved predetermined performance criteria. The terms of the DCP varied to take into account the requirements and market conditions of the locations of senior management, but the general terms of the DCP conditional rights and options for both executives and other key senior employees were as follows:

- The conditional rights entitled relevant employees to receive shares on the third anniversary of the grant of the rights. Further conditional rights were issued without payment in relation to the conditional rights to reflect dividends paid on ordinary shares of QBE Group in the period commencing from the date of the grant of the conditional rights;

- The shares issued pursuant to the conditional rights were issued without payment being made by senior management (i.e. at a nil exercise price);

- The options were subject to the terms and conditions of the Plan. Options issued in 2004 and prior were normally exercisable after three years, whilst any options issued in 2005 and thereafter are generally exercisable after five years. They must be exercised within a 12 month period after vesting. Interest-free personal recourse loans were granted to persons who held options to fund the exercise of these options.

The shares issued pursuant to the conditional rights and options will only vest if the individual has remained in the QBE Group's service throughout the vesting period. The Directors have the discretion to pay cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement if the individual is not subject to disciplinary proceedings or notice on that date.

The last award under the DCP vests in March 2015.

Long-term incentive plan – legacy scheme applicable to the 2013 financial year (legacy LTI)

The legacy LTI plan was introduced from 1 January 2010 and replaced the Group Executive Restricted Share Plan (GERSP). Only the Chief Executive Officer of the Group was invited to participate. The legacy LTI plan comprised an award of conditional rights to fully paid shares of the QBE Group without payment, subject to a five year tenure hurdle, with vesting contingent upon the achievement of two future performance hurdles as follows:

- 50% of the award allocation will be contingent on the QBE Group's average diluted earnings per share increasing by a compound average 7.5% per annum over the five year vesting period; and

- 50% of the award allocation will be contingent on the QBE Group's average return on equity and combined operating ratio being in the top 10% of the top 50 largest global insurers and reinsurers as measured by net earned premium for the five year vesting period.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

24 Share based payments continued

(i) Share schemes continued

b) Legacy QBE deferred equity plans continued

Long-term incentive (LTI) plan – legacy scheme applicable to the 2013 financial year continued

Further conditional rights were issued under the Bonus Share Plan in relation to the conditional rights to reflect dividends paid on ordinary shares of the QBE Group in the period commencing from the date of the grant of the conditional rights.

The QBE Group Remuneration Committee continue to exercise discretion when determining the vesting of awards under the legacy LTI plan. The Committee has the discretion to allocate a pro-rata amount in cash in lieu of shares in certain circumstances such as death, disability, redundancy or retirement. The extent of vesting of the conditional rights is subject to service conditions and malus provisions being met.

c) Share incentive plan

In 2013 and prior years, most full-time or part-time employees with a minimum of one year's service were invited to participate in the Share Incentive Plan (SIP). Under the SIP, which was introduced in 2005, the Directors provided shares up to A$1,000 to employees without payment being made by employees. The allocation of shares was based on the period of service. The shares were purchased on-market and held in trust for the employee for a minimum of three years or until cessation of employment, whichever is earlier.

No award was made under the SIP in 2014 and the SIP will be replaced in 2015 with a new all-employee share plan.

(ii) Employee options

The market value of all shares underlying the options at the balance date is nil (2013 A$11,045,000).

Details of the number of employee options granted, exercised and cancelled or forfeited during 2014, were as follows:

2014 GRANT DATE	EXERCISE PRICE	BALANCE AT 1 JANUARY	TRANSFERRED IN DURING THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DECEMBER
6 March 2009	**A$17.57**	**959,559**	-	-	**20,906**	**938,653**
Weighted average exercise price A$		**17.57**	**N/A**	**N/A**	**17.57**	**17.57**

The weighted average remaining contractual life of total options outstanding at 31 December 2014 was 0.21 years (2013 0.84 years).

Employee options outstanding at 31 December 2014 were as follows:

YEAR OF EXPIRY	DCP	TOTAL OPTIONS
2015	938,653	938,653
Vested and exercisable at 31 December 2014	**938,653**	**938,653**

2013 GRANT DATE	EXERCISE PRICE	BALANCE AT 1 JANUARY	TRANSFERRED IN DURING THE YEAR	EXERCISED IN THE YEAR	CANCELLED/ FORFEITED IN THE YEAR	BALANCE AT 31 DECEMBER
4 March 2008	A$24.22	790,063	-	-	(790,063)	-
6 March 2009	A$17.57	1,293,409	-	-	(333,850)	959,559
		2,083,472	-	-	(1,123,913)	959,559
Weighted average exercise price A$		20.09	N/A	N/A	22.24	17.57

Employee options outstanding at 31 December 2013 were as follows:

YEAR OF EXPIRY	DCP	TOTAL OPTIONS
2015	959,559	959,559
Vested and exercisable at 31 December 2013	959,559	959,559

24 Share based payments continued

(iii) Conditional rights

Details of the number of employee entitlements to conditional rights to QBE ordinary shares granted, vested and transferred to employees during the year were as follows:

2014 GRANT DATE	DATE EXERCISABLE	FAIR VALUE PER RIGHT AT GRANT DATE	BALANCE AT 1 JANUARY	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED TO EMPLOYEE IN THE YEAR	CANCELLED IN THE YEAR	BALANCE AT 31 DECEMBER
6 Mar 2010	4 Mar 2015	A$20.90	408,555	-	7,613	(43,548)	(52,431)	320,189
7 Mar 2011	6 Mar 2014	A$20.90	425,942	-	-	(418,835)	(7,107)	-
1 Jul 2011	31 Mar 2014	A$17.93	415,476	-	8,851	(29,522)	(54,019)	340,786
1 Jul 2011	31 Mar 2014	A$17.48	19,983	-	-	(19,983)	-	-
1 Jul 2011	31 Mar 2016	A$17.48	10,909	-	248	-	-	11,157
7 Mar 2012	6 Mar 2015	A$11.78	562,784	-	11,476	(37,041)	(75,851)	461,368
7 Mar 2012	6 Mar 2017	A$11.78	562,681	-	12,096	(37,041)	(75,851)	461,885
1 Sep 2012	1 Mar 2014	A$13.03	32,517	-	-	(32,517)	-	-
1 Sep 2012	1 Mar 2015	A$13.03	47,819	-	1,088	-	(15,302)	33,605
1 Sep 2012	1 Mar 2016	A$13.03	9,563	-	218	-	-	9,781
5 Mar 2013	4 Mar 2016	A$13.18	674,153	-	13,715	(39,656)	(120,558)	527,654
5 Mar 2013	4 Mar 2018	A$13.18	642,176	-	13,908	(39,656)	(89,638)	526,790
4 Mar 2014	3 Mar 2017	A$12.68	-	770,862	17,439	(42,106)	(83,347)	662,848
4 Mar 2014	3 Mar 2019	A$12.68	-	770,862	17,510	(42,106)	(83,347)	662,919
			3,812,558	1,541,724	104,162	(782,011)	(657,451)	4,018,982

The weighted average share price at the date of vesting of conditional rights during the year ended 31 December 2014 was A$12.29 (2013 A$13.10). The weighted average fair value of conditional rights granted during the year ended 31 December 2014 was A$11.23 (2013 A$13.27).

Details of the number of employee entitlements to conditional rights to ordinary shares granted, vested and transferred to employees during the prior year were as follows:

2013 GRANT DATE	DATE EXERCISABLE	FAIR VALUE PER RIGHT AT GRANT DATE	BALANCE AT 1 JANUARY	GRANTED IN THE YEAR	DIVIDENDS ATTACHING IN THE YEAR	VESTED AND TRANSFERRED TO EMPLOYEE IN THE YEAR	CANCELLED IN THE YEAR	BALANCE AT 31 DECEMBER
6 Mar 2010	4 Mar 2013	A$20.90	526,086	-	(4,203)	(509,378)	(12,505)	-
6 Mar 2010	4 Mar 2015	A$20.90	514,131	-	14,242	-	(119,818)	408,555
7 Mar 2011	6 Mar 2014	A$20.90	573,679	-	4,962	-	(152,699)	425,942
1 Jul 2011	31 Mar 2014	A$17.93	553,169	-	4,985	-	(142,678)	415,476
1 Jul 2011	31 Mar 2014	A$17.48	19,755	-	228	-	-	19,983
1 Jul 2011	31 Mar 2016	A$17.48	10,681	-	228	-	-	10,909
7 Mar 2012	6 Mar 2015	A$11.78	715,797	-	14,750	-	(167,763)	562,784
7 Mar 2012	6 Mar 2017	A$11.78	732,753	-	14,647	-	(184,719)	562,681
1 Sep 2012	1 Mar 2013	A$13.03	64,950	-	-	-	(64,950)	-
1 Sep 2012	1 Mar 2014	A$13.03	31,837	-	680	-	-	32,517
1 Sep 2012	1 Mar 2015	A$13.03	31,837	15,302	680	-	-	47,819
1 Sep 2012	1 Mar 2016	A$13.03	9,363	-	200	-	-	9,563
5 Mar 2013	4 Mar 2016	A$13.18	-	820,706	16,468	-	(163,021)	674,153
5 Mar 2013	4 Mar 2018	A$13.18	-	761,517	15,411	-	(134,752)	642,176
			3,784,038	1,597,525	83,278	(509,378)	(1,142,905)	3,812,558

(iv) Fair value of options and conditional rights

The fair value of conditional rights is determined using a binomial model. The fair value is recognised evenly over the service period ending at vesting date. For conditional rights granted during the year to 31 December 2014 and 31 December 2013, the following significant assumptions were used:

		2014	2013
Share price on grant date	A$	10.06 - 12.68	13.37 - 17.10
Fair value of instrument at grant date	A$	6.08 - 12.68	13.02 - 17.07
Expected life of instrument	Years	0.1 - 5.0	0 - 5.0

Some of the assumptions are based on historical data, which is not necessarily indicative of future trends. Reasonable changes in these assumptions would not have a material impact on the amounts recognised in the financial statements.

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

24 Share based payments continued

(v) Share incentive plan

The market value of shares issued under the terms of the SIP is expensed in the period in which the shares are granted. The total number of shares issued to participating employees in the year was nil (2013 44,985). The weighted average market price on the 2013 issue date was A$15.69.

(vi) Share based payment expense

Total expenses arising from share based payment transactions during the year included in expenses were as follows:

GROUP	2014 £000	RESTATED 2013 £000
Options provided under the Plan	**7,244**	1,112
Conditional rights provided under the Plan	**1,063**	11,979
Shares provided under the SIP	**(4)**	383
	8,303	13,474

25 Key management personnel

Key management personnel - compensation

GROUP	2014 £000	2013 £000
Short-term employee benefits	**2,698**	4,305
Post-employment benefits	**204**	81

There has been no compensation to key management personnel in 2014 relating to other long-term benefits, termination benefits and share-based payment benefits (2013 nil).

No directors exercised share options in the ultimate Parent Company during the year (2013 nil).

26 Contingent liabilities

Contingent liabilities are disclosed when the possibility of a future settlement of economic benefits is considered to be less than probable but more likely than remote. Under accounting standards, no provision is required for such items if a future transfer of benefits is not probable or cannot be reliably measured. If settlement becomes probable, a provision is required. Refer to note 1(xxi) for further commentary.

In the normal course of business, the Group is exposed to contingent liabilities in relation to claims litigation arising out of its insurance and reinsurance transactions and may be exposed to the possibility of contingent liabilities in relation to non-insurance litigation. Provisions are made for obligations that are probable and quantifiable. There are no individually significant amounts not provided for and such transactions are not considered likely to have a material impact on the net assets of the Group.

The Group is required to support the underwriting activities of its controlled entities which are corporate members at Lloyd's of London. Funds at Lloyd's (FAL) are those of the Group's funds which are subject to the terms of the Lloyd's Deposit Trust Deed and which are used to support the underwriting of the Group's corporate member subsidiary. Under Lloyd's regulations, the amounts of FAL required to support underwriting for the following year and open years of account are determined at the 'coming-into-line' date as prescribed by Lloyd's each year. At 31 December 2014, these amounted to £1,197,600,000 (2013 £1,013,871,000). This requirement was satisfied as follows:

GROUP	2014 £000	2013 £000
Letters of credit guaranteed by the ultimate Parent Company	**1,092,187**	885,889
Investments and other assets	**105,413**	127,982
	1,197,600	1,013,871

A cash call would be made first on the assets held in syndicate trust funds and would only call on FAL after syndicate resources were exhausted. Only if the level of these trust funds was not sufficient would a cash call result in a draw down on the letters of credit and other assets lodged with Lloyd's.

Of the total assets disclosed on the Company's balance sheet £2,304,182,000 (2013 £2,263,819,000) are subject to the rules of Lloyd's Premium Trust Funds, or will become subject to them on realisation, of which £2,225,295,000 (2013 £2,200,527,000) are investments.

26 Contingent liabilities continued

The Group has liabilities covered by the deposit of certain investments and cash, in respect of undrawn letters of credit amounting to:

GROUP	2014 ORIGINAL CURRENCY LC'000	2014 REPORTING CURRENCY £000	2013 ORIGINAL CURRENCY LC'000	2013 REPORTING CURRENCY £000
US dollar	**24,471**	**15,702**	27,052	16,330
European euro	**18,735**	**14,547**	16,011	13,291
UK pound sterling	**19,400**	**19,400**	12,150	12,150
		49,649		41,771

Additionally there are charges over fixed income securities of US$15,306,955 (£9,821,907) (2013 US$15,344,424 (£9,262,327)) backing the Company's Excess and Surplus lines business in the United States, which are required by the United States insurance regulatory authorities.

27 Capital expenditure commitments

The Group's capital commitments authorised and contracted for but not provided for in the financial statements amount to £127,000 (2013 £4,000,000).

28 Operating lease commitments

Group – Land and buildings

PAYABLE	2014 £000	RESTATED 2013 £000
Not later than one year	**14,584**	13,598
Later than one year but not later than five years	**44,925**	47,533
Later than five years	**14,980**	17,058
Total future minimum lease payments under non-cancellable operating leases	**74,489**	78,189

Group – Other

PAYABLE	2014 £000	2013 £000
Not later than one year	**324**	354
Later than one year but not later than five years	**311**	464
Total future minimum lease payments under non-cancellable operating leases	**635**	818

The Company has no operating lease commitments (2013 nil).

29 Remuneration of auditors

GROUP	2014 £000	2013 £000
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated financial statements	**181**	185
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries	**1,354**	1,232
Audit-related assurance services	**535**	631
Tax compliance and advisory services	**1,632**	1,004
Other assurance services	**243**	1,163
	3,945	4,215

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

30 Related parties

(i) Ultimate parent entity

The Company's ultimate controlling entity is QBE Insurance Group Limited, which is incorporated in Australia. The consolidated financial statements for QBE Insurance Group Limited which include the Company and its subsidiaries are available from the Company's registered office at Plantation Place, 30 Fenchurch Street, London, EC3M 3BD.

The Company's immediate Parent Company is QBE Insurance Holdings Pty Limited, which is incorporated in Australia.

(ii) Controlled entities

HELD BY COMPANY	COUNTRY OF INCORPORATION	EQUITY HOLDINGS %	PRINCIPAL ACTIVITY
Anex Jenni & Partner AG	Switzerland	100	Underwriting agency
Greenhill International Insurance Holdings Limited	United Kingdom	100	Holding company
Lifeco s.r.o.	Czech Republic	98	Dormant company
QBE Holdings (EO) Limited	United Kingdom	100	Holding company
QBE Jersey Finance Limited	Jersey	100	Financing company
QBE Management Services (UK) Limited	United Kingdom	100	Service company
Standfast Corporate Underwriters Limited	United Kingdom	100	Dormant company

HELD BY SUBSIDIARIES	COUNTRY OF INCORPORATION	EQUITY HOLDINGS %	PRINCIPAL ACTIVITY
Greenhill BAIA Underwriting GmbH	Germany	100	Insurance intermediary
Greenhill Sturge Underwriting Limited	United Kingdom	100	Insurance intermediary
Greenhill Underwriting Espana Limited	United Kingdom	100	Insurance intermediary
Lifeco Re Ltd	United Kingdom	100	Non-operating
Lifeco s.r.o.	Czech Republic	2	Underwriting agency (dormant)
Limit (No.2) Limited	United Kingdom	100	Corporate member of Lloyd's (dormant)
PrJSC IC "QBE Ukraine"	Ukraine	49	Insurance business
QBE Atlasz Ingatlankezelo Zrt	Hungary	100	Non-operating
QBE Corporate Limited	United Kingdom	100	Corporate member of Lloyd's
QBE Denmark A/S	Denmark	100	Insurance company (in run-off)
QBE Europe Holdings Services Agent de Asigurare S.R.L.	Romania	100	In liquidation
QBE European Services Limited	United Kingdom	100	Insurance intermediary
QBE European Underwriting Services (Australia) Pty Limited	Australia	100	Service company
QBE Finance Holdings (EO) Limited	United Kingdom	100	Financing company
QBE Funding V Limited	Jersey	100	Issuer of zero coupon bonds
QBE Holdings (Europe) Limited	United Kingdom	100	Holding company
QBE Insurance (Europe) Limited	United Kingdom	100	Insurance and reinsurance company
QBE Insurance Services (Regional) Limited	United Kingdom	100	Insurance intermediary
QBE Investments (Australia) Pty Limited	Australia	100	Investment holding company
QBE Management (Ireland) Limited	Ireland	100	Service company
QBE Marine and Energy Services Pte Limited	Singapore	100	Service company
QBE Partner Services (Europe) LLP	United Kingdom	100	Service company
QBE Re (Europe) Limited	United Kingdom	100	Reinsurance company
QBE, s.r.o.	Czech Republic	100	Underwriting agency
QBE Services Inc.	Canada	100	Service company
QBE Services (Europe) Limited	United Kingdom	100	Service company
QBE Sk, s.r.o.	Slovakia	100	Underwriting agency
QBE UK Finance III Limited	United Kingdom	100	Investment company
QBE UK Finance IV Limited	United Kingdom	100	Investment company
QBE Underwriting Limited	United Kingdom	100	Lloyd's managing agent
QBE Underwriting Services Limited	United Kingdom	100	Service company
QBE Underwriting Services (Ireland) Limited	Ireland	100	Service company
QBE Underwriting Services (UK) Limited	United Kingdom	100	Service company
Ridgwell Fox and Partners (Underwriting Management) Limited	United Kingdom	100	Underwriting management for a reinsurance pool (in run-off)
Strakh-Consult	Ukraine	100	In liquidation

30 Related parties continued

(ii) Controlled entities continued
QBE Ukraine is a subsidiary as the Group has management control in addition to its 49% shareholding and a further 1% shareholding is owned by another QBE Group entity. As at 31 December 2014, this has been classified as held for sale per note 35.

In the opinion of the directors, the aggregate value of the assets of the Company consisting of shares in, or amounts owing (whether on account of a loan or otherwise) from the Company's subsidiary undertakings, is not less than the aggregate of the amounts at which these assets are stated in the Company's balance sheet.

The tables below summarises transactions the Group has had with related parties, its relationship with the related party, the amount transacted in the year and the outstanding balance for the year ended 31 December. Transactions with related parties have been carried out at arm's length:

2014 RELATED ENTITY	REGION	RELATIONSHIP	AMOUNT DUE FROM/(TO) £000	AMOUNT TRANSACTED £000
CHU Underwriting Agencies (UK) Limited	UK	Fellow Group company	**27**	**27**
Equator Reinsurances Limited	Bermuda	Captive reinsurer	**1,450**	**904,130**
QBE (Jersey) GP II Limited	Jersey	Group financing	**(354,914)**	**23,858**
QBE (Jersey) GP Limited	Jersey	Group financing	**(309,445)**	**20,571**
QBE Capital Funding III Limited	Jersey	Group financing	**(646,631)**	**43,865**
QBE Capital Funding IV Limited	Jersey	Group financing	**(327,661)**	**24,391**
QBE Holdings (AAP) Pty Limited	Australia	Fellow Group company	**185,489**	**-**
QBE Holdings (UK) Limited	UK	Hedging company	**48,397**	**140,825**
QBE Hongkong & Shanghai Insurance Limited	Hong Kong	Fellow Group company	**5,741**	**1,813**
QBE Insurance (Australia) Limited	Australia	Fellow Group company	**(24)**	**3,004**
QBE Insurance (International) Limited	Australia	Fellow Group company	**241**	**1,050**
QBE Insurance Group Limited	Australia	Fellow Group company	**(97)**	**35,969**
QBE Insurance Holdings Pty Limited	Australia	Fellow Group company	**224,846**	**479,845**
QBE Investments (North America) Inc	US	Fellow Group company	**853,992**	**65,005**
QBE Management Services Pty Limited	Australia	Service company	**(1,258)**	**96,667**
QBE Reinsurance Corporation	Latin America	Fellow Group company	**-**	**7,544**
National Farmers Union Property and Casualty Company	North America	Fellow Group company	**-**	**2,255**
			(319,847)	**1,850,819**

2013 RELATED ENTITY	REGION	RELATIONSHIP	RESTATED AMOUNT DUE FROM/(TO) £000	RESTATED AMOUNT TRANSACTED £000
CHU Underwriting Agencies (UK) Limited	UK	Fellow Group company	35	35
Equator Reinsurances Limited	Bermuda	Captive reinsurer	6,044	1,116,965
QBE (Jersey) GP II Limited	Jersey	Group financing	(332,990)	23,920
QBE (Jersey) GP Limited	Jersey	Group financing	(308,604)	20,571
QBE Capital Funding III Limited	Jersey	Group financing	(606,140)	46,407
QBE Capital Funding IV Limited	Jersey	Group financing	(326,478)	24,391
QBE Holdings (AAP) Pty Limited	Australia	Fellow Group company	30,622	-
QBE Holdings (UK) Limited	UK	Hedging company	11,036	223,437
QBE Hongkong & Shanghai Insurance Limited	Hong Kong	Fellow Group company	8,243	3,928
QBE Insurance (Australia) Limited	Australia	Fellow Group company	(2,083)	5,314
QBE Insurance (International) Limited	Australia	Fellow Group company	(208)	385
QBE Insurance Group Limited	Australia	Fellow Group company	157,231	49,107
QBE Insurance Holdings Pty Limited	Australia	Fellow Group company	1	100,199
QBE Investments (North America) Inc	US	Fellow Group company	1,439,800	75,171
QBE Management Services Pty Limited	Australia	Service company	(2,650)	107,201
QBE Reinsurance Corporation	Latin America	Fellow Group company	-	4,129
National Farmers Union Property and Casualty Company	North America	Fellow Group company	-	1,303
			73,859	1,802,463

Outstanding amounts from transactions with Equator Reinsurances Limited are secured by US$250,000,000 of letters of credit (2013 US$250,000,000). Transactions are expected to be repaid during the normal course of business.

A provision for bad debt of £479,000 has been made for transactions with related parties (2013 £1,271,000). No bad debts have been written off in the current year (2013 nil).

Notes to the financial statements continued

FOR THE YEAR ENDED 31 DECEMBER 2014

31 Parent Company financial information

As permitted by section 408 of the Companies Act 2006, the Company's statement of comprehensive income has not been included in these financial statements. The Company's profit for the financial year was £15,095,000 (2013 £104,480,000).

32 Employees

Total employee costs for the year were:

GROUP	2014 £000	2013 £000
Wages and salaries	**182,485**	185,464
Share based payments costs	**8,303**	13,496
Social security costs	**24,055**	27,675
Other pension costs	**15,916**	16,828
	230,759	243,463

The monthly average number of persons (including executive directors) employed by the Group for the year was:

GROUP	2014 NUMBER	2013 NUMBER
Underwriting	**1,015**	1,070
Claims	**588**	605
Administration	**997**	1,135
	2,600	2,810

33 Parent Company investments

Shares in Group undertakings

COMPANY	2014 £000	2013 £000
At 1 January	**4,483,254**	4,128,930
Dissolution of QBE Investment Management (UK) Limited	**-**	(500)
Write down of investment in Anex Jenni & Partner AG	**-**	(497)
Disposal of QBE Re (Europe) Limited	**-**	(275,892)
Increase of investment in QBE Holdings (EO) Limited	**-**	631,213
Impairment of investment in QBE Holdings (EO) Limited	**(1,246,419)**	-
Increase of investment in QBE Jersey Finance Limited	**1,212,001**	-
At 31 December	**4,448,836**	4,483,254

The Company undertook an impairment review of its shares in Group undertakings in 2014 and identified an impairment to the carrying value of its investment in QBE Holdings (EO) Limited of £1,246,419,000.

During 2014, the Company invested £1,226,654,000 into QBE Jersey Finance Limited which is an investment company incorporated in May 2014. This investment was impaired as part of the Company's impairment review of its shares in Group undertakings by £14,653,000.

In June 2013, the Company transferred its 4% share of QBE Re (Europe) Limited to QBE Insurance (Europe) Limited as part of a restructure of the Group ownership structure so that QBE Insurance (Europe) Limited became the sole owner of QBE Re (Europe) Limited. As part of the restructure, there was also a corresponding increase in investment of £275,892,000 in QBE Holdings (EO) Limited. Further investment in QBE Holdings (EO) Limited was made during 2013 due to the full redemption of senior convertible debt securities issued in May 2010. QBE Group funded the redemption via permanent capital injection of £355,321,000 into QBE Holdings (EO) Limited.

There were no material acquisitions in 2014 or 2013. No subsidiaries of the Company were dissolved or liquidated in 2014. The following Company's subsidiaries were dissolved or liquidated during 2013: QBE Hu kft (in February 2013), QBE Insurance Company (UK) Limited (in April 2013) and QBE Investment Management (UK) Limited (in August 2013). Further information regarding the Company's subsidiaries which are held for sale in 2014 is disclosed in note 35.

34 Reinsurance of Italian and Spanish medical malpractice liabilities

During the year, the Group entered into a significant transaction with a third party organisation whereby, in return for a reinsurance premium, the Group benefits from 100% reinsurance protection of the legacy Italian and Spanish medical malpractice liabilities held by the Group. The class of business was written by the Group between 2002 and 2013.

The reduction in the net central estimate of claims is reflected in the claims development table in note 18, with the amount of the impact on the prior year development shown in note 6(ii).

35 Discontinued operations and held for sale assets

During the year, the Group sold the renewal rights to business of the Bulgarian and Romanian branches. Branch operations have been terminated and all employees transferred to the purchaser. As part of the sale, the Group benefits from a 100% reinsurance of our net liabilities.

Furthermore, during the year, the Group sold the renewal rights to its Lloyd's aviation business.

Effective 1 January 2015, the Group entered into a transaction whereby the Group will benefit from a 100% reinsurance of our Hungary, Slovakia and Czech Republic branch liabilities. In addition, the intention is to transfer the existing business of those branches by way of a Part VII transfer.

As part of the transaction, a non-refundable deposit has been paid to the Group in the year. At the year end, this transaction has no effect on the insurance balances of the branches affected.

Following the year end, a conditional agreement has been signed to sell the Group's interest in QBE Ukraine. The completion of the disposal is subject to several conditions, including local regulatory approvals.

Assets and liabilities in relation to these businesses have been classified as held for sale as at 31 December 2014, and shown as such on the balance sheet.

The results of the discontinued operations are as follows:

GROUP	2014 £000	2013 £000
Net earned premium	**52,865**	37,668
Claims and other insurance expenses	**(44,482)**	(33,177)
Underwriting result	**8,383**	4,491
Other income and expenses	**4,717**	1,060
Profit before income tax from discontinued operations	**13,100**	5,551
Income tax	**(948)**	(934)
Profit for the year from discontinued operations	**12,152**	4,617

The assets and liabilities of operations held for sale as at 31 December 2014 are:

GROUP	2014 £000	2013 £000
Assets		
Cash and cash equivalents	**12,139**	14,018
Investments	**-**	2
Trade and other receivables	**39,195**	39,771
Reinsurance and other recoveries on outstanding claims	**5,827**	3,396
Current tax assets	**165**	115
Deferred insurance costs	**6,832**	7,998
Property, plant and equipment	**392**	467
Deferred tax assets	**1,971**	1,838
Total assets	**66,521**	67,605
Liabilities		
Trade and other payables	**12,679**	9,673
Current tax liabilities	**498**	663
Unearned premium	**17,826**	20,995
Outstanding claims	**22,691**	26,470
Deferred tax liabilities	**-**	9
Total liabilities	**53,694**	57,810
Net assets	**12,827**	9,795

Glossary of insurance terms

Acquisition cost
The total of net commission and operating expenses incurred in the generation of net earned premium and often expressed as a percentage of net earned premium.

Broker
One who negotiates contracts of insurance or reinsurance on behalf of an insured party, receiving a commission from the insurer or reinsurer for placement and other services rendered.

Capacity
In relation to a Lloyd's member, the maximum amount of insurance premiums (gross of reinsurance but net of brokerage) which a member can accept. In relation to a syndicate, the aggregate of each member's capacity allocated to that syndicate.

Casualty insurance
Insurance that is primarily concerned with the losses caused by injuries to third persons or their property (i.e. not the policyholder) and the resulting legal liability imposed on the insured. It includes, but is not limited to, general liability, employers' liability, workers' compensation, professional liability, public liability and motor liability insurance.

Catastrophe reinsurance
A reinsurance contract (often in the form of excess of loss reinsurance) that, subject to specified limits and retention, compensates the ceding insurer for the amount of loss with respect to an accumulation of claims resulting from a catastrophe event or series of events.

Claim
The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.

Claims incurred
The aggregate of all claims paid during an accounting period adjusted by the change in the claims provision for that accounting period.

Claims provision
The estimate of the most likely cost of settling present and future claims and associated claims adjustment expenses plus a risk margin to cover possible fluctuation of the liability.

Claims ratio
Net claims incurred as a percentage of net earned premium.

Combined operating ratio
The sum of the claims ratio, commission ratio and expense ratio. A combined operating ratio below 100% indicates profitable underwriting results. A combined operating ratio over 100% indicates unprofitable underwriting results.

Commercial lines
Refers to insurance for businesses, professionals and commercial establishments.

Commission
Fee paid to an agent or broker, usually calculated as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer and the marketing methods.

Commission ratio
Net commission expense as a percentage of net earned premium.

Deferred acquisition costs
Acquisition costs relating to the unexpired period of risk of contracts in force at the balance sheet date which are carried forward from one accounting period to subsequent accounting periods.

Excess of loss reinsurance
A form of reinsurance in which, in return for a premium, the reinsurer accepts liability for claims settled by the original insurer in excess of an agreed amount, generally subject to an upper limit.

Expense ratio
Underwriting and administrative expenses as a percentage of net earned premium.

Facultative reinsurance
The reinsurance of individual risks through a transaction between the reinsurer and the cedant (usually the primary insurer) involving a specified risk.

General insurance
Generally used to describe non-life insurance business including property and casualty insurance.

Gross claims incurred
The amount of claims incurred during an accounting period before deducting reinsurance recoveries.

Gross earned premium (GEP)
The proportion of gross written premium recognised in the current financial year, reflecting the pattern of the incidence of risk and the expiry of that risk.

Gross written premium (GWP)
The total premium on insurance underwritten by an insurer or reinsurer during a specified period, before deduction of reinsurance premium.

Incurred but not reported (IBNR)
Claims arising out of events that have occurred before the end of an accounting period but have not been reported to the insurer by that date.

Insurance profit
The sum of the underwriting result and investment income on assets backing policyholders' funds.

Inward reinsurance
The reinsurance or assumption of risks written by another insurer.

Large individual risk and catastrophe claims ratio
The aggregate of claims each with a net cost of US$2.5 million or more as a percentage of net earned premium.

Lead/non-lead underwriter
A lead underwriter operates in a subscription market and sets the terms and price of a policy. The follower or non-lead is an underwriter of a syndicate or an insurance company that agrees to accept a proportion of a given risk on terms set by the lead underwriter.

Letters of Credit (LoC)
Written undertaking by a financial institution to provide funding if required.

Lloyd's
Insurance and reinsurance market in London. It is not a company but is a society of individuals and corporate underwriting members.

Lloyd's managing agent
An underwriting agent which has permission from Lloyd's to manage one or more syndicates and carry on underwriting and other functions for a member.

Long tail
Classes of insurance business involving coverage for risks where notice of a claim may not be received for many years and claims may be outstanding for more than one year before they are finally quantifiable and settled by the insurer.

Maximum event retention (MER)
An estimate of the largest claim to which an insurer will be exposed (taking into account the probability of that loss at a return period of one in 250 years) due to a concentration of risk exposures, after netting off any potential reinsurance recoveries and inward and outward reinstatement premiums.

Net claims incurred
The amount of claims incurred during an accounting period after deducting reinsurance recoveries.

Net claims ratio
Net claims incurred as a percentage of net earned premium.

Net earned premium (NEP)
Net written premium adjusted by the change in net unearned premium for a year.

Net investment income
Gross investment income net of foreign exchange gains and losses and net of investment expenses.

Net written premium (NWP)
The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.

Outstanding claims provision
The amount of provision established for claims and related claims expenses that have occurred but have not been paid.

Policyholders' funds
Those financial assets held to fund the insurance provisions of the Group.

Premium
Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.

Probability of adequacy
A statistical measure of the level of confidence that the outstanding claims provision will be sufficient to pay claims as and when they fall due.

Proportional reinsurance
A type of reinsurance in which the original insurer and the reinsurer share claims in the same proportion as they share premiums.

Recoveries
The amount of claims recovered from reinsurance, third parties or salvage.

Reinsurance
An agreement to indemnify a primary insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the primary insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedant or ceding company and is said to place outward reinsurance.

Reinsurance to close
A reinsurance agreement under which members of a syndicate, for a year of account to be closed, are reinsured by members who comprise that or another syndicate for a later year of account against all liabilities arising out of insurance business written by the reinsured syndicate.

Reinsurer
The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer. The term includes retrocessionaires, being insurers that assume reinsurance from a reinsurer.

Retention
That amount of liability for which an insurance company will remain responsible after it has completed its reinsurance arrangements.

Retrocession
Reinsurance of a reinsurer by another reinsurance carrier.

Short tail
Classes of insurance business involving coverage for risks where claims are usually known and settled within 12 months.

Solvency ratio
Ratio of net tangible assets to net earned premium. This is an important industry indicator in assessing the ability of general insurers to settle their existing liabilities.

Stop loss reinsurance
A form of excess of loss reinsurance which provides that the reinsurer will pay some or all of the reassured's losses in excess of a stated percentage of the reassured's premium income, subject (usually) to an overall limit of liability.

Surplus (or excess) lines insurers
In contrast with "admitted insurers", every US state allows non-admitted (or "surplus" or "excess lines") carriers to transact business where there is a special need that cannot or will not be met by admitted carriers. The rates and forms of non-admitted carriers generally are not regulated in that state, nor are the policies back-stopped by the state insolvency fund covering admitted insurance. Brokers must inform clients if their insurance has been placed with a non-admitted insurer.

Survival ratio
A measure of how many years it would take for dust disease claims to exhaust the current level of claims provision. It is calculated on the average level of claims payments in the last three years.

Syndicate
A member, or group of members, underwriting insurance business at Lloyd's through the agency of a managing agent.

Treaty reinsurance
Reinsurance of risks in which the reinsurer is obliged by agreement with the cedant to accept, within agreed limits, all risks to be underwritten by the cedant within specified classes of business in a given period of time.

Underwriting
The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.

Underwriting expenses
The aggregate of policy acquisition costs, excluding commissions, and the portion of administrative, general and other expenses attributable to underwriting operations.

Underwriting result
The amount of profit or loss from insurance activities exclusive of net investment income and capital gains or losses.

Underwriting year
The year in which the contract of insurance commenced or was underwritten.

Unearned premium
The portion of a premium representing the unexpired portion of the contract term as of a certain date.

Written premium
Premiums written, whether or not earned, during a given period.

Directors and officers

Directors

P A Dodridge	
T C W Ingram*	Appointed 01 October 2014
J D Neal	
R V Pryce	
D J Winkett	

Former directors who served during part of the year

B W Pomeroy*	Resigned 30 September 2014

* Non-executive director

Company Secretary

S M Boland

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