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QBE Syndicate 2999 Annual report 2019

QBE Syndicate 2999

Annual Report

31 December 2019

QBE SYNDICATE 2999

ANNUAL REPORT
for the year ended 31 December 2019

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MANAGING AGENCY – CORPORATE INFORMATION

Directors

T C W Ingram*	
M G McCaig*	
C R O'Farrell	
R V Pryce	
S W Sinclair*	
N J D Terry	
D J Winkett	
J W Parry	Appointed 29 March 2019
C A Brown*	Appointed 1 May 2019

* non-executive Directors

Former Director who served during part of the year

W-F Au* Resigned 30 June 2019

Company secretary

A J Smith

Registered office

Plantation Place
30 Fenchurch Street
London
EC3M 3BD

Independent auditors

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

STRATEGIC REPORT

The Directors of QBE Underwriting Limited, the Managing Agent for QBE Syndicate 2999 (the Syndicate), present their Strategic report for the Syndicate for the year ended 31 December 2019.

Background

The Syndicate comprises four trading units, or sub-Syndicates, led by Colin O'Farrell and Jonathan Parry as joint Active Underwriters.

The sub-Syndicates and associated classes of business for 2019 are as follows:

Sub-Syndicate	Classes of business
566	Reinsurance: property; aviation; casualty treaty; personal accident; and marine
1036	Marine insurance: hull; energy; liability; specie; cargo; war; ports; and political risks
1886	Non-marine general liability; professional and financial lines; motor; specialty and; marine P&I
5555	Multi-line facility business

Business review, key performance indicators, and future developments

	2019 Total £m	2018 Total £m
Gross written premium	1,221.6	1,191.6
Net earned premiums	898.7	881.7
Net claims	(518.2)	(530.8)
Acquisition costs	(250.5)	(241.4)
Other net operating expenses	(78.6)	(92.0)
Net underwriting profit	51.4	17.4
Investment return	43.3	29.4
Non-technical account income / (expense)	14.6	(21.3)
Total profit for the year	109.3	25.5
Claims ratio	57.7%	60.2%
Combined operating ratio	94.3%	98.0%

The Active Underwriters' comment as follows:

The 2019 financial year has produced a total profit for the year of £109.3m (2018 profit £25.5m) and a combined operating ratio of 94.3% (2018 98.0%).

Overall gross written premium of £1,222m (£1,192m) was up on the previous year reflecting improved market conditions across all major product lines, with actual rate experience for the Syndicate's 2019 underwriting year concluding at +8.1% against +2.1% plan.

Whilst the global (re)insurance market experiences a reduction in catastrophe losses for 2019, the year was far from catastrophe free. The Syndicate's inwards reinsurance portfolio (sub-Syndicate 566) saw significant loss activity from Japanese Typhoons (Faxai & Hagibis), as well as Hurricane Dorian causing devastation in the Bahamas. However, this was mitigated through strong management of attritional loss ratio as well as disciplined cycle management producing a material profit contribution to the Syndicate. The Syndicate's insurance portfolio (sub-Syndicate's 1036, 1886 and 5555) experienced adverse gross large losses in its Financial Lines and International Liability classes, albeit largely mitigated by the Syndicate's reinsurance programme. This, coupled with the improved rating environment, has resulted in a reduced net claims ratio of 57.7% (2018 60.2%) for the Syndicate. This result includes the impact of a change to the Ogden discount rate from +0.25% in 2018 to -0.25%, following the announcement by Ministry of Justice in July 2019.

Total acquisition and other operating costs remain materially unchanged from the prior year at £329.1m (2018 £333.5m).

An improved investment return of £43.3m (2018 £29.4m), together with a positive non-technical account contribution (principally comprising a foreign exchange profit arising from the revaluation of non-monetary balances), has significantly contributed to the overall profit for the year of £109.3m.

STRATEGIC REPORT (continued)

The Active Underwriters' comment as follows (continued):

The Syndicate's reserving philosophy remains unchanged from previous year and EY have again been engaged to provide independent projections to support the Statement of Actuarial Opinion (SAO).

Outlook

In response to the cumulative impact of rate reductions and coverage extensions over many years, the rating outlook continues to improve. Excess capital prevails in most markets, however there has been a demonstrable reduction in capacity deployment, with carriers utilising their capacity far more selectively, aligned to price adequacy. This has helped maintain rate firming momentum into 2020, however due to the dynamic nature of the market, its sustainability is uncertain.

Following constructive engagement with Lloyd's, the Syndicate's 2020 business plan represents no material change from 2019 and stamp capacity remains static at £1,100m. The Syndicate's 2020 reinsurance programme cost and structure is also materially unchanged from 2019. Both external regulatory and Lloyd's oversight continue to assist us in our risk appetite management, including emerging risks.

The syndicate will be utilising the Lloyd's Brexit solution for European risks.

We continue to build upon our capabilities in analytical techniques to assist our underwriting, claims and sales/distribution teams in their risk selection and improve customer solutions.

We continue to be encouraged by the strategic intent of The Future at Lloyd's project to provide our customers with the most professional, efficient and cost-effective solutions to their insurance needs.

Investment policy

QBE European operations operates an investment committee which is responsible for developing and monitoring the Syndicate's investment policy and strategy, subject to QBE Underwriting Limited's Board approval. The committee also monitors the Syndicate's investment manager's performance and their compliance with the internal guidelines set by the committee and external regulation. The investment policy is designed to ensure that liquidity, credit and market risk are appropriately managed.

Syndicate investments are primarily held in fixed income bonds and money market instruments; with modest exposure to growth assets through investment funds in emerging and developed market equities, emerging market debt, infrastructure assets and unlisted property. The majority of fixed income portfolios have an average credit rating equivalent to or better than Standard & Poor's "A". The minimum permitted credit quality per the guidelines is "BBB-" grade instruments. The performance of the investment manager is monitored against an absolute return mandate, using other reference benchmarks or peer group performance as key performance indicators.

Responsibility for the oversight and monitoring of the asset / liability strategy falls within the remit of the QBE European operations investment committee. Risks monitored include the matching of investment assets and the liabilities generated by insurance activities. In 2019 the Syndicate held investments with shorter average duration than would normally be expected if it were wholly matching the duration of liabilities relating to long-tail classes of business.

Management of the investment portfolios for the Syndicate is delegated to QBE Group Services Pty Limited, (the investment manager), a wholly owned subsidiary of the QBE Insurance Group.

The Syndicate operates a policy to minimise foreign exchange risk by holding monetary assets in foreign currencies in order to match monetary liabilities in such currencies where size is deemed material. Any remaining material monetary foreign currency exposure is hedged using foreign exchange derivatives in order to minimise foreign exchange risk.

Investment performance

The total investment returns achieved for each financial year are set out below. These include income earned on funds which are not managed by the investment manager, such as certain regulatory overseas deposits managed directly by Lloyd's. The combined currency average return for the year was 3.9% (2018 2.6%).

STRATEGIC REPORT (continued)

Investment performance (continued)

Portfolio currency	2019 Average funds £m	2019 Average return %	2019 Target return %	2018 Average funds £m	2018 Average return %	2018 Target return %
Australian dollar	80.4	3.6	3.5	96.2	2.7	2.7
Canadian dollar	678.7	2.7	2.8	596.3	1.9	2.0
Euro	10.1	5.1	2.7	68.1	(0.3)	0.6
Sterling	83.0	1.9	2.0	45.4	0.8	0.5
US dollar	517.8	6.2	3.8	566.4	3.6	3.4

The benchmark target for investment portfolios is an absolute return yield, agreed for each currency on an annual basis by the Board of QBE Underwriting Limited. Combined asset class targets for each currency agreed for each financial year are shown above.

A rebound in sentiment early in 2019 following the December 2018 sell-off, along with an easing of trade and Brexit concerns towards the end of the year, contributed to gains across risk assets and a drop in bond yields during the year. US/China trade negotiations, Brexit and changes in future economic growth expectations were major drivers of price action in financial markets during 2019.

Over the course of 2019 there was a notable dovish shift by central banks in response to faltering economic growth, stemming from trade related issues, with central banks in the US, Eurozone and Australia reducing rates during the year. Sovereign bonds saw positive returns over the year, however, Q4 2019 saw something of a reverse as government bonds underperformed risk assets during this period. UK Gilts lead the decline closely followed by EU Sovereign bonds. Elsewhere in fixed income, USD investment grade credit led the way in 2019 (spreads tightened around 40bps for short term single A corporates, and BBBs tightened a little over 65bps across currencies).

Global equities recovered from weakness at the end of 2018 to end the year at or near record highs. Emerging market equities also rallied, outperforming developed market equities in the last quarter of 2019, with improved trade sentiment, stronger commodity prices and a softening USD all supportive.

US dollar and Euro denominated investment holdings outperformed their currency targets for the year, reflecting the performance of US investment markets and a rebound from 2018 in the Syndicates Euro denominated investment holdings. The overall investment return for the Syndicate at 3.9% (2018 2.6%) was ahead of the weighted annual target return of 3.1% (2018 2.5%).

The Syndicate’s fixed income portfolios continued to be managed conservatively during the year, with average duration maintained around three years. Through the investment manager’s cautious stance, the Syndicate has not incurred any credit defaults or write downs in any of its fixed interest portfolios.

Corporate governance

The Syndicate is managed by QBE Underwriting Limited (QUL or the Company), a subsidiary of QBE European Operations plc, which is the holding company for the European operations (QBE EO) of QBE Insurance Group Limited (QBE Group). The corporate governance framework is managed at QBE EO level.

During 2019, the Company’s corporate governance structure and system of governance has continued to evolve, reflecting the Boards’ ongoing commitment to ensuring that it remains efficient, relevant and supportive of the strategic aims of the Company. The structure continues to comply with all relevant regulatory and legal requirements. As a member of the QBE Group, the Company is not bound by any corporate governance code.

During 2019, following adoption of the QBE Group Governance Framework (‘GGF’), the Remuneration and Nomination Committee was split to form the following two committees: (i) The People & Remuneration Committee (with a broader remit encompassing people and culture issues) and (ii) The Nomination Committee with the Chair of the Board chairing the Nomination Committee and an independent non-executive Director of QUK and QUL taking over as Chair of the People & Remuneration Committee.

During the year, Committee Terms of Reference were reviewed by the relevant Committees and Boards, with minor enhancements being made to reflect ongoing assessment of key responsibilities of the Committees and the requirements of the GGF with regard to membership and responsibilities of the committees.

STRATEGIC REPORT (continued)

Corporate governance (continued)

In May 2019, the QBE Group, undertook a Board Effectiveness Review encompassing the Divisional Boards, including the Board of the Company. The Review was conducted by a UK based external provider. Comments supporting continuous improvement of effectiveness of the Board arising from the Review were discussed by the Boards and a number of minor actions were agreed.

A Board away day was held in May, providing the opportunity for the Boards to focus on strategy (with presentations from senior management) and to meet more informally. In November, a further strategy session was held in order to discuss progress on strategic priorities. The non-executive Director engagement was further supported through informal meetings exclusively for QBE EO non-executive Directors', meetings with non-executive Directors' from the QBE Group Board and a QBE Group wide non-executives Directors' conference held in June 2019.

The main QBE EO Boards and Board Committees met regularly during the year with strong attendance from all members. The Board of the Company met 11 times during 2019.

The Board of QBE Underwriting Limited

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

The Board is chaired by Tim Ingram, independent non-executive Director. The role of the Chairman of the Board is distinct from that of the Chief Executive Officer, and each role is clearly established. The Board considers that the experience and areas of focus which each Board member brings to the Company results in a strong and balanced leadership team to set and monitor the strategy and values of the Company.

In conjunction with QBE Group and supported by the Nomination Committee, succession planning is undertaken in accordance with the talent and culture objective within the strategic priorities of both QBE EO and QBE Group.

Board Committees

The Board of the Company and the other regulated companies in QBE EO, 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
- Investment Committee
- People and Remuneration Committee
- Nomination Committee
- Risk and Capital Committee

In addition, the Executive Management Board (which has been constituted by the Board of the Company) has also been constituted to act as a Management Committee of the Company and other UK regulated companies in QBE EO.

Principal risks and uncertainties of the Syndicates and the Company

The Syndicates and the Company face a number of principal risks and uncertainties specific to their role as insurance undertakings.

The Company's established Enterprise Risk Management 'ERM' Framework describes QBE's approach to managing risk effectively, which in turn supports our strategy and fundamental principles. QBE's Risk Appetite Statements (RAS) set out the nature and level of risk that the Board willing to take in pursuit of the organisation's objectives. The RAS is used to support risk-based decision making by clearly defining QBE's appetite (what we should do) and tolerance (what we can do) and provides coverage over the risk categories defined below.

A summary of the main risk categories faced by the Company, and risk mitigation techniques to identify, assess, evaluate and mitigate these risks are outlined as follows:

Strategic risk

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

STRATEGIC REPORT (continued)

Strategic risk (continued)

The Company manages strategic risk using the following:

- Through management and monitoring of strategic related risk including performance, capital, reputational, Environmental Social and Governance (ESG), emerging risks and risk culture monitoring.
- Considering strategic options in light of the impact on return volatility and capital requirements of the Company; and
- Planning and monitoring capital levels of the Company on an ongoing basis, with reference to economic requirements.

Insurance risk

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

Our exposure to insurance risk arises from;

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

The Company manages insurance risk as follows:

- Analysing historical pricing and claims experience;
- Setting a tolerance to concentration risk;
- Monitoring and reviewing underwriting performance and authority limits;
- Monitoring usage and availability of pricing models including independent reviews;
- Setting thresholds and monitoring of reserve probability of adequacy 'PoA'; and
- Conducting both an in-house and external actuarial review of our claims provisions, independent of our underwriting teams.

Credit risk

The Company defines credit risk as the risk of financial loss where a customer, counterparty or issuer fails to meet their obligations to the Company in accordance with agreed terms. Failure includes both inability or willingness to do so. The Company's exposure to credit risk results from financial transactions with securities issuers, debtors and guarantors.

The Company manages credit risk as follows:

- The holding of collateral in respect of specific exposures held by EO Group and its regulated subsidiaries;
- Various levels of credit risk limits that are monitored against on a regular basis;
- Regular counterparty monitoring through dedicated systems and procedures to manage and control exposure to counterparties;
- The monitoring on an on-going basis of external ratings and QBE Group ratings and updating as appropriate; and
- Regular review of receivables, the collectability of those debts, and the adequacy of associated impairments.

Market risk

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

The Company manages market risk as follows:

- Actively managing investment assets;
- Maintaining a diversified portfolio;
- Hedging residual non-functional currency net asset exposures;
- Use of derivatives for efficient portfolio management; and
- Monitoring compliance with legal and regulatory requirements, including Prudent Person Principle.

Liquidity risk

The Company defines liquidity risk as the risk of holding insufficient liquid assets to meet liabilities as they all due to creditors or only being able to do so at excessive cost in both normal and stressed conditions.

STRATEGIC REPORT (continued)

Liquidity risk (continued)

The Company manages liquidity risk using the following:

- Setting minimum levels of liquid, short term money market securities;
- Matching assets and liabilities in our major currency positions;
- Regular monitoring of the ratio of liquid assets to liabilities is undertaken; and
- The production of cash-flow statements by the Treasury function, supplemented by Early Warning Indicators to proactively identify any changes to the liquidity positions or potential funding needs.

Operational risk

The Company defines operational risk as the risk of financial loss resulting from inadequate or failed internal processes, people and systems or from external events. Exposure to operational risk arises from- internal fraud, external fraud, employment practices and workplaces safety, improper business practises, damage to physical assets, business disruption and system failures, execution, delivery and process management.

The Company manages operational risk using the following:

- Actively monitoring our key processes and systems;
- Conducting scenario reviews to identify and quantify potential exposures for mitigation;
- Maintaining effective segregation of duties, access controls, governance and reconciliation procedures;
- Performance of Risk and Control Self- Assessments (RCSA) providing periodic assessment of risks as well as assurance over control design and performance;
- Operational Risk Dashboards monitoring including Operational Key Risk Indictors 'KRIs'; and
- Identification and management of Issues and Incidents with defined remediation plans in place.

Compliance risk

The Company defines compliance risk as the risk of legal or regulatory penalties, financial loss or impacts and non-financial loss or impacts (including reputational damage) resulting from a breach of obligations. Obligations refers to those in legislation, regulation, industry codes and standards, internal policies and ethical and business standards.

The Company manages compliance risk using the following:

- Actively monitoring our key controls, processes and systems;
- Conducting scenario reviews to identify and quantify potential exposures for mitigation;
- Monitoring of internal / external fraud, improper business practices and non-compliance with internal and external requirements; and
- Maintaining effective segregation of duties, access controls, governance and reconciliation procedures.

Group and Lloyd's risk

The Company defines group risk as the risk arising specifically from being part of a wider group, including financial impact and loss of support from the QBE Group; coupled with operating in the Lloyd's Market.

The Company manages group risk using the following:

- Challenge and oversight of independent non-executive Directors on the Company Board;
- Contractual arrangements in place for material services provided by other QBE Group divisions and companies;
- Active monitoring and management against the QBE Group services framework which governs the procurement, monitoring and review of services provided to the Company by the wider QBE Group;
- Board's group risk appetite monitoring including intra-group loans, exposure to Equator Re (QBE captive reinsurer) and Group Outsources Services SLAs monitoring; and
- Involvement of QBE EO individuals within material QBE Group initiatives that could impact the Company.

Solvency II and capital adequacy

The Syndicates managed by the Company have applied QBE EO's Prudential Regulation Authority (PRA) approved internal capital model from 1 January 2016. The internal model is an integrated framework to support its objectives by managing risk and capital across the Syndicates' business. The internal model has broad scope including capital modelling; risk identification, mitigation, assessment and monitoring, and is used in the day to day operation of the Company

The internal model is used to help assess our risk and calculate the appropriate level of risk-based capital to allocate to risks to which we are exposed.

STRATEGIC REPORT (continued)

Solvency II and capital adequacy (continued)

The assessment of risk-based capital enables us to make decisions that involve quantitative risk reward trade-offs. The allocation of risk-based capital helps ensure that the level of risk we take is commensurate with the required returns and is within the approved risk appetite and tolerance.

Business continuity management

An established business continuity management framework is in place to ensure the Company is able to respond effectively to incidents that threaten business continuity and is designed to ensure that the impact of any major disruption is minimised.

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

This Strategic report was approved by the Board of Directors on 3 March 2020 and signed on its behalf by:

D J Winkett
Director

QBE Underwriting Limited
London

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of QBE Underwriting Limited, the Managing Agent for the Syndicate, present their report and the audited annual accounts of the Syndicate for the year ended 31 December 2019.

This annual report is prepared using the annual basis of accounting as required by regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 2008 Regulations).

Strategic report

The Strategic report, which includes details of the Syndicate's principal activities, development, performance and KPI's, risk management framework and governance structure is set out on pages 3 to 9.

Internal audit

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

Relationship with Managing Agent

QUL has adopted a code of conduct which outlines a set of general business ethics that apply to all employees when conducting any activity on behalf of the Syndicate. The code of conduct requires employees to carry on business in an open and honest manner with customers, shareholders, employees, regulatory bodies, outside suppliers, intermediaries and the community at large. The code also deals with a number of other requirements including whistle-blowing, confidentiality, disclosure of information, conflicts of interest and treating customers fairly. Other policies are in place to cover areas such as health and safety, harassment, equal opportunities and financial crime.

Statement of Managing Agent's responsibilities

The Directors of the Managing Agent are responsible for preparing the Strategic report, report of the Directors of the Managing Agent and the annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (IAD) requires the Managing Agent to prepare annual accounts for each financial year. Under that law the Directors are required to prepare the Syndicate annual accounts in accordance with UK generally accepted accounting practice (UK accounting standards and applicable law). The IAD requires that the Directors must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit and loss of the Syndicate for that period.

In preparing these Syndicate annual accounts, the Managing Agent is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- Prepare the annual accounts on the basis that the Syndicate will continue to write business unless it is inappropriate to presume that the Syndicate will do so.

The Directors of the Managing Agent are responsible for keeping proper accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the Syndicate annual accounts comply with the IAD. They are also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors of the Managing Agent are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Statement of disclosure of information to auditors

Each person who is a Director of the Managing Agent at the date of this report confirms that:

- So far as the Director is aware, there is no information relevant to the audit of the Syndicate's annual accounts for the year ended 31 December 2019 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 Syndicate's auditors are aware of, any relevant audit information.

Independent auditors

The Directors of the Managing Agent intend to reappoint PricewaterhouseCoopers LLP as the Syndicate's auditors.

On behalf of the Board of the Managing Agent.

D J Winkett
Director

QBE Underwriting Limited
London
3 March 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF QBE SYNDICATE 2999

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 2999's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019, the profit and loss account for the year then ended, the statement of cash flows, the statement of income and members balances for the year then ended, and the notes to the syndicate annual accounts which include a description of the significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the syndicate annual accounts* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the Managing Agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF QBE SYNDICATE 2999 (continued)

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

With respect to the Report of the Directors of the Managing Agent, we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

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

Report of the Directors of the Managing Agent
In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Directors of the Managing Agent for the year ended 31 December 2019 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

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

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

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

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the syndicate's member in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF QBE SYNDICATE 2999 (continued)

Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, 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 Managing Agent in respect of the syndicate; or
- certain disclosures of Managing Agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Deepti Vohra (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
03 March 2020

PROFIT AND LOSS ACCOUNT -
TECHNICAL ACCOUNT - GENERAL BUSINESS
for the year ended 31 December 2019

	Note	£m	2019 £m	£m	2018 £m
Earned premiums, net of reinsurance					
Gross premiums written	3	1,221.6		1,191.6	
Outward reinsurance premiums		(300.3)		(315.4)	
Net premiums written			921.3		876.3
Change in the gross provision for unearned premiums		(24.0)		(0.5)	
Change in the provision for unearned premiums, reinsurers' share		1.4		5.9	
			(22.6)		5.4
Earned premiums, net of reinsurance			898.7		881.7
Allocated investment return transferred from the non-technical account			43.3		29.4
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(933.4)		(828.2)	
Reinsurers' share		342.3		259.9	
		(591.1)		(568.2)	
Change in the provision for claims					
Gross amount		108.6		(14.9)	
Reinsurers' share		(35.7)		52.4	
		72.9		37.4	
Claims incurred, net of reinsurance			(518.2)		(530.8)
Net operating expenses	4		(329.1)		(333.5)
Balance on the technical account for general business – continuing operations			94.7		46.8

The notes set out on pages 21 to 41 form an integral part of these annual accounts

PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT

for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Balance on the general business technical account		94.7	46.8
Investment income	7(a)	68.0	43.2
Unrealised gains on investments		227.3	256.2
Investment expenses and charges	7(b)	(21.0)	(16.9)
Unrealised losses on investments		(231.0)	(253.1)
Investment return		43.3	29.4
Allocated investment return transferred to the general business technical account		(43.3)	(29.4)
Non-technical account income / (charge)		14.6	(21.3)
Profit for the financial year		109.3	25.5

The results above are derived from continuing operations.

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

The notes set out on pages 21 to 41 form an integral part of these annual accounts

STATEMENT OF INCOME AND MEMBERS BALANCE

for the year ended 31 December 2019

	2019 £m	2018 £m
Members’ balance as at 1 January	(246.7)	(187.9)
Profit for the financial year	109.3	25.5
Cash call / (payments out of profit to members’ personal reserve funds)	64.7	(80.0)
Other non-standard personal expenses	-	(4.3)
Members’ balance as at 31 December	(72.7)	(246.7)

The notes set out on pages 21 to 41 form an integral part of these annual accounts

BALANCE SHEET
as at 31 December 2019

Assets	Note	2019 £m	2018 £m
Investments			
Other financial investments	8	1,265.1	1,114.0
Derivative financial instrument - assets	9	11.4	6.3
		1,276.6	1,120.3
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	75.3	78.8
Claims outstanding	12	861.5	927.4
		936.8	1,006.1
Debtors			
Debtors arising out of direct insurance operations	13(i)	444.2	445.6
Debtors arising out of reinsurance operations	13(ii)	159.6	214.6
Other debtors	13(iii)	15.3	24.0
		619.1	684.2
Other assets			
Cash at bank and in hand		11.4	31.7
Overseas deposits	14	219.7	203.8
		231.1	235.5
Prepayments and accrued income			
Accrued interest and rent		7.3	6.7
Deferred acquisition costs	15	185.7	166.2
Other prepayments and accrued income		6.7	10.1
		199.7	183.0
Total assets		3,263.3	3,229.1

The notes set out on pages 21 to 41 form an integral part of these annual accounts

BALANCE SHEET
as at 31 December 2019

Liabilities	Note	2019 £m	2018 £m
Members' balance		(72.7)	(246.7)
Technical provisions			
Provision for unearned premiums	12	656.2	658.0
Claims outstanding	12	2,328.4	2,491.3
		2,984.6	3,149.3
Creditors			
Creditors arising out of direct insurance operations	20(i)	165.8	94.4
Creditors arising out of reinsurance operations	20(ii)	125.3	163.9
Other creditors including taxation and social security	21	50.3	58.9
		341.4	317.2
Accruals and deferred income		10.0	9.3
Total liabilities		3,263.3	3,229.1

These annual accounts on pages 15 to 41 were approved by the Board of QBE Underwriting Limited on 3 March 2020 and were signed on its behalf by:

D J Winkett
Director

The notes set out on pages 21 to 41 form an integral part of these annual accounts

STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

Cash flow from operating activities	2019 £m	2018 £m
Operating Profit for the financial year	109.3	25.5
(Decrease) / increase in gross technical provisions	(164.7)	90.7
Decrease / (increase) in reinsurers' share of technical provisions	69.3	(79.4)
Decrease / (increase) in debtors	50.7	(129.4)
Increase in creditors	22.7	25.2
Investment return	(43.3)	(29.4)
Foreign exchange	47.2	(58.4)
	91.2	(155.1)
Cash flows from investing activities		
Purchase of equity and debt instruments	(1,546.0)	(2,584.0)
Sale of equity and debt instruments	1,345.4	2,803.3
Purchase of derivatives	(0.1)	(0.3)
Sale of derivatives	0.1	0.2
Investment income received	47.0	26.3
Unrealised investment (loss) / income	(3.7)	3.1
	(157.3)	248.6
Cash flow from financing activities		
Distribution of profit	(50.3)	(80.0)
Cash call	115.0	-
Non-standard personal expenses[1]	-	(4.3)
	64.7	(84.3)
Movement in cash, portfolio investments and financing		
Cash and cash equivalents at the beginning of the year	235.5	231.0
Net decrease in cash and cash equivalents	(1.5)	9.2
Foreign exchange movement on cash and cash equivalents	(2.9)	(4.6)
Cash and cash equivalents at the end of the year	231.1	235.5

[1]Members' agents' fees and non-standard personal (expenses) / income are disclosed as cash flow from financing activities (previously cash flow from operating activities) as these items relate to the members.

The notes set out on pages 21 to 41 form an integral part of these annual accounts

NOTES TO THE ANNUAL ACCOUNTS

for the year ended 31 December 2019

1. Accounting policies

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

(a) Basis of preparation

These annual accounts have been prepared in accordance with regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102'') and Financial Reporting Standard 103 "Insurance Contracts" (''FRS 103'').

These annual accounts incorporate all transactions committed to by the 2019 year of account and prior years of account.

The Directors of the Managing Agent have prepared the annual accounts on the basis that the Syndicate will continue to write business. The ability of the Syndicate to meet its obligations as they fall due is underpinned by the support provided by Lloyd's solvency process and its chain of security for any members who are unable to meet their underwriting liabilities. Members' Funds at Lloyd's are further explained in note 2.

(b) Basis of accounting for insurance

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

(i) Premiums written

Premiums written comprise premiums on contracts incepted during the financial year, together with adjustments made in the year to premiums written in prior years. Premiums are shown gross of commissions payable to intermediaries and exclude taxes and duties levied on them. Estimates are included for premiums due but not yet received or notified, less an allowance for cancellations.

(ii) Unearned premiums

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

(iii) Outwards reinsurance

Outwards reinsurance premiums written relate to business ceded during the year, including an estimate of any adjustment premiums payable, together with any differences between estimates in the prior years and that actually ceded. Outwards premiums are recognised as earned over the period of the policy having regard to the incidence of risk. Policies that respond with reference to the attachment point are earned in line with the related inwards written premiums.

(iv) Claims incurred

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

(v) Claims provisions and related reinsurance recoveries

Provisions are made for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Syndicate. The estimated cost of claims includes expenses to be incurred in settling claims and allows for the expected value of salvage and other recoveries.

Outstanding claims and reinsurance recoveries are estimated by reviewing individual claims and making allowance for claims incurred but not reported using past experience and trends adjusted for foreseeable events.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2019

1. Accounting policies (continued)

(b) Basis of accounting for insurance (continued)

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

Case estimates are set by experienced claims technicians, applying their skill and specialist knowledge to the circumstances of individual claims. The ultimate cost of outstanding claims, including claims incurred but not reported, is estimated by the Syndicate actuaries who apply recognised actuarial techniques considered appropriate for each portfolio, such as the Chain Ladder and Bornhuetter-Ferguson methods. These methods take into account, amongst other things, statistical analysis of the development of the value and frequency of past claims and the results of analyses undertaken at the point of underwriting. Techniques considered appropriate for specific portfolios include contract by contract analysis, segmentation by subclass, and stochastic analysis. Classes of business are analysed at a level of detail appropriate to their materiality. Allowance is made for changes or uncertainties which may create distortions in the underlying statistics, or which might cause the cost of unsettled claims to increase or decrease when compared with the cost of previously settled claims, for example, one-off occurrences and changes in mix of business, policy conditions or the legal environment.

The Syndicate actuaries produce an estimate of reserves, which is reviewed by an independent actuarial firm, and is then assessed by QBE EO management with input from the Syndicate underwriting and claims experts.

As provisions for claims outstanding are based on information, which is currently available, the eventual outcome may vary from the original assessment depending on the nature of information received or developments in future periods. For certain classes of business including liability and other long-tail classes written by the Syndicate, claims may not be apparent for many years after the event giving rise to the claim has happened. These classes will typically display greater variation between initial estimates and final outcomes.

Differences between the estimated cost and subsequent re-estimation or settlement of claims are reflected in the technical account for the year in which these claims are re-estimated or settled.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.
In accordance with accounting regulations, discounting of outstanding claims is permitted in certain circumstances. For the Syndicate this includes discounting of outstanding reserves in respect of liabilities relating to periodical payment orders.

(vi) Unexpired risks provision

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

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

(vii) 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 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.

(c) Foreign currency

The functional currency of the Syndicate is UK pound sterling (£). The Syndicate presents its accounts in millions of pounds sterling.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2019

1. Accounting policies (continued)

(c) Foreign currency (continued)

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the time of the transactions. Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the balance sheet date with the exception of non-monetary assets and liabilities, which are maintained at historic rates. Open foreign exchange derivatives are marked to market at year end date. All assets and liabilities arising from insurance contracts are treated as monetary items.

Exchange gains or losses are recognised in the profit and loss non-technical account.

(d) Cash at bank and in hand

Cash comprises cash at bank for use by the Syndicate in the management of its short term commitments.

(e) Investments

(i) Other financial investments and overseas deposits

Other financial investments and overseas deposits comprise shares and other variable yield securities, units in unit trusts, debt securities, other fixed income securities, loans and deposits with credit institutions, and funds held in overseas deposits which are subject to Lloyd’s trust fund arrangements. These are managed on a fair value basis in accordance with the Syndicate’s investment strategy. The Syndicate has elected to measure all financial investments and overseas deposits at fair value through the profit and loss non-technical account.

Listed investments are stated at fair value using current or recent bid prices where available. In the absence of an active market, current or recent bid prices for similar instruments may be used to estimate fair value. Units in unit trusts, including unlisted property investments, are stated at fair value using current unit prices as advised by the responsible entity, trustee or equivalent of the investment management scheme. Overseas deposits are stated at fair value based on quoted prices in active markets for the same instruments and 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. Other unlisted investments are carried at the Directors’ estimate of the current fair value, where prices are sourced from the investment manager who may use a combination of observable and comparable market prices where available and carried book value where none exist.

Other financial investments and overseas deposits are derecognised when the right to receive future cash flows from the assets has expired, or when the Syndicate has transferred substantially all the risks and rewards of ownership.

(ii) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently stated at fair value using valuation techniques for which all significant inputs are based on observable market data.

(f) Debtors

Debtors comprise amounts receivable in the normal course of business. Debtors are initially recognised at transaction price, and where applicable are subsequently measured at amortised cost using the effective interest rate method. The recoverability of these assets is assessed at each balance date and appropriate provision made 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 contract.

(g) Creditors

Creditors comprise amounts due in the normal course of business. Creditors are initially recognised at transaction price, and where applicable are subsequently measured at amortised cost using the effective interest rate method. Amounts owed to group undertakings are unsecured, interest free and payable on demand, except where specific loan agreements exist prescribing the term and other features of the loan.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2019

1. Accounting policies (continued)

(h) Investment income

Investment income is taken into account in the profit and loss non-technical account on an accruals basis, except for dividends which are taken into account when quoted ex dividend. Investment income includes realised gains or losses on the disposal of financial assets.

A transfer is made from the non-technical account to the technical account for the entire return on investments in which support the insurance technical provisions.

(i) Taxation

Under Schedule 19 of the Finance Act 1993, Managing Agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from Syndicate investment income is recoverable by Managing Agents and consequently the distribution made to the member is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

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

(j) Administrative expenses

Administrative expenses are taken into account on an accrual basis. These recharged expenses include the costs of staff, who are employed by QBE Management Services (UK) Limited. QBE Management Services (UK) Limited operates both defined benefit and defined contribution pension schemes, the expense of which is included in the recharges. The recharged expenses also include the costs of various service and claims handling companies. These companies are wholly owned by QUL.

(k) Profit commission

Profit commission is recognised on the basis of the annual accounting result for each year of account, and charged to the Syndicate as incurred.

No profit commission has been charged by the Managing Agent.

(l) Critical accounting estimates and judgements

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

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

Outstanding claims provisions

The Syndicate's net outstanding claims provision comprises:

- The gross estimate of expected future claims payments; and
- Amounts recoverable from reinsurers based on the gross estimate.

Gross estimate

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

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

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2019

1. Accounting policies (continued)

(l) Critical accounting estimates and judgements (continued)

Gross estimate (continued)

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.

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

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

Assets arising from contracts with reinsurers

Assets arising from reinsurance recoveries under contracts with the Syndicate's reinsurers are determined using the same methods described above. The recoverability of these assets is assessed at each balance date and appropriate provision made 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.

2. Capital Management

Capital Framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to supervision by the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with the Solvency II Framework.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's would comply with the Solvency II requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 2999 is not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirements (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate comprises one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicates on which it is participating but not other member's shares. Accordingly, the capital requirements that Lloyd's set for each member operate on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate's SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2019

2. Capital Management (continued)

Lloyd's capital setting process (continued)

Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's and not a Solvency II requirement, is to meet Lloyd's financial strength, licence and rating objectives. The capital uplift applied for 2019 was maintained at 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), assets held and managed within a syndicate (funds in syndicate), or as the member's share of the members' balances on each syndicate on which it participates.

Accordingly, all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the Balance Sheet on pages 18 and 19, represent resources available to meet members' and Lloyd's capital requirements.

Funds at Lloyd's

Funds at Lloyd's (FAL) are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities. The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these financial statements by way of such capital resources. However, the Managing Agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses through a formal process controlled by Lloyd's.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2019

3. Segmental information

2019	Gross premium written £m	Gross premium earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m
Accident and health	7.3	8.0	(4.9)	(4.0)	(0.3)	(1.2)
Motor (third party liability)	19.2	17.4	(17.1)	(3.7)	(2.8)	(6.2)
Marine, aviation and transport	152.7	140.9	(77.1)	(24.8)	3.4	42.4
Fire and other damage to property	251.7	252.4	(156.2)	(103.3)	1.4	(5.7)
Third party liability	251.7	259.7	(261.7)	(81.4)	94.9	11.5
Credit and suretyship	61.5	47.9	(9.4)	(22.5)	(8.0)	7.9
Other	-	-	-	(1.5)	0.1	(1.4)
	744.1	726.2	(526.4)	(241.3)	88.7	47.3
Reinsurance acceptances	477.5	471.3	(298.4)	(113.2)	(55.7)	4.1
Total	1,221.6	1,197.6	(824.8)	(354.4)	33.0	51.4

2018	Gross premium written £m	Gross premium earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m
Accident and health	15.7	14.6	(13.5)	(6.7)	1.0	(4.6)
Motor (third party liability)	14.9	14.9	(18.3)	(4.3)	(0.9)	(8.6)
Marine, aviation and transport	142.5	145.1	(75.3)	(21.1)	(48.0)	0.7
Fire and other damage to property	249.4	235.5	(188.6)	(92.6)	30.7	(15.0)
Third party liability	308.3	300.1	(247.8)	(105.0)	71.4	18.7
Credit and suretyship	48.5	43.4	(2.6)	(20.8)	(13.2)	6.8
Other	-	-	0.1	0.2	-	0.3
	779.3	753.6	(546.0)	(250.3)	41.0	(1.7)
Reinsurance acceptances	412.3	437.5	(297.1)	(108.5)	(12.8)	19.1
Total	1,191.6	1,191.1	(843.1)	(358.8)	28.2	17.4

The reinsurance balance represents the credit / (charge) to the technical account from the aggregate of all items relating to reinsurance outwards.

Operating expenses includes standard personal expenses.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2019

3. Segmental information (continued)

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

		2019 £m	2018 £m
Europe:	United Kingdom	60.4	59.8
	Other	15.5	25.3
America:	North America	351.8	318.7
	Other	20.7	26.9
Asia		30.3	34.6
Worldwide		697.8	683.1
Other	(including Africa, Oceania and Middle East)	45.2	43.2
		1,221.6	1,191.6

All premiums were concluded in the UK.

4. Net operating expenses

		2019 £m	2018 £m
Acquisition costs:	direct commission	230.8	211.1
	other	75.7	62.3
Changes in deferred acquisition costs		(30.6)	(6.6)
Administrative expenses		78.6	92.0
Reinsurance commission revenue		(25.4)	(25.4)
		329.1	333.5

Administrative expenses include auditors' remuneration:

	2019 £m	2018 £m
Remuneration receivable by the Syndicate's auditors for the auditing of these financial statements	0.3	0.2
Other services pursuant to legislation	0.4	0.5

5. Employees

The Syndicate did not directly incur staff costs during the year (2018 £nil). All staff are employed by fellow subsidiary undertakings that recharge the Syndicate for the services provided by those staff.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2019

6. Directors' emoluments

The Directors of QUL and the Active Underwriters received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2019 £m	2018 £m
Directors of the Managing Agent	3.4	2.6
Active Underwriters	1.5	1.9

Further information in respect of the Directors of QUL is provided in that Company's annual report.

7. Investment income, expenses and charges

(a) Investment income

	2019 £m	2018 £m
Income from investments	25.0	34.1
Gains on the realisation of investments	43.0	9.1
	68.0	43.2

(b) Investment expenses and charges

	2019 £m	2018 £m
Investment management expenses	1.0	0.2
Losses on the realisation of investments	20.0	16.6
	21.0	16.9

8. Other financial investments

Designated at fair value through profit and loss

	2019		2018	
	Cost £m	Fair value £m	Cost £m	Fair value £m
Shares and other variable yield securities and units in unit trusts	77.4	82.0	106.9	120.2
Debt securities and other fixed income securities	1,192.3	1,173.4	972.1	979.1
Loan and deposits with credit institutions	9.4	9.8	13.6	14.6
	1,279.1	1,265.1	1,092.6	1,114.0

The debt securities and other fixed income securities are listed on recognised exchanges. £38.5m of the shares and other variable yield securities and units in unit trusts are listed on recognised exchanges (2018 £36.4m).

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2019

9. Derivative financial instrument - assets

Fair value	2019 £m	2018 £m
Foreign currency derivatives		
Derivative financial instrument – assets	11.4	6.3

Foreign currency derivatives

The Syndicate 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 sheet date include foreign exchange contracts to buy the net equivalent of £430.0m (2018 buy £395.7m).

The forward foreign exchange derivatives outstanding at year end all expire by 24 May 2021 (2018 30 October 2019).

During the year a gain of £5.1m (2018 gain £5.0m) relating to such contracts was recognised in the profit and loss non-technical account.

Equity derivatives

The Syndicate enters into equity derivatives from time to time in order to facilitate efficient portfolio management and the management of market risk.

During the year an expense of £0.0m (2018 expense £0.1m) was included in the profit and loss non-technical account relating to exchanged traded equity index options derivatives. Exchange traded equity index options have no contractual obligation to be exercised. These expired by May 2019.

10. Valuation hierarchy

The table below shows the financial instruments carried at fair value by valuation method.

2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Overseas deposits	17.2	202.5	-	219.7
Deposits with credit institutions	-	-	9.8	9.8
Variable yield securities and units in unit trusts	38.5	5.1	38.4	82.0
Debt securities and other fixed income securities	302.6	870.8	-	1,173.4
Derivatives – assets	-	11.4	-	11.4
	358.3	1,089.9	48.1	1,496.3

2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Overseas deposits	107.2	96.6	-	203.8
Deposits with credit institutions	-	4.1	10.6	14.6
Variable yield securities and units in unit trusts	38.8	40.5	40.9	120.2
Debt securities and other fixed income securities	344.2	635.0	-	979.2
Derivatives – assets	-	6.3	-	6.3
	490.2	782.4	51.4	1,324.1

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2019

10. Valuation hierarchy (continued)

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 situations where any one or more significant valuation input is not based on observable market data. This includes infrastructure debt and infrastructure assets, where prices are sourced from the investment manager who may use a combination of observable or comparable market prices, where available, and other valuation techniques. This also includes loans to the Lloyd's Central Fund, valued at cost.

Movements in level 3 investments	2019 £m	2018 £m
At 1 January	51.4	55.8
Purchases	3.8	14.2
Unrealised losses	(1)	(0.9)
Redemptions	(7.1)	(17.7)
At 31 December	48.1	51.4

11. Financial risk

The activities of the Syndicate expose it to financial risks such as market risk (including currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Syndicate's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Syndicate.

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

(i) Market risk

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

Currency risk

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

The risk management process covering forward foreign exchange derivatives involves close senior management scrutiny, 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 table below shows the impact on profit and loss and equity as a result of movements in foreign exchange rates. The basis for this sensitivity analysis is the residual foreign currency exposures at the balance sheet date.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2019

11. Financial risk (continued)

Currency risk (continued)

	Movement in variable %	2019 Profit / (loss) and members' balance £m	2018 Profit / (loss) and members' balance £m
US dollar	+10	14.4	10.1
	–10	(14.4)	(10.1)
New Zealand dollar	+10	(1.3)	-
	–10	1.3	-
Euro	+10	3.7	3.6
	–10	(3.7)	(3.6)
Japanese Yen	+10	0.5	0.4
	–10	(0.5)	(0.4)
Canadian dollar	+10	7.2	7.5
	–10	(7.2)	(7.5)
Australian dollar	+10	1.0	1.4
	–10	(1.0)	(1.4)

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

Interest rate risk

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

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

2019	Floating interest rate £m	Fixed interest rate maturing in: 1 year or less £m	1 to 2 years £m	2 to 3 years £m	3 years over £m	Total £m
Interest bearing assets	110.4	452.6	267.0	170.0	448.7	1,448.7

2018	Floating interest rate £m	Fixed interest rate maturing in: 1 year or less £m	1 to 2 years £m	2 to 3 years £m	3 years over £m	Total £m
Interest bearing assets	110.5	221.8	382.7	205.7	339.2	1,259.9

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2019

11. Financial risk (continued)

Interest rate risk (continued)

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

	Movement in variable %	2019 Profit / (loss) and members' balance £m	2018 Profit / (loss) and members' balance £m
Interest rate movement – fixed interest securities	+0.5	(14.6)	(11.3)
	-0.5	13.1	10.0

Equity price risk

Equity price risk is the risk that the fair value of an equity instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual equity instrument or its issuer, or factors affecting all similar equity instruments traded on the market. The potential impact of movements in the market value of equities on the profit and loss account 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 from time to time to provide the hedges are not perfectly correlated to the composition of the underlying equity fund. As at 31 December 2019, contractual amounts for exchange traded equity derivatives outstanding at the balance sheet date were £nil (2018 £nil).

		Financial impact	
	Movement in variable %	2019 Profit / (loss) and members' balance £m	2018 Profit / (loss) and members' balance £m
United States – S&P 500	+20	-	0.8
	-20	-	(0.8)
Emerging market equities	+20	-	0.3
	-20	-	(0.3)
EURO STOXX	+20	0.1	0.2
	-20	(0.1)	(0.2)

Property price risk

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

		Financial impact	
	Movement in variable %	2019 Profit / (loss) and members' balance £m	2018 Profit / (loss) and members' balance £m
United States	+10	0.2	3.0
	-10	(0.2)	(3.0)
Europe	+10	0.3	0.3
	-10	(0.3)	(0.3)

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2019

11. Financial risk (continued)

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation. The Syndicate's exposure to intermediaries and reinsurance counterparties is monitored as part of credit control processes.

All intermediaries must meet minimum requirements established by the Syndicate. Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with counterparties. The credit ratings and payment histories of intermediaries are monitored on a regular basis.

The reinsurers' share of claims outstanding and debtors are also exposed to credit risk. 98.5% (2018 98.4%) of the balance is with reinsurers with an S&P rating of "A-"or greater. The Syndicate holds letter of credit as security to mitigate credit risk exposure to reinsurers. At the balance sheet date the Syndicate held £14.3m (2018 £18.1m) as collateral against credit risk.

88.9% (2018 93.4%) of total fixed interest and cash investments are with counterparties having a Standard & Poor's rating of A or better. The Syndicate does not expect any investment counterparties to fail to meet their obligations given their strong credit ratings. The Syndicate only uses derivatives in highly liquid markets. The following table provides information regarding the carrying value of the Syndicate's financial assets, excluding amounts in respect of insurance contracts.

2019	Neither past due nor impaired £m	Past due by: Up to 3 months £m	3 to 6 months £m	6 months to 1 year £m	Greater than 1 year £m	Total £m
Other interest bearing investments	1,448.7	-	-	-	-	1,448.7
Other financial investments	82.0	-	-	-	-	82.0
Derivative financial instrument – assets	11.4	-	-	-	-	11.4
Other debtors	15.3	-	-	-	-	15.3
Debtors arising out of direct insurance operations	429.0	-	7.6	2.8	4.8	444.2
Debtors arising out of reinsurance operations	119.0	10.9	8.3	12.2	9.2	159.6
	2,105.4	10.9	15.9	15.0	14.0	2,161.2

2018	Neither past due nor impaired £m	Past due by: Up to 3 months £m	3 to 6 months £m	6 months to 1 year £m	Greater than 1 year £m	Total £m
Other interest bearing investments	1,259.9	-	-	-	-	1,259.9
Other financial investments	89.6	-	-	-	-	89.6
Derivative financial instrument – assets	6.3	-	-	-	-	6.3
Other debtors	24.0	-	-	-	-	24.0
Debtors arising out of direct insurance operations	402.6	3.7	24.8	9.4	5.1	445.6
Debtors arising out of reinsurance operations	130.5	56.4	14.4	6.3	6.9	214.6
	1,912.9	60.1	39.2	15.6	12.1	2,040.0

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2019

11. Financial risk (continued)

(iii) Liquidity risk

Liquidity risk is the risk of holding insufficient liquid assets to meet liabilities as they fall due to creditors, or only being able to do so at excessive cost.

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

At 31 December 2019, the average duration of cash and fixed interest securities was 2.6 years (2018 2.5 years).

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

	2019 £m	2018 £m
Creditors	341.4	317.1
	341.4	317.1

All amounts are due within one year. The Syndicate has no significant concentration of liquidity risk.

12. Technical provisions

2019 Gross	Provision for unearned premiums £m	Claims outstanding £m	Net £m
At 1 January	658.0	2,491.3	3,149.2
Movement per technical account	24.0	(108.6)	(84.6)
Foreign exchange	(25.8)	(54.3)	(80.1)
At 31 December	656.2	2,328.4	2,984.6
Reinsurance			
At 1 January	78.8	927.4	1,006.1
Movement per technical account	1.4	(35.7)	(34.4)
Foreign exchange	(4.8)	(30.1)	(34.9)
At 31 December	75.3	861.5	936.8

The Syndicate applies discounting of outstanding reserves in respect of liabilities relating to periodical payment orders on third party liability and motor lines of business. Included within claims outstanding are net discounted reserves of £51.6m (2018 £76.1m). Discount of £63.7m (2018 £37.0m) has been applied using a rate of -0.25% (2018 +0.25%) and based on mean term of liabilities of 26.7 years (2018 26.1 years).

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2019

12. Technical provisions (continued)

2018 Gross	Provision for unearned premiums £m	Claims outstanding £m	Net £m
At 1 January	624.1	2,434.5	3,058.6
Movement per technical account	0.5	14.9	15.4
Foreign exchange	33.5	41.8	75.3
At 31 December	658.0	2,491.3	3,149.3
Reinsurance			
At 1 January	67.5	859.2	926.7
Movement per technical account	5.9	52.4	58.3
Foreign exchange	5.3	15.8	21.1
At 31 December	78.8	927.4	1,006.1

13. Debtors

(i) Debtors arising out of direct insurance operations

	2019 £m	2018 £m
Due within one year		
Due from policyholders	0.3	1.3
Due from intermediaries	443.9	444.0
Due after one year		
Due from intermediaries	-	0.3
	444.2	445.6

(ii) Debtors arising out of reinsurance operations

	2019 £m	2018 £m
Due within one year	159.6	214.3
Due after one year	-	0.3
	159.6	214.6

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2019

13. Debtors (continued)

(iii) Other debtors

	2019 £m	2018 £m
Unsettled investment trade debtors	7.8	15.9
Salvage and subrogation	5.5	6.6
Trade debtors	1.7	1.5
Amounts due from Group undertakings	0.2	-
	15.3	24.0

14. Overseas deposits

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

	2019 £m	2018 £m
Joint Asset Trust Funds	9.1	9.7
Canadian Margin Fund	98.9	89.9
Kentucky Trust Funds	2.3	2.4
Australian Trust Funds	74.2	70.1
South African Trust Funds	20.1	9.2
Additional Securities Limited Overseas deposit	14.3	20.6
Additional Securities Limited Illinois deposit	0.9	1.9
	219.7	203.8

15. Deferred acquisition costs

	2019 £m	2018 £m
As at 1 January	166.2	153.6
Movement during the year	30.6	6.6
Foreign exchange	(11.1)	6.0
	185.7	166.2

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2019

16. Outstanding claims – claims development

The Syndicate has applied a consistent approach to prior years in establishing the technical provisions for claims outstanding and reinsurers share thereof. Included within net claims incurred is adverse prior year development relating to certain financial lines and international liability classes as well as the change in Ogden discount rate; reduced by positive developments across a number of other classes.

2019 Gross basis	2010 and prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
At end of year		379.7	413.2	260.3	187.6	225.2	352.1	622.2	402.2	319.3	
One year later		672.2	628.4	506.8	458.2	535.2	666.2	968.1	736.6		
Two years later		702.7	701.6	572.5	587.5	617.9	755.7	1,126.1			
Three years later		711.3	685.4	586.0	577.0	641.6	744.8				
Four years later		706.2	694.6	545.4	619.6	625.9					
Five years later		717.1	676.4	557.6	621.3						
Six years later		725.9	663.1	564.6							
Seven years later		739.6	645.2								
Eight years later		733.9									
Current estimate of gross cumulative claims cost		733.9	645.2	564.6	621.3	625.9	744.8	1,126.1	736.6	319.3	
Cumulative gross claims payments to date		(675.2)	(577.2)	(448.1)	(484.2)	(393.3)	(495.6)	(643.3)	(312.7)	(26.3)	
Gross outstanding claims	266.7	58.7	68.1	116.5	137.1	232.6	249.2	482.8	423.8	293.0	2,328.4

2019 Net basis	2010 and prior £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
At end of year		315.0	266.6	204.0	169.7	184.0	281.3	316.7	277.8	276.6	
One year later		535.4	451.9	397.3	346.9	423.2	506.0	552.9	513.6		
Two years later		544.2	497.3	437.5	443.1	492.1	569.3	647.0			
Three years later		539.1	477.1	459.9	420.0	476.5	545.8				
Four years later		522.1	489.9	412.6	427.6	449.6					
Five years later		531.4	463.7	416.3	407.4						
Six years later		530.1	475.7	416.4							
Seven years later		533.6	459.2								
Eight years later		531.6									
Current estimate of net cumulative claims cost		531.6	459.2	416.4	407.4	449.6	545.8	647.0	513.6	276.6	
Cumulative net claims payments to date		(482.1)	(401.2)	(329.9)	(344.2)	(314.5)	(415.2)	(419.5)	(245.4)	(22.7)	
Net outstanding claims	194.3	49.5	58.0	86.5	63.2	135.1	130.6	227.5	268.3	253.9	1,466.9

The claims development tables express the development on an underwriting year basis. At the end of the opening year, the underwriting year has not yet fully earned. One year after the opening year, the underwriting year has substantially earned, and the development of that underwriting year becomes evident. The development is only developments in actuarial assumptions.

The Syndicate writes business in currencies other than 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 retranslated to the Pound Sterling at constant rate of exchange for each reporting year.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2019

16. Outstanding claims – claims development (continued)

All estimates of net cumulative claims cost and cumulative claims payments for the eight most recent reporting years reported in functional currencies other than Pound Sterling have been retranslated to Pound Sterling using the exchange rate at the end of the reporting year.

17. Concentration of insurance risk

The Syndicate's exposure to concentrations of insurance risk is mitigated by a portfolio diversified across countries and 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 Syndicate to lead underwrite in many of the markets in which they operate.

The segmental and geographical analysis at note 3 demonstrates the diversity of the Syndicate's operations.

The Syndicate has potential exposure to catastrophe losses. Each year, the Syndicate sets its tolerance to concentration risk. Realistic Disaster Scenarios (RDSs), using industry standard and the Syndicate 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 to determine the Syndicate'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 Syndicate's concentration risk tolerance, otherwise steps such as the purchase of additional reinsurance are taken to limit the exposure.

18. Impact of changes of key variables on the outstanding claims provision

Net claims outstanding could be lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty would vary between the classes of business and the underlying nature of the risk being underwritten and can arise from developments in reserving for large losses catastrophes or from changes in the level of attritional losses. A five percent increase or decrease in the ultimate cost of settling gross claims arising is considered to be reasonable possible at the reporting date. Net outstanding claims could be lower or high as a result of movements in exchange rates. A ten percent increase or decrease in the exchange rate movement of currency reserves is considered to be reasonable possible. The approximate impact on the result of the Syndicate of changes in these 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 impact on profit assuming that there is no change to any of the other variables.

			2019		2018
		Profit / (loss) and members‘ balance		Profit / (loss) and members‘ balance	
	Sensitivity	Gross	Net	Gross	Net
	%	£m	£m	£m	£m
Claims outstanding	+5	94.3	59.4	100.9	63.3
	-5	(94.3)	(59.4)	(100.9)	(63.3)
Sterling to US dollar exchange rate	+10	87.8	26.7	104.1	39.5
	-10	(87.8)	(26.7)	(104.1)	(39.5)
Sterling to Australian Dollar exchange rate	+10	7.4	7.2	7.7	7.8
	-10	(7.4)	(7.2)	(7.7)	(7.8)
Sterling to Euro exchange rate	+10	11.3	10.2	11.6	10.8
	-10	(11.3)	(10.2)	(11.6)	(10.8)
Sterling to Canadian exchange rate	+10	27.8	24.1	23.4	20.1
	-10	(27.8)	(24.1)	(23.4)	(20.1)

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2019

19. Maturity profile of net outstanding claims

	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
2019	396.0	275.5	194.4	144.7	107.6	348.7	1,466.9
2018	412.5	278.2	207.1	158.0	118.3	389.9	1,563.9

20. Creditors

(i) Creditors arising out of direct insurance operations

	2019 £m	2018 £m
Due within one year		
Due to policyholders	0.2	0.4
Due to intermediaries	165.7	94.0
Due after one year		
Due to intermediaries	-	-
	165.8	94.4

(ii) Creditors arising out of reinsurance operations

	2019 £m	2018 £m
Due within one year	125.3	163.9
	125.3	163.9

21. Other creditors including taxation and social security

	2019 £m	2018 £m
Due within one year		
Unsettled investment trade creditors	2.5	12.1
Amounts due to group undertakings	43.4	44.0
Taxation and social security	4.4	2.8
	50.3	58.9

22. Financial assets and liabilities

The assets and liabilities of the Syndicate, excluding deferred acquisition costs, unearned premiums, prepayments, accruals and deferred income, gross and net technical provisions, and members' balances, are financial assets and liabilities. The Directors consider the carrying value of the financial assets and liabilities to be equal to their fair value.

23. Related parties

The Managing Agent QUL, and the corporate member QBE Corporate Limited (QCORP), are wholly owned subsidiaries of the ultimate parent company QBE Insurance Group Limited.

The Syndicate is managed at the QBE EO level, which is headed by QBE European Operations plc. The immediate parent company of QUL and QCORP is QBE Holdings (EO) Limited (QHEO).

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2019

23. Related parties (continued)

QHEO is a wholly owned subsidiary of QBE European Operations plc. QBE European Operations plc, QUL, QCORP and QHEO are incorporated in the United Kingdom.

The consolidated annual report for QBE Insurance Group Limited is available from QUL's registered office.

Directors' interests

All of the executive Directors listed on page 2 hold, or held in the year, executive directorships of companies within the QBE European Operations division. In addition, W-F Au, C A Brown, T C W Ingram, M G McCaig and S W Sinclair are, or were in the year, non-executive Directors of related companies within QBE EO.

Inter-syndicate transactions

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

Inwards reinsurance contracts with related QBE companies

In certain instances, the Syndicate has underwritten inwards reinsurance business from companies within the QBE Insurance Group during the year. Inwards premiums totalling £14.5m (2018 £12.7m) were written in the year with related QBE companies. At the year end, balances due from related QBE companies in respect of inwards reinsurance premium were £7.1m (2018 £5.4m). At the year end, there was a £11.3m (2018 £9.8m) share of technical provisions.

	2019	2018	2019	2018	2019	2018
		Inwards premiums		Balance Outstanding		Share of technical provisions
	£m	£m	£m	£m	£m	£m
QBE Insurance Corporation	7.5	5.7	2.9	3.2	3.1	1.9
QBE Specialty Insurance Company	-	-	0.1	0.1	0.1	-
Stonington Insurance Company	4.0	3.7	-	-	7.0	7.0
Equator Reinsurances Limited	2.7	1.2	4.1	1.3	1.0	0.4
QBE Insurance (Australia) Limited - NZ branch	-	-	-	-	0.1	0.1
QBE Seguros SA	0.3	2.0	-	0.8	-	0.4
QBE Compania Argentina de Reaseguros SA	-	0.1	-	-	-	-
	14.5	12.7	7.1	5.4	11.3	9.8

Outwards reinsurance contracts with related QBE companies

The Syndicate has purchased reinsurance from companies within the QBE Insurance Group during the year. Outward premiums totalling £155.6m (2018 £179.9m) were placed with Equator Reinsurances Limited (Equator Re). At the year end, balances due from Equator Re in respect of reinsurers' share of technical provisions were £604.5m (2018 £597.3m).

Administrative expenses

Total expenses recharged from QBE Partner Services (Europe) LLP in respect of services provided to the Syndicate amounted to £137.9m (2018 £139.8m). The balance outstanding at year end with QBE Partner Services (Europe) LLP is £15.8m (2018 £18.0m). There are no other transactions or arrangements to be disclosed.

Service companies

Certain group service companies provided insurance business to the Syndicate and charged fees equal to the costs they incurred in placing the business with the Syndicate. These service companies are not operated to make a profit or loss. The risks placed with the Syndicate are under normal market conditions.

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QBE Syndicate 2999 is managed by QBE Underwriting Limited (No. 01035198), registered in England and Wales, registered office at Plantation Place, 30 Fenchurch Street, London EC3M 3BD, a Lloyd's Managing Agent authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.