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QBE Syndicate 2999 Annual report 2021

QBE Syndicate 2999

Annual Report

31 December 2021

ANNUAL REPORT
for the year ended 31 December 2021

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MANAGING AGENCY – CORPORATE INFORMATION

Directors

C A Brown*	
C G L M Fresneau	Appointed 7 November 2021
J R Harris	
T C W Ingram*	
C T Killourhy	Appointed 4 February 2021
S Maddock*	Appointed 11 February 2021
M G McCaig*	
S J Postlewhite	
N J D Terry	

Former Directors who served during the year and prior to date of signing

D J Winkett	Resigned 4 February 2021
S Harrison	Resigned 1 April 2021
M J Gilbert*	Resigned 30 June 2021

* non-executive Director

Company secretary

A J Smith

Registered office

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 (QUL), the Managing Agent for QBE Syndicate 2999 (the Syndicate), present their Strategic report for the Syndicate for the year ended 31 December 2021.

Background

The Syndicate comprises four trading units, or sub-Syndicates. The Syndicate was headed by Sam Harrison, Managing Director of QBE's Insurance Division; and Steve Postlewhite, Managing Director of QBE's Reinsurance division, as joint active underwriters up to 1 April 2021, following which Lloyd's approval was received for the appointment of Peter Burton, Executive Director of Insurance Markets, to replace Sam Harrison as joint Active Underwriter going forward.

The sub-Syndicates and associated classes of business for 2021 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

The COVID-19 pandemic remained a significant area of focus for EO management during 2021, and the associated risks and the longer-term impacts on the economy were managed through ongoing action plans. The UK Supreme Court judgment of 15 January 2021 regarding the FCA Property Business Interruption Test Case that was found largely in favour of policyholders has been implemented by QBE, and the required notifications to policyholders and regulators have been made. Uncertainty remained, for example, in relation to the ultimate impact on claims liabilities in respect of a challenge to the deductibility of furlough payments, which has been raised in the Stonegate litigation, and questions regarding multiple claims locations. The progress made in developing and deploying vaccines has begun to restore confidence and assist businesses in the UK, and other developed countries to recommence trading activity where this has been restricted by lockdowns, and uncertainty in the volatility in investments and the associated market risk reduced as markets and economies recovered. However, renewed waves and new variants of the virus continued to pose concerns and could lead to further economic impacts and market disruption.

The safety and wellbeing of our people, customers, partners and their communities has remained our priority in 2021. The business continuity framework has proven resilient to the operational challenges encountered during the prolonged COVID-19 situation. Alongside the lifting of COVID-19 restrictions and return to the office in the majority of our locations, flexible working arrangements were introduced to ensure staff wellbeing and enhance performance.

The Syndicate has a comprehensive reinsurance programme that significantly reduces the net exposure to the losses related to COVID-19 for the Syndicate. In addition, the Syndicate participated in the Trade Credit reinsurance scheme established by the UK Government during the current and prior years.

On 19 November 2021, the Syndicate signed a commutation agreement in respect of its Divisional Large Risk & Catastrophe ('DLRC') intra-group reinsurance contracts, covering 2015 and 2017 accident years. The contracts were commuted at the contract limit. The consideration will be received by the Syndicate in 10 equal quarterly instalments. The final payment is expected to be received in Q4 2023.

While it is too early to accurately determine, the Syndicate has performed an initial review of the potential impact of the conflict between Russia and Ukraine on the Syndicate's operations and future results. The review performed included an assessment of the potential insurance exposure, impact of sanctions, as well as the potential impact on the valuation of the Syndicate's financial assets. The Syndicate is exposed to Political Violence, Political Risk and Marine classes within Ukraine and the neighbouring countries, although the net exposure is mitigated to a significant extent by treaty and facultative reinsurance. The impact of sanctions, as well as the impact of the conflict on the valuation of financial assets will be kept under close review, but at this stage is not expected to be material. The assessment performed did not highlight any potential risk in relation to the Syndicate's ability to continue as a going concern.

The impact of the conflict on the Syndicate will continue to be monitored and assessed as events unfold.

STRATEGIC REPORT (continued)

Key performance indicators and future developments

	2021 Total £m	Restated 2020 Total £m
Gross written premium	1,483.3	1,474.3
Net earned premiums	1,109.7	1,063.2
Net claims	(697.2)	(656.3)
Acquisition costs	(314.7)	(301.7)
Other net operating expenses	(59.5)	(56.2)
Net underwriting profit	38.3	49.0
Investment return	3.9	39.9
Non-technical account (expense)	(24.7)	17.3
Total profit for the year	17.5	106.2
Claims ratio	62.8%	61.7%
Combined operating ratio	96.5%	95.4%

The Active Underwriters' comment as follows:

The 2021 financial year has produced a total profit for the year of £17.5m (restated 2020 profit £106.2m) and a combined operating ratio of 96.5% (2020 95.4%).

Overall gross written premium of £1,483m (restated 2020 £1,474m) is circa 5% up on the previous year (at constant rate of exchange) reflecting the continued improvement in market conditions across all major product lines, with actual rate experience for the syndicate's 2021 underwriting year concluding at +12.2% versus +10.7% approved plan.

Whilst 2021 witnessed continued disruption from the global pandemic and consequential impact to both public health and economic wellbeing, the year saw the beginnings of a global recovery and concluded with a positive outlook despite heightened risk from a resurgent COVID-19 and inflation. However, the impact to the Syndicate during 2021 financial year has been limited, comprising:

- No material increase in claims incurred via inward reinsurance exposures through sub-syndicate 566, or business interruption insurance exposures written primarily by sub-syndicate 1886.
- Continued benefit from lower attritional claims experience in certain portfolios, driven by a lack of activity during lockdown periods
- No major disruption to its operations and people, both of which continue to prove resilient in the new normal hybrid working environment.

2021 also witnessed the fourth highest incidence of global insured catastrophe losses at US$112bn (2020 US$99bn), including US$7bn of man-made catastrophe losses. Hurricane Ida was the costliest natural disaster, with winter storm Uri and other secondary peril events contributing more than half of the total natural catastrophe losses, as wealth accumulation and climate change effects in disaster-prone areas drive claims.

With losses from Hurricane Ida, US winter storms (Uri and Texas) and European Floods (Bernd), Syndicate 2999's net catastrophe loss experience was marginally worse than expectation, albeit manageable, due to the favourable rating environment, combined with a beneficial reinsurance programme, resulting in a net ultimate claims ratio of 62.8% (2020 61.7%).

Total net acquisition and other operating costs ratio of 33.7% is unchanged from previous year (2020 restated 33.7%).

The investment profit of £3.9m or 0.4% return (2020 profit £39.9m), was impacted by increases in market yields on fixed income holdings. Fixed income represents circa 98% of the syndicates overall portfolio and produced 0.1% return for the year, materially offsetting the positive 12.6% return from the small allocation of growth assets which was driven by financial market optimism during the second half of the year.
The non-technical account charge of £24.7m principally comprises a foreign exchange loss arising from the revaluation of non-monetary balances.

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

Whilst our rating outlook for 2022 is more modest than that achieved for 2021, it is reflective of the tapering of most product lines and geographies due to increased competition as the overall market flexes appetite in the positive underlying environment. Notwithstanding, the rating environment remains robust and the year has commenced well with actual January renewals achieving circa +6% rate versus full year plan +4.4%, providing a good start to 2022 and another year of margin expansion within our core businesses.

Our 2022 approved Lloyd's plan recognised this trend, reflecting growth in excess of rate in lines where rate improvement has led to strong technical pricing and adequacy ahead of our cross-cycle target, with a planned GWP growth of 7.9% including risk adjusted rate change. The syndicate's business plan remains under constant review to ensure it remains logical, realistic and achievable and whilst initial indications are positive, there will be challenges, not least from the continued uncertain economic and political landscape, coupled with the unknown impact of climate change, particularly catastrophe losses.

The significant catastrophe loss experience in 2021, has added further fuel to the debate around the efficacy of the catastrophe models and their ability to reflect underlying trends in frequency and secondary perils ostensibly resulting from climate change. This has led to capacity shrinkage and appetite adjustment in cat exposed business, driving a strong pricing environment, particularly in loss impacted areas.

For our insurance portfolio, we have reviewed our exposure to US catastrophe events for 2022 and are de-risking areas of US coastal exposures in response to inadequate pricing and the continued high frequency and severity of natural peril events. Furthermore, we have increased our catastrophe modelled and non-modelled loss allowances to cater for the increased level of uncertainty

The spectre of a prolonged period of higher inflation is another factor driving the need for continued rate increases, simply to keep pace with all facets of rising claims costs, including wage, materials and social inflation, which we are monitoring closely. The combination of loss frequency and possible higher claims costs leads us to remain cautious and disciplined when viewing the price adequacy of many lines.

We maintain a very strong focus on ESG in all aspects of our business and are committed to supporting our customers in assessing their social impact and to evolve their governance processes as they transition to a lower carbon and more sustainable environment. At the same time, we will be progressively embedding our Group ESG policies as they develop into our underwriting processes. In 2022 we have established a dedicated team to provide a real focus for our evolving Sustainable Energies business.

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 and high yield 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 Syndicate has not incurred any credit defaults or write downs in any of its fixed interest portfolios.

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 performance of the investment manager is monitored against an absolute return mandate, using other reference benchmarks or peer group performance as key performance indicators.

STRATEGIC REPORT (continued)

Investment policy (continued)

Responsibility for the oversight and monitoring of the asset and liability strategy falls within the remit of the QBE European operations Investment Committee. Risks monitored include the matching of investment assets and the assets and liabilities generated by insurance activities. Duration of the Syndicate's fixed income portfolios are managed broadly in line with that of net outstanding claim liabilities, with average duration maintained between three and four years.

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 residual 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 investment return for the year was 0.4% against a target return of 0.72% (2020 3.2% against a target return of 2.0%).

Portfolio currency	2021 Average funds £m	2021 Average return %	2020 Average funds £m	2020 Average return %
Australian dollar	90.4	(0.6)	76.8	2.5
Canadian dollar	780.7	(0.2)	728.7	3.0
Euro	5.1	(2.2)	5.3	(3.8)
Sterling	201.8	2.5	185.9	(0.7)
US dollar	493.9	0.6	482.5	5.1

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.

Investment portfolio composition continues to be oriented towards high quality, low risk fixed income assets, encompassing governmental, semi-governmental and corporate fixed income instruments, with a modest allocation to growth assets – units in funds investing into unlisted property or unlisted infrastructure assets, held by the syndicate.

Returns on fixed income assets were adversely impacted by rises in market yields during 2021, with reopening of previously closed sectors of major economies, and positive economic data outturns contributing to market expectations of tighter monetary conditions, including withdrawal of previous stimulus programs, and central bank rate rises. This environment impacted returns across all major fixed income holdings, with the syndicates relatively larger holdings of government and semi-government bonds being less impacted than the smaller holdings of corporate bonds.

Performance of growth assets have benefitted from improvements in global economies during 2021, with returns on unlisted property and infrastructure assets benefitting from re-opening activity and increases in business activity across major economies.

Prior year adjustments

As disclosed in note 24, there have been a number of restatements made in the year:

A restatement has been made to the 2020 Balance Sheet and Cashflow Statement as a result of a reclassification required between trade and other receivables and trade and other payables relating to treaty business to reflect corrected information on the nature of these balances.

A restatement has been made to the 2020 Profit & Loss – Technical account and Balance Sheet to correct the values of gross premium written, gross written commission and debtors arising out of direct insurance operations to align with the signed premium values. This has also had an impact on associated claims reserves and reinsurance balances.

STRATEGIC REPORT (continued)

Prior year adjustments (continued)

A restatement has been made to the 2020 Balance Sheet and Cashflow Statement as a result of a reclassification required between Investment balances and Cash at bank and in hand to correct the presentation of these balances in line with FRS 102. This adjustment does not impact the Profit & Loss – Technical account or the Statement of Comprehensive Income.

A restatement has been made to the 2020 Cashflow Statement as a result of a reclassification required for the treatment of overseas deposit balances held, to reflect the correct nature of these balances in line with FRS 102.

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 2021, the Company's corporate governance structure and system of governance continued to evolve, reflecting the Board's 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.

During the year the Committee Terms of Reference were reviewed by the relevant Committees and Boards, with minor enhancements made to reflect ongoing assessment of key responsibilities and the requirements of the Group Governance Framework ('GGF').

A Board away day was held in May, providing the opportunity for the Boards to focus on strategy (with presentations from senior management, external insights from third parties and a number of interactive sessions focussing on various areas of strategy and key focus areas for 2021 and beyond. The non-executive Director engagement was further supported through informal meetings with business leaders and management exclusively for EO non-executive Directors', global conference calls with the Chairs' of each of the Board Committees for QBE Group as well as virtual meetings between the Chairs of the respective Boards. Given the travel restrictions as a result of COVID-19, the QBE Group wide non-executive Directors' conference was not held in 2021.

The Board of the Company met 9 times during the year and there was strong attendance from all Directors.

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 Charter includes an agreed set of matters reserved for the Board's consideration. 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 ensures that its obligations to its shareholder and other stakeholders of QBE EO are understood and met.

The Board of the Company is chaired by Mr Timothy Ingram, an independent Non-Executive Director ('NED'). The role of the Chair of the Board is distinct from that of the Chief Executive Officer ('CEO'), and each role is clearly established. This separation of roles ensures that the balance of responsibilities, accountabilities and decision making are effectively maintained. Directors have equal voting rights when making decisions and the Chair has a casting vote when required. All Directors have access to the advice and services of the Company Secretary and are able to seek professional advice at the Company's expense.

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. The Independent NEDs have no material business or relationships with the Company that might influence their independence or judgement and bring a range of financial services and wider industry experience to the Board. As such, the size and composition of the Board is considered to be appropriate.

QBE Group have introduced a continuing professional development programme which requires each NED to undertake ten hours of continuous professional development each year covering areas such as regulation, insurance and customer. A NED skills matrix is maintained by Company Secretarial, together with NED training records and these are considered annually by the People & Remuneration Committee ('PARC').

STRATEGIC REPORT (continued)

The Board of QBE Underwriting Limited (continued)

Each year there is a formal Board Effectiveness Review ('BER'), which is facilitated by an independent external advisor. In June 2021, the QBE Group undertook a BER encompassing the Divisional Boards, including the Board of the Company. 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.

In conjunction with QBE Group and led by the Nomination Committee, succession planning is undertaken in accordance with the talent and culture objectives within the strategic priorities of both QBE EO and QBE Group whilst ensuring the Board has the right balance of skills, knowledge, experience and diversity to be effective.

The duties of the Board are executed to some degree through Board Committees that are each chaired by a NED. The Board and other regulated companies in QBE EO have jointly constituted these Board Committees which comprise appropriately skilled members and are supported by attendees as necessary. QBE EO's key Committees comprise: Audit Committee; European Operations Investment Committee ('EOIC'); PARC; Nomination Committee; and Risk and Capital Committee ('RCC').

In addition, the EMB has also been constituted to act as a Management Committee of the Company and other UK regulated companies in QBE EO. The EMB is Chaired by the CEO (and its management groups are each chaired by an EMB member). The Board delegates authority for day-to-day management of the Company to the CEO who is supported by the EMB. Membership of the EMB includes the CFO, CRO, leaders of the Insurance and Reinsurance business areas, Human Resources, Operations, and Claims functions. The EMB's responsibilities include formulating and implementing approved strategies and plans, and management of the day-to-day effective running of the Company. During the year the EMB met formally ten times and several informal discussion forums took place during the year.

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 the Syndicates role as an insurance undertaking.

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 are 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 Syndicate managed 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.

The Company manages strategic risk as follows:

- Through management and monitoring of strategic risks 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.

During periods of uncertainty like during the COVID-19 outbreak the Company increases the frequency of monitoring its capital and liquidity positions. The Company also has a programme of stress and scenario testing in order to review the potential impacts of a range of different strategic threats on its capital position and exposure to market, liquidity and operational risks.

STRATEGIC REPORT (continued)

Principal risks and uncertainties of the Syndicates and the Company (continued)

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;
- Purchase of appropriate reinsurance programme to reduce EO Group's exposure to individual losses or an accumulation of losses;
- 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, issuer or insurance obligor fails to meet their financial obligations to the Company in accordance with agreed terms. This can be due to the inability or unwillingness of a counterparty to meet financial obligations.

The Company manages credit risk as follows:
- Thorough management and monitoring of credit related risks including reinsurance credit risk and other recoveries, insurance credit risk and investment and treasury credit risk. This includes stress and scenario analyses and the application of credit models that are able to estimate remote losses due to economic events. This may include holding collateral in respect of specific exposures;
- Various forms of credit risk are captured and reported against using the Board-approved credit Risk Appetite Statement, that is 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 issuer default and financial strength 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 resulting from changes in market factors. Market factors include but are not limited to: interest rates, credit spreads and foreign exchange rates.

The Company manages market risk as follows:
- Management and monitoring of market related risks including investment market movements (including equity prices, interest rate, credit spreads) and foreign exchange rate movement;
- 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 the Prudent Person Principle;

QBE's LIBOR transition plan has identified business areas with exposure to LIBOR retirement in December 2021. For each area, business impact and risk assessments have been carried out, pre-transition plans have been scoped and implemented and initial testing of alternative reference rates has occurred. The Company has successfully transitioned all the external and internal facilities that required transition at the end of 2021, with transition plans/arrangements in place for remaining facilities including exposures in active secondary markets. References to LIBOR in contracts have also been successfully replaced with alternative reference rates.

STRATEGIC REPORT (continued)

Principal risks and uncertainties of the Syndicates and the Company (continued)

Liquidity risk (continued)

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

The Company manages liquidity risk using the following**:**

- a Board-approved Risk Appetite Statement that ensures minimum coverage of cash outflows for liabilities;
- Setting minimum levels of liquid, short term money market securities;
- Matching assets and liabilities in our major currency positions;
- The production of cash-flow forecasts, supplemented by Early Warning Indicators to proactively identify any changes to the liquidity position or potential funding needs;
- Recourse to a Board-approved Liquidity Contingency Plan, permitting access to sources of further liquid assets in the event of extreme liquidity stress.

Operational risk

The Company defines operational risk as the risk of 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 workplace safety, improper business practices, 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 functional Risk and Control Self-Assessments (RCSA) providing periodic assessment of risks as well as assurance over control design and performance;
- Operational Risk Dashboard monitoring including Operational Risk Appetites, key management focus areas and other risk MI, and Operational Key Risk Indicators 'KRIs'; and
- Identification and management of Issues and Incidents with defined remediation plans in place, as appropriate.

The safety and wellbeing of our people, customers and partners and their communities has remained our priority during 2021. The business continuity framework has proven resilient to the operational challenges encountered during the prolonged COVID-19 situation. Alongside the return to our office locations with varying levels of COVID-19 restrictions, flexible working arrangements were introduced to ensure staff wellbeing and enhance performance.

Compliance risk

The Company defines compliance risk as the risk of legal or regulatory penalties, financial loss or non-financial loss or customer detriment resulting from non-compliance with laws, regulations or conduct standards.

The Company manages compliance risk using the following:

- Identifying and monitoring of compliance obligations/risks;
- Embedding of compliance requirements into processes, systems and procedures including through RCSAs;
- Identification and management of Issues and Incidents with defined remediation plans in place, as appropriate;
- Conducting scenario reviews to identify and quantify potential exposures for mitigation;
- Monitoring of internal / external fraud, improper business practices and non-compliance with 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 as follows:

- Challenge and oversight from independent non-executive Directors on the Company Board;
- Contractual arrangements in place and actively monitored against for material services provided by other QBE Group divisions and companies;
- Conducting scenario reviews to identify and quantify potential exposures for mitigation;
- KPI monitoring;
- Functional RCSAs include Group risks;

STRATEGIC REPORT (continued)

Group and Lloyd's risk (continued)

- Identification and management of Issues and Incidents with defined remediation plans in place, as appropriate;
- Board's group risk appetite monitoring including intra-group loans, intra-EO loans, Group Outsourced Services SLAs monitoring and Group issues and incidents impacting EO; and
- Involvement of QBE EO individuals within material QBE Group and Lloyd's initiatives that could impact the Company.

Climate change

The Company, as part of the QBE Group, recognises the material risk that climate change poses to its business and is committed to embedding climate change considerations within its decision making. QBE committed on 1 February 2022 to supporting the transition to a net zero economy by joining the UN-convened Net Zero Insurance Alliance (NZIA).

Climate change is a material financial risk in and of itself and it can also act as a risk multiplier. For example, prolonged droughts combined with stronger winds are making bushfires in Australia and wildfires in California, and elsewhere, more intense. Coastal windstorms, together with increasing sea levels, may multiply the scale and intensity of damage within a coastal region. There are also risks associated with climate transition, as part of the adjustment to a low-carbon economy. The past may no longer be a good guide to the future; risk models based on historic experience need to be adjusted to allow for the impact of climate change over time.

This represents a challenge where the Company and the QBE Group provide cover for physical loss or damage to assets. It also increases the potential for third party injury and/or damage. Given this, QBE Group has invested in scenario analysis to assess the potential impacts of climate change from physical, liability and transition risk perspectives. For physical risks, the ability has been developed to model changes in expected and remote losses to the company over longer time horizons (e.g. 2030 and 2050), given different assumed pathways for global warming (i.e. Representative Concentration Pathways). For transition risks, we are able to measure the extent that the company's premium is exposed industries considered sensitive to climate transition risks, and how this changes over longer time horizons in orderly and disorderly transition scenarios. Similarly, we are able to apply scenario analysis to assess the implications of climate risks for the Company's investments.

This analysis is supporting our responses to climate change, for example through the implementation of underwriting strategy and business planning, and by informing our risk appetite.

QBE Group is managing climate-risk by focusing on the following areas:

- Building resilience for our customers and communities;
- Investing towards a net-zero economy;
- Strategically integrating climate change risks and opportunities;
- Aligning our business operations and people to reduce our footprint and support climate action; and
- Being transparent about our governance and performance.

On 1 July 2020, the PRA's 'Dear CEO' letter stated that firms should have embedded their approaches to managing climate-related financial risks by the end of 2021. In summary, the PRA's requirements, which are set out in Supervisory Statement 3/19 ('SS 3/19') on the Financial Risks from Climate Change ('FRCC'), are for firms to:

- embed the consideration of the FRCC in their governance arrangements;
- incorporate the FRCC into existing financial risk management practice;
- use (long-term) scenario analysis to inform strategy setting and risk assessment and identification; and
- develop an approach to disclosure on the FRCC.

As part of the EO Group, the Company is also subject to these requirements. The CRO continues to report quarterly to the EO Group's RCC on progress with implementing the EO's SS 3/19 Roadmap, with further reporting as necessary to the EO Boards. In 2021, further progress has been made towards meeting the requirements of SS 3/19, alongside the QBE Group's overall climate framework. For example:

- Board and RCC charters updated to include responsibility for overseeing climate financial risks;
- EO Group's Chief Underwriting Officer ('CUO') – Insurance approved in Q2 2021 as jointly accountable with the EO CRO for Climate financial risks under the Senior Managers Regime;
- second round of Board / EMB training completed in Q2 2021;
- EMB Climate Change Steering Group established in May 2021 to oversee the workstreams of the Climate Change Underwriting Group ('CCUG') and the Climate Risk Working Group ('CRWG');

STRATEGIC REPORT (continued)

Climate change (continued)

- Scenario assessments of Physical and Transition climate risks to estimate exposure materiality and to inform underwriting strategy updates for EO insurance products. Further analysis of Physical, Transition and Liability scenarios is planned to develop additional capability and insights; and
- Development of a Climate Risk Dashboard for additional risk reporting capability from 2022.

QBE Group also prepares a sustainability report which is available from the Group website.

QBE EO remains committed in this area over the medium- to long-term to strengthening our data and scenario analysis and adapting our modelling; pricing; capital management; financial reporting and disclosure, in partnership with QBE Group and external stakeholders.

Solvency II and capital adequacy

The Syndicates managed by the Company apply QBE EO's Prudential Regulation Authority (PRA) and Lloyd's approved internal capital model. 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. The assessment of risk-based capital enables us to make decisions that involve quantitative risk reward trade-offs. The allocation of risk-based capital helps ensure that the level of risk we take is commensurate with the required returns and is within the approved risk appetite and tolerance.

The Syndicates managed by the Company comply with Lloyd's capital setting processes which are described in note 2 in the financial statements.

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 crisis and specialist team 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 3rd March 2022 and signed on its behalf by:

C T Killourhy
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 2021.

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 12.

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 2021 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.

C T Killourhy
Director

QBE Underwriting Limited
London
3 March 2022

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF QBE SYNDICATE 2999

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 2999's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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, which comprise: the balance sheet as at 31 December 2021; the profit and loss account - technical account - general business, the profit and loss account - non-technical account, the statement of cash flows, and the statement of income and members' balance for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

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 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, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other than those disclosed in note 4, we have provided no non-audit services to the syndicate in the period under audit.

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue as a going concern for a period of at least twelve months from when the syndicate annual accounts are authorised for issue.

In auditing the syndicate annual accounts, we have concluded that the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

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

Our responsibilities and the responsibilities of the Managing Agent with respect to going concern are described in the relevant sections of this report.

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, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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 our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires 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 2021 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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 Managing Agent's Report.

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

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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to claims outstanding and estimated premium income. Audit procedures performed by the engagement team included:

- inspecting relevant meeting minutes, including those of the Board, Risk & Capital Committee and Audit Committee of the Managing Agent, and correspondence with regulatory authorities, including Lloyd's of London, the Prudential Regulatory Authority and the Financial Conduct Authority;

- discussions with the Board, management, compliance function and internal audit function of the Managing Agent including consideration of known or suspected instances of fraud and non-compliance with laws and regulations;

- evaluation and testing of the operating effectiveness of management's controls designed to prevent or detect misstatements in the Annual Report;

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

- testing and challenging where appropriate the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the estimation of claims outstanding and the estimation of estimated premium income;

- identifying and testing journal entries, particularly journal entries with unusual descriptions, posted by unexpected users and accounts used a limited number of times throughout the year; and

- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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.

Other required reporting

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not obtained 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
3 March 2022

PROFIT AND LOSS ACCOUNT - TECHNICAL ACCOUNT - GENERAL BUSINESS

for the year ended 31 December 2021

	Note	2021 £m	£m	Restated 2020 £m	£m
Earned premiums, net of reinsurance					
Gross premiums written	3	1,483.3		1,474.3	
Outward reinsurance premiums		(291.2)		(325.0)	
Net premiums written			1,192.1		1,149.3
Change in the gross provision for unearned premiums		(58.9)		(92.6)	
Change in the provision for unearned premiums, reinsurers' share		(23.5)		6.5	
			(82.4)		(86.1)
Earned premiums, net of reinsurance			1,109.7		1,063.2
Allocated investment return transferred from the non-technical account			3.9		39.9
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(811.3)		(780.5)	
Reinsurers' share		398.4		259.8	
			(412.9)		(520.7)
Change in the provision for claims					
Gross amount		(120.8)		(175.4)	
Reinsurers' share		(163.5)		39.8	
			(284.3)		(135.6)
Claims incurred, net of reinsurance			(697.2)		(656.3)
Net operating expenses	4		(374.2)		(357.9)
Balance on the technical account for general business – continuing operations			42.2		88.9

The notes set out on pages 25 to 49 form an integral part of these annual accounts.

PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT

for the year ended 31 December 2021

	Note	2021 £m	Restated 2020 £m
Balance on the general business technical account		42.2	88.9
Investment income	7(a)	36.6	42.0
Unrealised gains on investments		260.7	288.0
Investment expenses and charges	7(b)	(17.2)	(17.8)
Unrealised losses on investments		(276.2)	(272.3)
Investment return			
Allocated investment return transferred to the general business technical account		(3.9)	(39.9)
Non-technical account expense		(24.7)	17.3
Profit for the financial year		17.5	106.2

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 25 to 49 form an integral part of these annual accounts.

STATEMENT OF INCOME AND MEMBERS BALANCE
for the year ended 31 December 2021

	2021 £m	Restated 2020 £m
Members' balance as at 1 January	(77.6)	(72.8)
Profit for the financial year	17.5	106.2
(Payments out of profit to members' personal reserve funds) / Cash call	(37.6)	(110.2)
Other non-standard personal expenses	2.0	(0.8)
Members' balance as at 31 December	(95.7)	(77.6)

The notes set out on pages 25 to 49 form an integral part of these annual accounts.

BALANCE SHEET
as at 31 December 2021

Assets	Note	2021 £m	Restated 2020 £m
Investments			
Other financial investments	8	1,526.0	1,319.1
Derivative financial instrument - assets	9	-	28.2
Deposits from ceded undertakings		5.9	-
		1,531.9	1,347.3
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	61.8	78.7
Claims outstanding	12	727.5	886.0
		789.3	964.7
Debtors			
Debtors arising out of direct insurance operations	13(i)	439.4	517.5
Debtors arising out of reinsurance operations	13(ii)	318.6	212.3
Other debtors	13(iii)	7.3	6.5
		765.3	736.3
Other assets			
Cash at bank and in hand		40.0	41.3
Overseas deposits	14	257.6	246.1
		297.6	287.4
Prepayments and accrued income			
Accrued interest and rent		4.9	7.0
Deferred acquisition costs	15	227.0	199.6
Other prepayments and accrued income		8.0	8.6
		239.9	215.2
Total assets		3,624.0	3,550.9

The notes set out on pages 25 to 49 form an integral part of these annual accounts.

BALANCE SHEET
as at 31 December 2021

Liabilities	Note	2021 £m	Restated 2020 £m
Members' balance		(95.7)	(77.6)
Technical provisions			
Provision for unearned premiums	12	822.3	733.0
Claims outstanding	12	2,590.2	2,474.1
		3,412.5	3,207.1
Creditors			
Creditors arising out of direct insurance operations	20(i)	68.9	178.9
Creditors arising out of reinsurance operations	20(ii)	185.0	196.7
Other creditors including taxation and social security	21	45.6	36.8
		299.5	412.3
Accruals and deferred income		7.7	9.1
Total liabilities		3,624.0	3,550.9

These annual accounts on pages 19 to 49 were approved by the Board of QBE Underwriting Limited on 03 March 2022 and were signed on its behalf by:

C T Killourhy
Director

The notes set out on pages 25 to 49 form an integral part of these annual accounts.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2021

	2021	Restated 2020
Cash flow from operating activities	**£m**	**£m**
Operating profit for the financial year	17.5	106.2
Increase in gross technical provisions	205.5	222.4
Decrease / (Increase) in reinsurers' share of technical provisions	175.4	(27.8)
Increase in debtors	(55.9)	(140.9)
(Decrease) / Increase in creditors	(113.9)	69.9
Investment return	(3.9)	(39.9)
Other	7.5	8.8
	232.2	198.7
Cash flows from investing activities		
Purchase of equity and debt instruments	(2,313.6)	(1,431.2)
Sale of equity and debt instruments	2,103.3	1,369.8
Purchase of derivatives	-	-
Investment income received	29.6	26.1
Other	(17.4)	(26.3)
	(198.1)	(61.6)
Cash flow from financing activities		
Distribution of profit	(37.6)	(110.2)
Non-standard personal expenses	2.0	(0.8)
	(35.6)	(111.0)
Movement in cash and cash equivalents during year		
Cash and cash equivalents at the beginning of the year	41.3	15.3
Net increase in cash and cash equivalents	(1.5)	26.1
Foreign exchange movement on cash and cash equivalents	0.2	(0.1)
Cash and cash equivalents at the end of the year	40.0	41.3

The notes set out on pages 25 to 49 form an integral part of these annual accounts.

NOTES TO THE ANNUAL ACCOUNTS
for the year ended 31 December 2021

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 2021 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 expected 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, and may include straight line earnings patterns where appropriate.

(iii) Outwards reinsurance premiums written

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 outstanding

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 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 2021

1. Accounting policies (continued)

(b) Basis of accounting for insurance (continued)

(v) Claims outstanding (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. 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) Reinsurance recoveries

An estimate is made of the amounts that will be recoverable from reinsurers based upon the gross claims provisions and having due regard to collectability. Reinsurance recoveries are estimated by reviewing individual claims including allowance for claims incurred but not reported, and assessing the reinsurance recovery which is expected based on the outwards reinsurance protections. Reinsurance recoveries estimates are set by experienced outwards reinsurance technicians, applying their skill and specialist knowledge to the circumstances of individual claims and the outwards reinsurance protections.

(vii) 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.

All business classes are managed together therefore unexpired risk surpluses and deficits can be offset.

(viii) Acquisition costs

Acquisition costs (which include commission costs) are the costs associated with obtaining and recording insurance contracts. Acquisition costs are capitalised when they relate to the acquisition of new business or 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 cost.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2021

1. Accounting policies (continued)

(c) Foreign currency

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

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) Investments

(i) Other financial investments

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

Listed investments are stated at fair value using quoted prices in active markets for the same instruments where available. In the absence of an active market, current or recent prices for similar instruments may be used to estimate fair value, or other valuation techniques for which all significant inputs are based on observable market data.

Units in unit trusts, including unit trusts which invest in property, are stated at fair value using current unit prices as advised by the responsible entity, trustee or equivalent of the investment management scheme.

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.

Loans to the Central Fund at Lloyd's in respect of the 2020 and 2021 underwriting years are included within Shares and other variable yield securities and units in unit trusts. The loans are valued based on amounts collected by Lloyd's on a percentage of the Syndicate gross written premium forecast. There is no contractual obligation for Lloyd's to settle the loans and there is no market in which these loans are tradeable. The loans are valued at fair value.

Other financial investments 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 through the profit and loss non-technical account, using valuation techniques for which all significant inputs are based on observable market data.

(e) Cash at bank and in hand

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

(f) Overseas deposits

Overseas deposits comprise 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 Lloyd's investment strategy. The Syndicate has elected to measure overseas deposits at fair value through the profit and loss non-technical account.

Overseas deposits are stated at fair value using quoted prices in active markets for the same instruments where available. In the absence of an active market, current or recent prices for similar instruments may be used to estimate fair value, or other valuation techniques for which all significant inputs are based on observable market data.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2021

1. Accounting policies (continued)

(f) Overseas deposits (continued)

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.

(g) 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.

(h) 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.

(i) 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 which support the insurance technical provisions.

(j) 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.

(k) 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.

(l) 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.

(m) Critical accounting estimates and judgements

The Syndicate makes estimates and judgments in respect of the reported amounts of certain assets, liabilities and income. 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.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2021

1. Accounting policies (continued)

(m) Critical accounting estimates and judgements (continued)

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

The 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. 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 changes in methodologies to estimate the quantum of damages including changes to the Ogden rate and interpretation of business interruption policy coverage; 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.

The Syndicate benefits from an aggregate reinsurance programme that provides cover for certain large and catastrophe events. A key input into the calculation of recoveries on this contract is an estimate of the ultimate claims for the contributing large and catastrophe events by accident year.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2021

1. Accounting policies (continued)

(m) Critical accounting estimates and judgements (continued)

Assets arising from contracts with reinsurers (continued)

Actuarial reserving primarily produces ultimate claims by underwriting year, with some judgement required to assign IBNR to an accident year, particularly on more recent accident years which are still immature in their development for certain large losses on long tail classes of business.

Premiums written estimates

Premiums written includes estimates for premiums due but not yet received or notified, also defined as business which has an attachment date prior to the end of the reporting period but which has not yet been processed into the systems utilised by the Syndicate. This unclosed premium is initially based on the estimated premium income (EPI) of each contract, before being earned based on established earnings patterns which reflects underlying risk exposures. If premium cannot be reliably estimated at that date, then the premium written is recognised as soon as it can be reliably determined.

The underwriters adjust their EPI estimates as the year of account matures. As the year of account closes, premiums are adjusted to match the actual signed premium. Estimation techniques are necessary to quantify the future unclosed premium on all syndicate business written and are commonly used within the Lloyd's insurance market. The process of determining the EPI is based on a number of factors, which can include:

• Historical trends of business written versus expectation;
• Current and expected market conditions for the line of business; and
• Cover holder business plan documents provided prior to binding;

Due to the nature of the Lloyd's business and the settlement patterns of the underlying business it is also not uncommon for some contracts to take a number of years to finalise and settle, and as such remain as a receivable on the balance sheet.

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'.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2021

2. Capital management (continued)

Lloyd's capital setting process (continued)

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. 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 2021 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 21 and 22, 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.

3. Segmental information

2021	Gross premium written £m	Gross premium earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m
Accident and health	7.5	7.1	(3.1)	(4.1)	0.6	0.5
Motor (third party liability)	14.4	13.8	(8.8)	(3.4)	1.0	2.6
Marine, aviation and transport	201.7	205.5	(170.2)	(39.0)	7.9	4.2
Fire and other damage to property	283.5	291.2	(201.9)	(106.8)	3.0	(14.5)
Third party liability	419.2	374.6	(249.2)	(120.4)	(3.0)	2.0
Credit and suretyship	22.5	19.4	(3.0)	(5.7)	(9.1)	1.6
Other	-	-	-	(4.2)	0.2	(4.0)
	948.8	911.6	(636.2)	(283.6)	0.6	(7.6)
Reinsurance acceptances	534.5	512.9	(295.8)	(109.1)	(62.1)	45.9
Total	1,483.3	1,424.5	(932.0)	(392.7)	(61.5)	38.3

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2021

3. Segmental information (continued)

Restated 2020	Gross premium written £m	Gross premium earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m
Accident and health	7.8	10.5	(14.1)	(5.5)	(2.4)	(11.5)
Motor (third party liability)	9.0	11.2	(3.8)	(3.0)	(0.2)	4.2
Marine, aviation and transport	206.5	196.4	(150.7)	(39.3)	(3.9)	2.5
Fire and other damage to property	318.2	294.2	(180.9)	(100.6)	(25.4)	(12.7)
Third party liability	356.4	315.0	(260.1)	(114.4)	34.9	(24.6)
Credit and suretyship	24.0	22.9	(8.8)	(4.8)	(6.1)	3.2
Other	-	-	-	(4.3)	0.3	(4.0)
	921.9	850.2	(618.4)	(271.9)	(2.8)	(42.9)
Reinsurance acceptances	552.4	531.5	(337.4)	(111.5)	9.3	91.9
Total	1,474.3	1,381.7	(955.8)	(383.4)	6.5	49.0

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.

The above note has been restated. Refer to Note 24 for the details. The previously presented figures are included in the 2020 annual report.

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

		2021 £m	Restated 2020 £m
Europe:	United Kingdom	75.3	74.9
	Other	20.6	17.7
America:	North America	361.3	379.0
	Other	24.0	30.5
Asia		31.9	31.8
Worldwide		917.8	893.4
Other	(including Africa, Oceania and Middle East)	52.4	47.0
		1,483.3	1,474.3

All premiums were concluded in the UK.

The above note has been restated. Refer to Note 24 for the details. The previously presented figures are included in the 2020 annual report.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2021

4. Net operating expenses

	2021 £m	Restated 2020 £m
Acquisition costs: direct commission	265.0	257.2
other	91.4	81.2
Changes in deferred acquisition costs	(23.2)	(11.2)
Administrative expenses	59.5	56.2
Reinsurance commission revenue	(18.5)	(25.5)
	374.2	357.9

Administrative expenses include auditors' remuneration:

	2021 £m	2020 £m
Remuneration receivable by the Syndicate's auditors for the auditing of these financial statements	0.5	0.3
Other services pursuant to legislation	0.3	0.4

The above note has been restated. Refer to Note 24 for the details. The previously presented figures are included in the 2020 annual report.

5. Employees

The Syndicate did not directly incur staff costs during the year (2020 £nil). All staff are employed by fellow subsidiary undertakings that recharge the Syndicate for the services provided by those staff.

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:

	2021 £m	2020 £m
Directors of the Managing Agent	2.2	2.8
Active Underwriters	0.7	0.9

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

	2021 £m	2020 £m
Income from investments	28.2	27.1
Gains on the realisation of investments	8.4	14.9
	36.6	42.0

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2021

7. Investment income, expenses and charges (continued)

(b) Investment expenses and charges

	2021 £m	2020 £m
Investment management expenses	0.9	1.2
Losses on the realisation of investments	16.3	16.6
	17.2	17.8

8. Other financial investments

Designated at fair value through profit and loss

	2021		Restated 2020	
	Cost £m	Fair value £m	Cost £m	Fair value £m
Shares and other variable yield securities and units in unit trusts	54.4	56.4	54.8	54.2
Debt securities and other fixed income securities	1,475.8	1,469.6	1,282.5	1,259.4
Loans and deposits with credit institutions	-	-	5.5	5.5
	1,530.2	1,526.0	1,342.8	1,319.1

The debt securities and other fixed income securities are listed. £38.1m of the shares and other variable yield securities and units in unit trusts are unlisted (2020 listed £21.6m).

The above note has been restated. Refer to Note 24 for the details. The previously presented figures are included in the 2020 annual report.

9. Derivative financial instrument - assets

Fair value	2021 £m	2020 £m
Foreign currency derivatives		
Derivative financial instrument – assets	-	28.2

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 £591.7m (2020 buy £517.6m).

The forward foreign exchange derivatives outstanding at year end all expire by 04 November 2022 (11 June 2021).

During the year a gain of £25.7m (2020 gain £21.5m) relating to such contracts was recognised in the profit and loss non-technical account.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2021

10. Valuation hierarchy

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

2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Overseas deposits	99.0	158.6	-	257.6
Loans and deposits with credit institutions	-	-	-	-
Variable yield securities and units in unit trusts	-	2.8	53.6	56.4
Debt securities and other fixed income securities	442.8	1,026.9	-	1,469.7
Derivatives – assets	-	-	-	-
	541.8	1,188.3	53.6	1,783.7

Restated 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Overseas deposits	23.4	222.7	-	246.1
Loans and deposits with credit institutions	-	-	5.5	5.5
Variable yield securities and units in unit trusts	-	-	54.2	54.2
Debt securities and other fixed income securities	207.1	1,052.2	-	1,259.3
Derivatives – assets	-	28.2	-	28.2
	230.5	1,303.1	59.7	1,593.3

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 valuation of the syndicate holdings in collective investment schemes, including those which invest into 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 collective investment schemes, including those which invest into infrastructure debt and infrastructure assets, where unit 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 fair value.

The above note has been restated. Refer to Note 24 for the details. The previously presented figures are included in the 2020 annual report.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2021

10. Valuation hierarchy (continued)

Movements in level 3 investments	2021 £m	2020 £m
At 1 January	59.7	48.1
Purchases	0.2	14.4
Unrealised gains	(0.7)	(1.8)
Redemptions	(5.6)	(1.0)
At 31 December	53.6	59.7

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 2021

11. Financial risk (continued)

Currency risk (continued)

	Movement in variable %	2021 Profit / (loss) and members' balance £m	2020 Profit / (loss) and members' balance £m
US dollar	+10	28.6	22.7
	–10	(28.6)	(22.7)
New Zealand dollar	+10	0.1	(0.5)
	–10	(0.1)	0.5
Euro	+10	2.5	3.7
	–10	(2.5)	(3.7)
Japanese Yen	+10	1.7	0.6
	–10	(1.7)	(0.6)
Canadian dollar	+10	10.7	10.0
	–10	(10.7)	(10.0)
Australian dollar	+10	3.2	2.4
	–10	(3.2)	(2.4)

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:

2021	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	109.4	690.7	189.9	204.1	573.2	1,767.3

2020	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	95.8	651.9	224.1	181.2	399.3	1,552.3

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2021

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 %	2021 Profit / (loss) and members' balance £m	2020 Profit / (loss) and members' balance £m
Interest rate movement – fixed interest securities	+0.5	(31.5)	(13.5)
	-0.5	29.8	9.1

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. At 31 December 2021, the Syndicate did not hold, whether directly or indirectly via collective investment scheme, any equity investments (2020 £nil).

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 holdings in unit trusts which invest in property in key developed markets.

		Financial impact	
	Movement in variable %	2021 Profit / (loss) and members' balance £m	2020 Profit / (loss) and members' balance £m
Europe	+10	0.3	0.3
	-10	(0.3)	(0.3)

(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. COVID-19 has resulted in material deterioration in credit conditions globally. Our efforts to identify, assess and manage heightened credit risks to our business have therefore increased commensurately.

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 94.9% (2020 96.7%) of the balance is with reinsurers with an S&P rating of "A-" or greater. To mitigate credit risk exposure to reinsurers, the Syndicate holds letter of credit as security and in addition has investment assets pledged by certain counterparties.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2021

11. Financial risk (continued)

(ii) Credit risk (continued)

At the balance sheet date the Syndicate held collateral against credit risk of £14.8m (2020 restated £15.2m) in the form of letters of credit and £38.8m (2020 £133.1m) as investment assets pledged.

90.6% (2020 88.77%) 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.

		Past due by				
2021	**Neither past due nor impaired £m**	**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	1,767.3	-	-	-	-	1,767.3
Other investments and other assets	56.4	-	-	-	-	56.4
Derivative financial instrument – assets	-	-	-	-	-	-
Other debtors	7.3	-	-	-	-	7.3
Debtors arising out of direct insurance operations	423.3	-	6.7	2.0	7.4	439.4
Debtors arising out of reinsurance operations	141.9	127.8	22.0	9.0	17.9	318.6
	2,396.2	127.8	28.7	11.0	25.3	2,588.9

		Past due by				
Restated 2020	**Neither past due nor impaired £m**	**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	1,552.3	-	-	-	-	1,552.3
Other investments and other assets	54.2	-	-	-	-	54.2
Derivative financial instrument – assets	28.2	-	-	-	-	28.2
Other debtors	6.5	-	-	-	-	6.5
Debtors arising out of direct insurance operations	502.0	-	5.0	2.8	7.7	517.5
Debtors arising out of reinsurance operations	128.8	43.7	10.0	9.7	20.1	212.3
	2,272.0	43.7	15.0	12.5	27.8	2,371.0

The above note has been restated. Refer to Note 24 for the details. The previously presented figures are included in the 2020 annual report.

(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.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2021

11. Financial risk (continued)

(iii) Liquidity risk (continued)

At 31 December 2021, the average duration of cash and fixed interest securities was 4.1 years (2020 2.5 years).

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

	2021 £m	Restated 2020 £m
Creditors	299.5	412.3
	299.5	412.3

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

The above note has been restated. Refer to Note 24 for the details. The previously presented figures are included in the 2020 annual report.

12. Technical provisions

2021 Gross	Provision for unearned premiums £m	Claims outstanding £m	Net £m
At 1 January	733.0	2,474.1	3207.1
Movement per technical account	58.9	120.8	179.7
Foreign exchange	30.4	(4.6)	25.8
At 31 December	822.3	2,590.3	3,412.6
Reinsurance			
At 1 January	78.7	886.0	964.7
Movement per technical account	(23.5)	(163.5)	(187.0)
Foreign exchange	6.6	5.1	11.7
At 31 December	61.8	727.6	789.4

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 £58.5m (2020 £33.0m). Discount of £23.1m (2020 £40.7m) has been applied using a rate of 1.0% (2020 2.70%) and based on mean term of liabilities of 36.5 years (2020 36.7 years).

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2021

12. Technical provisions (continued)

Restated 2020 Gross	Provision for unearned premiums £m	Claims outstanding £m	Net £m
At 1 January	656.2	2,328.4	2,984.6
Movement per technical account	92.6	175.4	268.0
Foreign exchange	(15.8)	(29.7)	(45.5)
At 31 December	733.0	2,474.1	3,207.1
Reinsurance			
At 1 January	75.3	861.5	936.8
Movement per technical account	6.5	39.8	46.3
Foreign exchange	(3.1)	(15.3)	(18.4)
At 31 December	78.7	886.0	964.7

The above note has been restated. Refer to Note 24 for the details. The previously presented figures are included in the 2020 annual report.

13. Debtors

(i) Debtors arising out of direct insurance operations

	2021 £m	Restated 2020 £m
Due within one year		
Due from intermediaries	439.4	517.5
	439.4	517.5

(ii) Debtors arising out of reinsurance operations

	2021 £m	Restated 2020 £m
Due within one year	318.5	212.3
Due after one year	0.1	-
	318.6	212.3

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2021

13. Debtors (continued)

(iii) Other debtors

	2021 £m	2020 £m
Unsettled investment trade debtors	0.3	-
Salvage and subrogation	6.0	5.9
Trade debtors	1.0	0.6
Amounts due from Group undertakings	-	-
	7.3	6.5

The above note has been restated. Refer to Note 24 for the details. The previously presented figures are included in the 2020 annual report.

14. Overseas deposits

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

	2021 £m	2020 £m
Joint Asset Trust Funds	9.2	8.8
Canadian Margin Fund	107.8	108.3
Kentucky Trust Funds	4.3	3.2
Australian Trust Funds	89.3	84.1
South African Trust Funds	22.5	19.0
Additional Securities Limited Overseas deposit	23.6	22.0
Additional Securities Limited Illinois deposit	0.9	0.7
	257.6	246.1

Use of overseas deposit funds is restricted under the terms of the trust agreements where the deposits are lodged.

15. Deferred acquisition costs

	2021 £m	2020 £m
As at 1 January	199.6	185.7
Movement during the year	23.2	11.2
Foreign exchange	4.2	2.7
	227.0	199.6

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2021

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 classes; reduced by positive developments across a number of other classes.

2021 Gross basis	**2011 and prior £m**	**2012 £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**2021 £m**	**Total £m**
At end of year		412.9	259.6	187.3	225.1	351.6	621.0	401.8	318.9	374.9	496.3	
One year later		625.4	503.8	456.6	533.9	663.2	961.2	728.1	699.6	675.6		
Two years later		695.9	567.8	584.3	614.8	749.8	1,115.2	797.4	805.5			
Three years later		678.2	580.2	571.6	637.4	737.5	1,109.7	805.5				
Four years later		686.8	539.2	613.8	621.1	733.6	1,117.9					
Five years later		668.1	550.9	614.8	650.7	758.7						
Six years later		654.6	557.7	633.9	651.9							
Seven years later		636.6	559.3	650.9								
Eight years later		630.1	556.4									
Nine years later		633.7										
Current estimate of gross cumulative claims cost		633.7	556.4	650.9	651.9	758.7	1,117.9	805.5	805.5	675.6	496.3	
Cumulative gross claims payments to date		(582.4)	(492.8)	(560.2)	(481.6)	(579.9)	(860.0)	(513.0)	(422.6)	(252.9)	(68.5)	
Gross outstanding claims	251.7	51.3	63.6	90.7	170.3	178.8	257.9	292.5	382.9	422.7	427.8	2,590.2

2021 Net basis	**2011 and prior £m**	**2012 £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**2021 £m**	**Total £m**
At end of year		266.4	203.5	169.5	183.8	280.8	315.6	277.5	276.3	307.1	369.8	
One year later		449.5	395.2	345.5	421.9	503.1	548.7	506.5	518.5	524.4		
Two years later		493.2	434.0	440.3	489.4	564.2	640.7	583.9	620.1			
Three years later		472.1	455.8	416.3	473.0	539.9	630.8	586.1				
Four years later		484.8	408.1	423.6	446.0	533.8	628.6					
Five years later		458.4	411.4	403.3	454.8	551.8						
Six years later		470.3	411.3	408.9	455.0							
Seven years later		453.8	406.4	408.2								
Eight years later		445.1	403.8									
Nine years later		445.3										
Current estimate of gross cumulative claims cost		445.3	403.8	408.2	455.0	551.8	628.6	586.1	620.1	524.4	369.8	
Cumulative gross clain payments to date		(406.8)	(366.6)	(345.1)	(352.6)	(419.5)	(480.4)	(396.7)	(325.5)	(186.2)	(38.7)	
Gross outstanding claims	187.7	38.5	37.2	63.1	102.4	132.3	148.2	189.4	294.6	338.2	331.1	1,862.7

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 table demonstrates 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 2021

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 in respect of liabilities relating to long term personal injury lines of business could be lower or higher as a result of movements in the Ogden rate, a half a percent increase or decrease in the Ogden rate movement is considered to be reasonably possible. 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.

		2021		Restated 2020	
		Profit / (loss) and members‘ balance		Profit / (loss) and members‘ balance	
	Sensitivity	Gross	Net	Gross	Net
	%	£m	£m	£m	£m
Claims outstanding	+5	104.9	75.4	100.2	64.3
	-5	(104.9)	(75.4)	(100.2)	(64.3)
Change in Ogden rate on certain long term personal injury claims	+0.5	(15.1)	(15.1)	(16.6)	(16.6)
	-0.5	17.8	17.8	19.5	19.5
Sterling to US dollar exchange rate	+10	102.6	54.4	97.9	37.4
	-10	(102.6)	(54.4)	(97.9)	(37.4)
Sterling to Australian Dollar exchange rate	+10	10.7	10.2	9.5	9.2
	-10	(10.7)	(10.2)	(9.5)	(9.2)
Sterling to Euro exchange rate	+10	11.6	10.6	11.8	10.8
	-10	(11.6)	(10.6)	(11.8)	(10.8)
Sterling to Canadian exchange rate	+10	27.2	22.5	25.6	21.3
	-10	(27.2)	(22.5)	(25.6)	(21.3)

The above note has been restated. Refer to Note 24 for the details. The previously presented figures are included in the 2020 annual report.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2021

19. Expected 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
2021	517.4	365.5	258.1	192.4	144.6	384.7	1,862.7
Restated 2020	455.	308.2	213.8	161.9	121.8	327.4	1,588.1

The above note has been restated. Refer to Note 24 for the details. The previously presented figures are included in the 2020 annual report.

20. Creditors

(i) Creditors arising out of direct insurance operations

	2021 £m	Restated 2020 £m
Due within one year		
Due to intermediaries	68.9	178.9
	68.9	178.9

(ii) Creditors arising out of reinsurance operations

	2021 £m	Restated 2020 £m
Due within one year	185.0	196.7
	185.0	196.7

The above note has been restated. Refer to Note 24 for the details. The previously presented figures are included in the 2020 annual report.

21. Other creditors including taxation and social security

	2021 £m	2020 £m
Due within one year		
Unsettled investment trade creditors	7.7	1.0
Amounts due to group undertakings	24.9	27.4
Taxation and social security	13.0	8.3
	45.6	36.7

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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2021

23. Related parties (continued)

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). 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 C A Brown, M J Gilbert, T C W Ingram and M G McCaig 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. During the current and prior financial year, there were no instances of reinsurances underwritten between QBE's syndicates.

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 £19.2m (2020 £27.1m) 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 £12.3m (2020 £16.0m). At the year end, there was a £10.8m (2020 £7.7m) share of technical provisions.

	2021	2020 Inwards premiums	2021	2020 Balance Outstanding	2021	2020 Share of technical provisions
	£m	£m	£m	£m	£m	£m
QBE Insurance Corporation	-	7.8	0.1	2.6	0.1	0.2
Stonington Insurance Company	0.1	3.4	-	-	8.0	7.5
Equator Reinsurances Limited	2.9	2.8	1.7	2.9	0.1	-
QBE Insurance (Singapore) Pte Ltd	16.1	10.5	8.6	8.1	2.5	-
QBE Insurance (Malaysia) Berhad	-	-	1.9	-	0.2	-
QBE Blue Ocean Re Limited	-	2.6	-	2.4	-	-
	19.1	27.1	12.3	16.0	10.9	7.7

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 £75.4m (2020 £94.6m) were booked with Equator Reinsurances Limited (Equator Re). At the year end, balances due from Equator Re in respect of reinsurers' share of technical provisions were £407.2m (2020 £606.3m).

Administrative expenses

Total expenses recharged from QBE Partner Services (Europe) LLP in respect of services provided to the Syndicate amounted to £119.0m (2020 £122.6m). The balance outstanding at year end with QBE Partner Services (Europe) LLP is £16.3m (2020 £22.6m). There are no other transactions or arrangements to be disclosed.

Service companies

Certain QBE EO 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 charges are centrally administered within QBE EO and are included within recharges made to the Syndicate by QBE Partner Services (Europe) LLP. The risks placed with the Syndicate are under normal market conditions.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2021

24. Restatement of prior year comparatives

The comparative figures have been restated for the following matters:

- A correction made to align the values of the gross premium written, gross written commission and debtors arising out of direct insurance operations with the signed premium values. This has also had an impact on associated claims reserves and reinsurance balances. The correction resulted in an increase of £37.6m in Gross Premiums Written, an increase of £36.5m in the Gross Provision for Claims, an increase of £13.5m in the Reinsurer's share of Provision for Claims and a £1.8m increase in the Acquisition costs. This restatement has impacted all primary financial statements;
- A correction has been made to reflect a reclassification required between trade and other receivables and trade and other payables relating to treaty business. This has resulted from a review of the balances to reflect updated information on the nature of these accounts. The correction resulted in a decrease of £41.3m in trade and other receivables and trade and other payables, respectively. This restatement has impacted the balance sheet and statement of cash flows;
- A correction to the classification of money market funds as cash and cash equivalents (previously included in investment balances) in line with the requirements of FRS102. The correction resulted in a decrease of £21.6m in Investments and increase in Cash and Bank in Hand. This restatement has impacted the balance sheet and statement of cash flows; and
- A correction to the treatment of the overseas deposit balances in the statement of cash flows (previously included as part of the cash and cash equivalents balance). The correction results in a decrease of cash flows from investing activities and an overall decrease in cash of £202.9m.

Profit and loss account - technical account - general business

for the year ended 31 December 2021

The net impact of the changes amounting to £12.8m are shown below

	2020 Adjustment £m
Earned premiums, net of reinsurance	
Gross premiums written	37.6
Net premiums written	37.6
Earned premiums, net of reinsurance	37.6
	-
Change in the provision for claims	
Gross amount	(36.5)
Reinsurers' share	13.5
	(23.0)
Claims incurred, net of reinsurance	(23.0)
Net operating expenses	(1.8)
Balance on the technical account for general business – continuing operations	12.8

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2021

24. Restatement of prior year comparatives (continued)

Profit and loss account - non-technical account

for the year ended 31 December 2021

	2020 Adjustment £m
Balance on the general business technical account	12.8
Profit for the financial year	12.8

Statement of Income and Members Balance
for the year ended 31 December 2021

	2020 Adjustment £m
Profit for the financial year	12.8
Members' balance as at 31 December	12.8

Balance sheet
as at 31 December 2021

The impact of the changes are shown below.

Assets	2020 Adjustment £m
Investments	
Other financial investments	(21.6)
Reinsurers' share of technical provisions	
Claims outstanding	13.5
Debtors	
Debtors arising out of direct insurance operations	(39.0)
Debtors arising out of reinsurance operations	35.3
Other assets	
Cash at bank and in hand	21.6
Total assets	9.8

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2021

24. Restatement of prior year comparatives (continued)

Balance sheet (continued)
as at 31 December 2021

Liabilities	
Members' balance	12.8
Technical provisions	
Claims outstanding	36.6
Creditors	
Creditors arising out of direct insurance operations	(49.5)
Creditors arising out of reinsurance operations	9.9
Total liabilities	9.8

Cashflow statement

Cash flow from operating activities	**2020 Adjustment £m**
Operating profit for the financial year	12.8
Increase / (decrease) in gross technical provisions	36.5
Decrease / (Increase) in reinsurers' share of technical provisions	(13.5)
Decrease / (Increase) in debtors	(10.8)
Increase in creditors	(39.6)
Other	44.0
	29.4
Cash flows from investing activities	
Purchase of equity and debt instruments	241.5
Sale of equity and debt instruments	(249.6)
Other	(26.4)
	(34.5)
Movement in cash and cash equivalents during year	
Cash and cash equivalents at the beginning of the year	(215.8)
Net decrease in cash and cash equivalents	(5.1)
Foreign exchange movement on cash and cash equivalents	(3.5)
Cash and cash equivalents at the end of the year	(224.4)

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