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QBE Syndicate 2999 Annual report 2022

QBE Syndicate 2999

Annual Report

31 December 2022

ANNUAL REPORT
for the year ended 31 December 2022

Contents **Page**

MANAGING AGENCY – CORPORATE INFORMATION

Directors

C A Brown*
C G L M Fresneau
J R Harris
T C W Ingram*
S Maddock*
M G McCaig*
N J D Terry
C T Killourhy
R C Stone Appointed 12 December 2022

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

S J Postlewhite Resigned 13 June 2022

* 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 ('the Company'), the Managing Agent for QBE Syndicate 2999 ('the Syndicate'), present their Strategic Report and audited financial statements for the Syndicate for the year ended 31 December 2022.

Principal Activities

The Syndicate comprises four trading units, or sub-Syndicates. The Syndicate was headed by Peter Burton, Executive Director of Insurance Markets and Steve Postlewhite, Managing Director of QBE's Reinsurance division, as joint active underwriters up to 13 June 2022. Lloyd's approval was received for the appointment of Christopher Killourhy to replace Steve Postlewhite on 7 September 2022.

The sub-Syndicates and associated classes of business for 2022 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; marine P&I
5555	Multi-line facility business

Business review

Challenging operating conditions have characterised 2022, with significant inflationary pressures, geopolitical tension and heightened catastrophe activity. The economic environment remains highly uncertain, with higher inflation being seen across most markets in which the Syndicate operates, and recessions anticipated in many major economies.

The Syndicate continues to monitor the situation arising from Russia's invasion of Ukraine and developments that may impact its assessment of potential exposures, including legal uncertainty relating to Aviation.

The COVID-19 pandemic remained an area of focus for management during 2022. Uncertainty following the UK Supreme Court judgment in 2021 regarding the FCA Test Case has been reduced following the High Court judgements in the Corbin & King v AXA and the Stonegate v Amlin litigation in 2022, but there remain some uncertainties, particularly in relation to the Stonegate appeal and the "at the premises" claims.

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.

The Syndicate which is managed by QBE Underwriting Limited, invests the majority of investment funds in Fixed Income portfolios with a moderate proportion in Growth Assets. Returns on fixed income assets were adversely impacted by rises in market yields during 2022. Geopolitical events and rising inflation resulting in the increase in the cost of living, contributed to the rise of yields and widening of credit spreads on the fixed income portfolio. The events impacted returns across all major fixed income holdings, with corporate bonds impacted more than governmental and semi-government holdings. Growth assets including investments in infrastructure assets provided good returns, despite experiencing volatility during the first half of the year.

The safety and wellbeing of our people, customers, and their communities has remained a priority in 2022. The business continuity framework has proven resilient to the operational challenges encountered during the challenging macro-economic environment. Alongside the lifting of COVID-19 restrictions and return to the office in all our locations, flexible working arrangements continued to ensure staff wellbeing and enhance performance.

STRATEGIC REPORT (continued)

Key performance indicators and future developments

As an insurance entity, key performance indicators include Gross Written Premium and Net Earned Premium. Key ratios monitored by the Board include the Combined Operating Ratio, comprising the Claims Ratio and Commission and Expense Ratio. The Ratios are net claims, expenses and commissions incurred for the year, expressed as a percentage of the Net Earned Premium.

The table below details the Syndicate's annually accounted result as at 31 December 2022 relative to the previous year:

	2022 Total £m	2021 Total £m
Gross written premium	1,815.5	1,483.3
Net earned premiums	1,305.0	1,109.7
Net claims	(858.1)	(697.2)
Acquisition costs	(368.3)	(314.7)
Other net operating expenses	(58.1)	(59.5)
Net underwriting profit	20.5	38.3
Investment (loss) / return	(121.0)	3.9
Non-technical account income / (expense)	3.9	(24.7)
Total (loss)/profit for the year	(96.6)	17.5
Claims ratio	65.8%	62.8%
Commission and expense ratio	32.6%	33.7%
Combined operating ratio	98.4%	96.5%

The Active Underwriters' comment as follows:

The 2022 financial year has produced a total loss of £96.6m (2021 £17.5m profit) and a combined operating ratio of 98.4% (2021 96.5%).

Overall gross written premium of £1,815.5m (2021 £1,483.3m) is circa 11.5% up on the previous year (at a constant rate of exchange) reflecting the continued improvement in market conditions across all major product lines, with actual rate experience for the Syndicate's 2022 underwriting year concluding at +6.7% versus +4.4% approved plan.

In 2022, the market also witnessed the fourth highest incidence of global insured catastrophe losses at US$122bn (2021 US$130bn), including US$7bn of man-made catastrophe losses. Hurricane Ian was the most significant natural disaster, with other secondary peril events contributing more than half of the total natural catastrophe losses for the market, as wealth accumulation and climate change effects in disaster-prone areas drive claims.

With losses from Hurricane Ian and the war in Ukraine, the Syndicate'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 claims ratio of 65.8% (2021 62.8%). Additionally, prior accident year reserves, mainly in liability and casualty lines, have been uplifted for inflation loadings.

Total net commission and expense ratio of 32.6% is reduced from the prior year (2021 33.7%).

The investment losses of £121m or negative 6.7% return (2021 £3.9m profit or positive 0.4% return), was impacted by increases in market yields on fixed income holdings. Fixed income represents circa 96% of the Syndicate's overall portfolio and produced negative 7.0% return for the year, materially offsetting the positive 0.4% 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 gain of £4m principally comprises a foreign exchange gain arising from the revaluation of non-monetary balances.

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

STRATEGIC REPORT (continued)

Outlook

There has been a promising start to 2023, with January renewal rate increases in excess of approved plan across most product lines, particularly property, where Hurricane Ian and the relative absence of new capital, has accelerated the required correction in reinsurance markets.

Whilst our outwards reinsurance treaty renewals were successful, we have experienced increased retentions and pricing relative to plan, particularly for property catastrophe. The outwards retro environment was especially challenged with many providers choosing to restrict capacity and whilst the cost of protection increased significantly, we were successful in securing additional capacity, with high quality providers, and a more simplified structure. In addition to fully leveraging the supportive rating environment, we have undertaken a deliberate re-positioning of our inwards reinsurance portfolio to help manage earnings' volatility, with a decision to exit inwards retro business in respect of peak perils at 1 January.

We will continue to target growth by geography and product, where we can demonstrate a sustainable business case over expected market cycles. This includes our portfolio solutions business which comprises market trackers, fully embracing lead/follow efficiencies.

The global macro-economic environment, and inflationary pressures, remain a concern but we are comfortable that this uncertainty has been priced into our longer tail products. Similarly supply-chain impacts continue to be actively monitored and reviewed and fed into underwriting teams and decisions.

With regards Environmental, Social and Governance (‘ESG’), QBE has adopted the approach of an orderly and inclusive transition to a net-zero economy. Our current focus is to continue building our capability to measure, attribute and report insurance-associated greenhouse gas emissions. This continual measurement and ongoing client conversations will inform our underwriting considerations over time.

Through 2023, we will also continue our investments in our colleagues and teams by:

- Evolving policies and practices to support a diverse and inclusive workforce
- Developing our wellbeing offering
- Focusing on training, development and career progression
- Supporting our teams with tools to underpin our commitment to hybrid working.

Investment policy

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 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.

QBE EO management along with the investment manager is responsible for developing and monitoring the Syndicate’s investment policy and strategy, subject to QBE Underwriting Limited’s Board approval. The Board also monitors the Syndicate’s investment manager’s performance and their compliance with the internal guidelines. 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.

Responsibility for the oversight and monitoring of the asset and liability strategy falls within the remit of the Board. Duration of the Syndicate’s fixed income portfolios are managed broadly in line with that of net outstanding claim liabilities.

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.

STRATEGIC REPORT (continued)

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 is calculated as an absolute return on the underlying portfolio of asset held during the year, which was negative 6.7% against a target return of 0.2% (2021 0.4% against a target return of 0.72%).

Portfolio currency	2022 Average funds £m	2022 Average return %	2021 Average funds £m	2021 Average return %
Australian dollar	116.0	(1.8)	90.4	(0.6)
Canadian dollar	863.3	(1.1)	780.7	(0.2)
Euro	4.7	(12.3)	5.1	(2.2)
Sterling	338.0	(20.8)	201.8	2.5
US dollar	678.3	(4.6)	493.9	0.6

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 actuals 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.

The Syndicate invests the majority of its investment funds in Fixed Income portfolios with a moderate proportion in Growth Assets. Returns on fixed income assets were adversely impacted by rises in market yields during 2022. Geopolitical events, rising inflation resulting in the increase in the cost of living contributed to the rise of yields and widening of credit spreads on the fixed income portfolio. The events impacted returns across all major fixed income holdings, with corporate bonds impacted more than governmental and semi-government holdings.

Growth Asset investments include listed funds, unlisted property, infrastructure asses and emerging market equity.

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 the Company 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 line with 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 is currently chaired by Tim Ingram, independent Non-Executive Director ('NED'). Mr Keith Skeoch will become the new Chair of the Board and an independent NED upon receipt of regulatory approval and Mr Ingram will resign as Chair and independent NED on the same date. 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.

With effect from 1 September 2022 Mr Christopher Killourhy was appointed Managing Director of QBE Re. Mr Christopher Killourhy retained the Chief Financial Officer ('CFO') role through to 12 December 2022 when Mr Robert Stone was appointed CFO.

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.

STRATEGIC REPORT (continued)

The Board of QBE Underwriting Limited (continued)

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 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.

Each year there is a formal Board Effectiveness Review ('BER'), which is facilitated by an independent external advisor. In June 2022, 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; People & Remuneration Committee ('PARC'); Nomination Committee; and Risk and Capital Committee ('RCC'), noting that the QBE EO Investment Committee disbanded in July 2022 and its responsibilities subsumed by the Board and RCC as appropriate.

In addition, the Executive Management Board ('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, Chief Underwriting Officer, Chief People Officer, Chief Operations Officer and Claims Director. 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 nine times and additional regular informal discussion forums took place during the year.

Principal risks and uncertainties of the Syndicates and the Company

The Syndicates and the Company faces a number of principal risks and uncertainties specific to the Syndicate's 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 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 are used to support risk-based decision making by clearly defining QBE's appetite (what we should do) and tolerance (what we can do) and provide 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') and emerging risks;
- 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.

STRATEGIC REPORT (continued)

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

Strategic risk (continued)

During periods of uncertainty like during the COVID-19 outbreak, as well as the war in Ukraine, 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.

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:
- Through 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.

STRATEGIC REPORT (continued)

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

Liquidity risk

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:
- Board-approved Risk Appetite Statements that ensures minimum coverage of cash outflows for liabilities in line with the PRA's Supervisory Statement 5/19 – Liquidity risk management for insurers;
- Setting minimum levels of liquid, short term money market securities;
- Matching assets and liabilities in our major currency positions;
- Regular monitoring of the ratio of liquid assets to liabilities is undertaken;
- 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; Operational Key Risk Indicators 'KRIs' are also being monitored; 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 remained our priority during 2022. The business continuity framework has proven resilient to the operational challenges encountered during the challenging macro-economic environment. Alongside the lifting of COVID-19 restrictions and return to the office in the majority of our locations, flexible working arrangements continued 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;
- Compliance Risk Dashboard monitoring including Compliance Risk Appetite, key management focus areas and other risk MI; Compliance Key Risk Indicators ('KRIs') are also being monitored;
- Closely monitoring rapid changes in the international sanctions regulatory environment, undertaking appropriate screening and due diligence and communicating requirements to the business as required; and
- Maintaining effective segregation of duties, access controls, governance and reconciliation procedures.

STRATEGIC REPORT (continued)

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 parent company.

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;
- Functional RCSAs include Group risks;
- 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.

In 2020, the QBE Group became the first Australian-based insurer to become a member of the UN-convened Net-Zero Asset Owner Alliance, committing to achieving net-zero greenhouse gas (GHG) emissions by 2050 in our investment portfolio. QBE also joined the UN-convened Net-Zero Insurance Alliance (NZIA) in 2022, committing to transition our underwriting portfolio to net-zero GHG emissions by 2050.

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 (for example, in 2022, 2030 and 2050), based on the different reference climate scenarios (i.e. Representative Concentration Pathways). For transition risks, we are able to measure the extent that the company's premium is exposed to industries considered sensitive to climate transition risks, and how this may change over longer time horizons in several 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.
Our approach to managing ESG risks, including Climate Change, is guided by QBE Group's strategic purpose to enable a resilient future, and by our sustainability framework and commitments.

In 2021, the Company implemented it's Board-approved Roadmap to address the PRA's requirements set out in Supervisory Statement 3/19 ('SS 3/19') on the Financial Risks from Climate Change. The Roadmap ensured the Company embedded its approach to managing climate-related financial risks, addressing the following requirements:
- 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.

Following the implementation of the Roadmap, the Company has continued to build upon the requirements of SS3/10. In 2022, developments to our approach to managing climate and broader ESG risks included:

STRATEGIC REPORT (continued)

Climate change (continued)

- The Board / Executive Management Board ('EMB') received second round of climate risk training;
- Updated scenario assessments of physical and transition climate risks to estimate exposure materiality and to inform underwriting strategy updates for EO insurance products;
- The completion of liability scenario analysis, in line with the litigation analysis included in the Bank of England's Climate Biennial Exploratory Scenario;
- Participation in QBE's Net Zero Insured Emissions Programme, which seeks to prepare QBE for meeting our commitment to be net zero for underwriting by 2050;
- The establishment of a Climate Risk Dashboard for additional risk reporting capability, including a climate related assessment of the Insurance Concentration RAS.

In addition, in the first half of 2022 the Environmental, Social and Governance Management Group ('ESG MG') was established as part of the QBE EO formal governance structure. This forum, whose membership is the same as the EO EMB, was established to ensure an appropriate executive governance and oversight of ESG and Climate Change matters and to support the decision making around QBE EO's strategic response and compliance with impending reporting requirements. All members of the ESG MG are required to own their respective areas of responsibility for reporting on ESG matters and ensure that subject matter experts in their teams are accountable for their part in the disclosure reporting. The ESG MG is co-chaired by the Chief Underwriting Officer, Insurance and the CRO, who both share responsibility for identifying and managing the financial risks arising from climate change as part of their Senior Manager functions.

Material ESG risks, including those relating to the FRCC, are assessed and reported to the QBE EO Risk and Capital Group, Risk and Capital Committee and EO Boards (including the Board of the Company), via the climate Risk Dashboard and the ORSA. This allows the EO Board to review and challenge management of climate change risks.

The QBE Group, including the Company, continues to support the objectives of the Paris Agreement and the Task Force on Climate-related Financial Disclosures recommendations.

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

Energy consumption by the Company does not exceed 40,000kWh per year, therefore the Company has not disclosed the quantity of energy consumed through its activities.

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 Syndicate managed by the Company applies QBE EO's internal capital model, as approved by the Prudential Regulation Authority (PRA) and Lloyd's. The internal model is an integrated framework to support the Company's 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 operations 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.

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 Division ('QBE EO') of QBE Insurance Group Limited ('QBE Group'). The corporate governance framework is managed at QBE EO level.

STRATEGIC REPORT (continued)

Corporate governance (continued)

During 2022, 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.

Section 172 Companies Act 2006 statement of QBE Underwriting Ltd

The Directors are fully aware of their duty under section 172 of the Companies Act 2006 to act in the way which they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and, in doing so, to have regard amongst other matters to the duties contained therein.

The Directors have acted in accordance with such responsibilities during the year. The Board has identified that its key stakeholders are its employees, shareholders, customers, suppliers, regulators, brokers and other intermediaries, together with communities and the environment.

Being a part of QBE Group, the Company adheres to QBE's purpose and DNA values. QBE's purpose is to enable a more resilient future. QBE is committed to the highest standards of corporate governance as reflected in its DNA. The QBE DNA interlinks seven cultural elements (listed below) that are fundamental to QBE and how QBE needs to operate in the future to succeed, recognising its customers, employees, shareholders and the community. QBE believes that a culture, which rewards transparency, integrity and performance will promote its long-term substantiality and the ongoing success of its business.

The QBE DNA is as follows:

- **customer-focused** – we proactively listen with empathy to guide how we meet customer needs and have an impact (#Outside In)
- **technical experts** – we build and share our expertise, striving for excellence and knowing when to ask for guidance (#Know your stuff)
- **fast-paced** – we move with pace, adapting with our purpose and future in mind (#Ramp It Up)
- **inclusive** – we treat each other with respect and fairness, and value diverse perspectives (#Value All Views)
- **courageous** – we act with integrity and challenge the status quo, feeling safe to speak up and experiment with new ideas (#Do the Right Thing)
- **accountable** – we take ownership and follow through to deliver, managing risks and learning from mistakes (#Own It Now)
- **a team** – we support each other and collaborate widely to achieve common goals, knowing we are stronger together (#Together)

How the Board engages
QBE employees

- The EO Board receives updates on the results of the quarterly QBE Group led Voice survey together with action plans that management will take forward;
- There are presentations/webinars on strategy and quarterly performance updates by the Group and Divisional CEOs;
- Each Executive Management Board (EMB) member (of which five are QBE EO board members) host Town Halls on a quarterly basis. Further engagement opportunities are available through coffee mornings, updates via email, and webcasts;
- The non-executive Directors visit (including virtually via videoconference) regional and overseas offices, and have deep dives and other update sessions with management and staff across the business;
- The CEO has undertaken face to face visits to a number of regional offices in the UK, Europe and Asia;
- There is keen focus on culture and whistleblowing reports, and updates from internal and external auditors around controls;
- The Chief People Officer Report includes updates on activities to enhance employee engagement and senior leadership capabilities. This includes an overview of our Inclusion & Wellbeing initiatives and the activities of our employee networks; MIX, Circle, Pride, Workability and Open Mind.
- The Executive Management Board proactively encourage and act on employee feedback through regular pulse surveys, people & culture forums and employee networks to help identify opportunities to improve our ways of working, benefits, policies and overall culture. Examples include embedding our approach to hybrid working, Flex@QBE, and a suite of UK benefit and leave enhancements to support employee wellbeing (equalising paternity leave, increasing holiday allowances and extending private medical cover).

STRATEGIC REPORT (continued)

Section 172 Companies Act 2006 statement of QBE Underwriting Ltd (continued)

How the Board engages (continued)
QBE employees (continued)

- The Managing Director, Insurance Division chairs a quarterly Inclusion Forum with the CEO, CHRO, Inclusion & Wellbeing team, employee network chairs, people and culture forum reps to discuss, review and challenge thinking and plans in relation to a broad range of inclusion and diversity issues.

Our shareholder

- There is regular interaction with the shareholder on a frequent basis. The shareholder's Board receives on an annual basis a presentation on the business plan for the forthcoming year.
- There is a global NED conference held on a bi-annual basis. Chairs of Board Committees around the globe meet frequently to discuss key matters. The Board meets with the Group CEO to discuss the strategy for group and succession planning.

Our customers

- The EO Board reviews strategy and monitors performance during the year with the aim of meeting customers' needs more effectively/efficiently;
- The EO Board receives competitor updates to understand QBE's competitive performance and its strengths and weaknesses as regards to meeting customer needs;
- Benchmarks QBE's performance in relation to customers using research and survey results; and
- EO Board representation at key industry trade bodies (e.g. Lloyd's Market Association); and
- Supporting the 'Customer@QBE' which delivers QBE's promise of placing customers at the heart of everything we do and comprises three elements: mindset, insight and deliver.

Our brokers and other intermediaries

- The EO Board receives updates regarding partner relationships, development and engagement;
- Consideration of key strategic partnerships and technology; and
- Understand our approach with partners.

Our regulators (of subsidiaries companies) including the PRA, National Bank of Belgium, FCA, Financial Services and Markets Authority and Lloyd's of London

- There is transparent and regular communication with our regulators and Lloyd's which is facilitated through our Compliance Department; and
- Various teams in the business and Board members including non-executive Directors have ongoing engagement with our regulators on a frequent basis, including discussion on specific matters requested. All material regulator engagements are reported to the EO Board.

Our suppliers

- The EO Board receives updates as necessary from management on suppliers (e.g. claim service providers and IT and operational suppliers), and reviews and approves applicable policies and procedures. Key areas of focus for regulators include treating customers fairly, fair pricing, and employee conduct standards and awareness of the regulatory environment they operate in as well as financial risks arising from climate change.

Our communities and the environment

- The EO Board receives updates on the QBE Group wide approach to sustainability and has jointly appointed the Chief Risk Officer and Chief Underwriting Officer – Insurance to be responsible for identifying and managing the financial risks arising from climate change.
- The EO Board receives regular updates on the work underway across the Company to better identify, measure, monitor, manage, and report on our exposure to the risks arising from climate change.
- The EO Board supports the following initiatives across EO operations:
    - Tax transparency through the annual publication of the QBE Group Tax Transparency Report and the production of a Tax strategy document outlining its UK tax strategy; and
    - Efforts to integrate human rights considerations across the business, as outlined in the QBE Group Human Rights Policy and in our Modern Slavery and Human Trafficking Statements.

STRATEGIC REPORT (continued)

Section 172 Companies Act 2006 statement of QBE Underwriting Ltd (continued)

Our communities and the environment (continued)

- Premiums4Good is the QBE Group's unique and innovative collaboration between QBE, our customers, partners and shareholders through which we invest a portion of everyday premiums into investments that have additional social or environmental benefits at no extra cost to the customer. Premiums4Good now has US$1.4 billion invested in 83 securities across our key impact areas, and the Board supports the QBE Group ambition to grow impact investments to US$2 billion by 2025.
- The EO Board endorses a culture of "giving back to the community" time and skills (e.g. through employee volunteer days and pro bono support).
- The QBE Foundation EO, which supports involvement in the community by promoting employee volunteering, employee matching, and through grant donations to registered charities aligned to the Foundation's focus areas.

For all of the above interactions, the Board seeks to ensure that all stakeholder interests are considered.

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 23 February 2023 and signed on its behalf by:

R C Stone
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 2022.

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 14.

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.

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 2022 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.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

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.

R C Stone
Director

QBE Underwriting Limited
London
23 February 2023

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF QBE SYNDICATE 2999

Report on the audit of the syndicate annual accounts

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

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2022 and of its loss 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, including 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 2022; 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.

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.

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

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 2022 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 Report of the Directors of the Managing Agent.

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's responsibilities, 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.

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

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 the claims incurred but not reported portion of outstanding claims reserves (gross and reinsurers' share), and the estimated portion of Gross premiums written. Audit procedures performed by the engagement team included:

- inspecting relevant meeting minutes, including those of the Board 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, the 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;
- testing and challenging where appropriate the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the claims incurred but not reported portion of outstanding claims reserves (gross and reinsurer's share), and the estimated portion of Gross premiums written;
- testing journal entries identified in accordance with our risk assessment; 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 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.

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

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.

Matthew Nichols (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 February 2023

PROFIT AND LOSS ACCOUNT - TECHNICAL ACCOUNT - GENERAL BUSINESS
for the year ended 31 December 2022

	Note	2022 £m	2022 £m	2021 £m	2021 £m
Earned premiums, net of reinsurance					
Gross premiums written	3	1,815.5		1,483.3	
Outward reinsurance premiums		(362.2)		(291.2)	
Net premiums written			1,453.3		1,192.1
Change in the gross provision for unearned premiums		(172.3)		(58.9)	
Change in the provision for unearned premiums, reinsurers' share		24.0		(23.5)	
			(148.3)		(82.4)
Earned premiums, net of reinsurance			1,305.0		1,109.7
Allocated investment return transferred from the non-technical account			(121.0)		3.9
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(752.0)		(811.3)	
Reinsurers' share		183.9		398.4	
			(568.1)		(412.9)
Change in the provision for claims					
Gross amount		(496.8)		(120.8)	
Reinsurers' share		206.8		(163.5)	
			(290.0)		(284.3)
Claims incurred, net of reinsurance			(858.1)		(697.2)
Net operating expenses	4		(426.4)		(374.2)
Balance on the technical account for general business – continuing operations			(100.5)		42.2

The notes set out on pages 27 to 49 form an integral part of these annual accounts.

PROFIT AND LOSS ACCOUNT - NON-TECHNICAL ACCOUNT

for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Balance on the general business technical account		(100.5)	42.2
Investment income	7(i)	38.9	36.6
Unrealised gains on investments		694.6	260.7
Investment expenses and charges	7(ii)	(78.3)	(17.2)
Unrealised losses on investments		(776.2)	(276.2)
Investment return		(121.0)	3.9
Allocated investment return transferred to the general business technical account		121.0	(3.9)
Non-technical account income / (expense)		3.9	(24.7)
(Loss) / profit for the financial year		(96.6)	17.5

The results above are derived from continuing operations.

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

The notes set out on pages 27 to 49 form an integral part of these annual accounts.

STATEMENT OF INCOME AND MEMBER'S BALANCE
for the year ended 31 December 2022

	2022 £m	2021 £m
Member's balance as at 1 January	(95.7)	(77.6)
(Loss) / Profit for the financial year	(96.6)	17.5
Member's loss / (profit) distribution	54.7	(37.6)
Other non-standard personal expenses	(2.5)	2.0
Member's balance as at 31 December	(140.1)	(95.7)

The notes set out on pages 27 to 49 form an integral part of these annual accounts.

BALANCE SHEET
as at 31 December 2022

Assets	Note	2022 £m	2021 £m
Investments			
Other financial investments	8	1,863.2	1,526.0
Derivative financial instrument - assets	9	25.8	-
Deposits from ceded undertakings		10.0	5.9
		1,899.0	1,531.9
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	86.9	61.8
Claims outstanding	12	1,016.6	727.5
		1,103.5	789.3
Debtors			
Debtors arising out of direct insurance operations	13(i)	541.2	439.4
Debtors arising out of reinsurance operations	13(ii)	343.6	318.6
Other debtors	13(iii)	9.7	7.3
		894.5	765.3
Other assets			
Cash at bank and in hand		39.0	40.0
Overseas deposits	14	319.4	257.6
		358.4	297.6
Prepayments and accrued income			
Accrued interest and rent		10.7	4.9
Deferred acquisition costs	15	274.4	227.0
Other prepayments and accrued income		5.0	8.0
		290.1	239.9
Total assets		4,545.5	3,624.0

The notes set out on pages 27 to 49 form an integral part of these annual accounts.

BALANCE SHEET (CONTINUED)
as at 31 December 2022

Liabilities	Note	2022 £m	2021 £m
Members' balance		(140.1)	(95.7)
Technical provisions			
Provision for unearned premiums	12	994.9	822.3
Claims outstanding	12	3,299.7	2,590.2
		4,294.6	3,412.5
Creditors			
Creditors arising out of direct insurance operations	20(i)	44.5	68.9
Creditors arising out of reinsurance operations	20(ii)	287.3	185.0
Other creditors including taxation and social security	21	51.1	45.6
		382.9	299.5
Accruals and deferred income		8.1	7.7
Total liabilities		4,545.5	3,624.0

These annual accounts on pages 21 to 49 were approved by the Board of QBE Underwriting Limited on 23 February 2023 and were signed on its behalf by:

R C Stone
Director

The notes set out on pages 27 to 49 form an integral part of these annual accounts.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2022

Cash flow from operating activities	2022 £m	2021 £m
Operating (loss) / profit for the financial year	(96.6)	17.5
Increase in gross technical provisions	689.0	205.5
(Increase) / Decrease in reinsurers' share of technical provisions	(239.7)	175.4
Increase in debtors	(73.6)	(55.9)
Increase / (Decrease) in creditors	58.9	(113.9)
Investment return	121.0	(3.9)
Foreign exchange	(101.9)	7.5
	357.1	232.2
Cash flows from investing activities		
Purchase of equity and debt instruments	(2,577.3)	(2,313.6)
Sale of equity and debt instruments	2,202.8	2,103.3
Investment income received	27.1	29.6
Other (incl. foreign exchange)	(65.8)	(17.4)
	(413.2)	(198.1)
Cash flow from financing activities		
Member's loss / (profit) distribution	54.7	(37.6)
Non-standard personal expenses	(2.5)	2.0
	52.2	(35.6)
Movement in cash and cash equivalents during year		
Cash and cash equivalents at the beginning of the year	40.0	41.3
Net (decrease) in cash and cash equivalents	(3.9)	(1.5)
Foreign exchange movement on cash and cash equivalents	2.9	0.2
Cash and cash equivalents at the end of the year	39.0	40.0

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The notes set out on pages 27 to 49 form an integral part of these annual accounts.

NOTES TO THE ANNUAL ACCOUNTS
for the year ended 31 December 2022

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 2022 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 2022

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 2022

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. All fair value gains and losses on other financial investments are reallocated to the technical account as all investments held by the Syndicate support its insurance operations.

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 2021 and 2022 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 and money market deposits (which are readily convertible to cash in hand) which are used by the Syndicate in the management of its short-term commitments and operational cash requirements.

(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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2022

1. Accounting policies (continued)

(f) Overseas deposits (continued)

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.

Overseas deposits are stated at fair value using quoted prices in active markets for the same instruments where available. 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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2022

1. Accounting policies (continued)

(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. Estimates which are sensitive to changes in future economic conditions could be impacted by significant changes in the economic and regulatory environment, such as geopolitical unrest, COVID-19, climate change and inflation. The key uncertainty is the risk that inflation remains higher than expected over the coming years, and elevated for longer than expected, or the impact on claims inflation is significantly higher with would lead to increased claims reserves. Our estimates include an explicit allowance for the impact of increased levels of inflation. Management continues to monitor the geopolitical environment in which the Syndicate operates, Russia's invasion of Ukraine (including legal uncertainty relating to Aviation), and any developments that may impact its assessment of potential exposures.

The following are the critical estimates that the Syndicate has 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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2022

1. Accounting policies (continued)

(m) Critical accounting estimates and judgements (continued)

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. 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 estimates

Premiums written and earned include signed premiums as well as unclosed premiums, being 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 written and earned based on established patterns which reflect expected timings and 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. At the end of the calendar year, premiums are adjusted to match the actual signed premium for the closing year of account and all closed years of account, as appropriate. Estimation techniques are necessary to quantify the EPI 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 at an 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.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2022

2. Capital management (continued)

Lloyd's capital setting process (continued)

A syndicate comprises one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicates on which it is participating but not other member's shares. Accordingly, the capital requirements that Lloyd's set for each member operate on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate's SCR 'to ultimate'.

Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. 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 2022 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 24 and 25, 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

2022	Gross premium written £m	Gross premium earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m
Accident and health	14.5	13.6	(6.5)	(5.2)	(1.1)	0.8
Motor (third party liability)	19.1	16.6	(2.8)	(5.2)	(1.9)	6.7
Marine, aviation and transport	226.2	217.9	(153.5)	(43.3)	(36.3)	(15.2)
Fire and other damage to property	420.1	368.4	(243.5)	(119.5)	(8.3)	(2.9)
Third party liability	545.2	459.7	(319.2)	(140.2)	56.3	56.6
Credit and suretyship	39.2	32.6	(65.0)	(11.0)	40.5	(2.9)
Other	-	-	-	-	-	-
	1,264.3	1,108.8	(790.5)	(324.4)	49.2	43.1
Reinsurance acceptances	551.2	534.4	(458.3)	(110.4)	11.7	(22.6)
Total	1,815.5	1,643.2	(1,248.8)	(434.8)	60.9	20.5

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2022

3. Segmental information (continued)

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

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

	2022 £m	2021 £m
Europe – United Kingdom:	92.1	75.3
Europe – Other	25.2	20.6
North America	442.2	361.3
Americas – Other	29.4	24.0
Asia	39.0	31.9
Worldwide	1,123.5	917.8
Other *	64.1	52.4
	1,815.5	1,483.3

* Other territories include Africa, Oceania and Middle East

All premiums were concluded in the UK.

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2022

4. Net operating expenses

	2022 £m	2021 £m
Acquisition costs: direct commission	317.7	265.0
other	104.3	91.4
Changes in deferred acquisition costs	(45.3)	(23.2)
Administrative expenses	58.1	59.5
Reinsurance commission revenue	(8.4)	(18.5)
	426.4	374.2

Administrative expenses include auditors' remuneration:

	2022 £m	2021 £m
Remuneration receivable by the Syndicate's auditors for the auditing of these financial statements	0.5	0.5
Other services pursuant to regulatory requirements	0.3	0.3

5. Employees

The Syndicate did not directly incur staff costs during the year (2021 £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:

	2022 £m	2021 £m
Directors of the Managing Agent	2.1	2.2
Active Underwriters	0.7	0.7

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

7. Investment income, expenses and charges

(i) Investment income

	2022 £m	2021 £m
Income from investments	34.8	28.2
Gains on the realisation of investments	4.1	8.4
	38.9	36.6

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2022

7. Investment income, expenses and charges (continued)

(ii) Investment expenses and charges

	2022 £m	2021 £m
Investment management expenses	1.6	0.9
Losses on the realisation of investments	76.7	16.3
	78.3	17.2

8. Other financial investments

Designated at fair value through profit and loss

	2022		2021	
	Cost £m	Fair value £m	Cost £m	Fair value £m
Shares and other variable yield securities and units in unit trusts	100.2	104.8	54.4	56.4
Debt securities and other fixed income securities	1,821.4	1,758.4	1,475.8	1,469.6
	1,921.6	1,863.2	1,530.2	1,526.0

The debt securities and other fixed income securities are listed. £44.9m of the shares and other variable yield securities and units in unit trusts are unlisted (2021 listed £38.1m).

9. Derivative financial instrument - assets

Fair value	2022 £m	2021 £m
Foreign currency derivatives		
Derivative financial instrument – assets	25.8	-

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 contractual equivalent of £91.8m (2021 buy £591.7m).

The forward foreign exchange derivatives outstanding at year end all expire by 07 November 2023 (04 November 2022).

During the year a loss of £54.7m (2021 gain £25.7m) 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 2022

10. Valuation hierarchy

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

2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Overseas deposits	167.2	152.2	-	319.4
Variable yield securities and units in unit trusts	43.5	-	61.3	104.8
Debt securities and other fixed income securities	240.9	1,517.5	-	1,758.4
Derivatives – assets	-	25.8	-	25.8
	451.6	1,695.5	61.3	2,208.4

2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Overseas deposits	99.0	158.6	-	257.6
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

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.

10. Valuation hierarchy (continued)

Movements in level 3 investments	2022 £m	2021 £m
At 1 January	53.6	59.7
Purchases	-	0.2
Unrealised gains / (losses)	4.7	(0.7)
Additions / (redemptions)	3.0	(5.6)
At 31 December	61.3	53.6

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 2022

11. Financial risk (continued)

Currency risk (continued)

	Movement in variable %	2022 Profit / (loss) and members' balance £m	2021 Profit / (loss) and members' balance £m
US dollar	+10	6.4	28.6
	–10	(6.4)	(28.6)
New Zealand dollar	+10	0.1	0.1
	–10	(0.1)	(0.1)
Euro	+10	0.2	2.5
	–10	(0.2)	(2.5)
Japanese Yen	+10	0.1	1.7
	–10	(0.1)	(1.7)
Canadian dollar	+10	0.9	10.7
	–10	(0.9)	(10.7)
Australian dollar	+10	0.9	3.2
	–10	(0.9)	(3.2)

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:

2022	Floating interest rate	Fixed interest rate maturing in				Total
		1 year or less	1 to 2 years	2 to 3 years	3 years over	
	£m	£m	£m	£m	£m	£m
Interest bearing assets	195.4	1,110.1	216.2	182.7	412.4	2,116.8

2021	Floating interest rate	Fixed interest rate maturing in				Total
		1 year or less	1 to 2 years	2 to 3 years	3 years over	
	£m	£m	£m	£m	£m	£m
Interest bearing assets	109.4	690.7	189.9	204.1	573.2	1,767.3

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:

	2022 Movement in variable %	2022 Profit / (loss) and members' balance £m	2021 Movement in variable %	2021 Profit / (loss) and members' balance £m
Interest rate movement – fixed interest securities	+1.0	(45.8)	+0.5	(31.5)
	-1.0	40.7	-0.5	29.8
Interest rate movement – fixed interest securities	+2.0	(91.6)		
	-2.0	81.4		

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 2022, the Syndicate did not hold, whether directly or indirectly via collective investment scheme, any equity investments (2021 £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 %	2022 Profit / (loss) and members' balance £m	2021 Profit / (loss) and members' balance £m
Europe	+10	0.6	0.3
	-10	(0.6)	(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.

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, where 96.3% (2021 94.9%) 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 letters 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 2022

11. Financial risk (continued)

(ii) Credit risk (continued)

At the balance sheet date the Syndicate held collateral against credit risk of £10.6m (2021 £14.8m) in the form of letters of credit and £76.2m (2021 £38.8m) as investment assets pledged.

90.7% (2021 90.6%) 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. The total value per the table below represents the total value of the Syndicates exposure to credit risk.

2022	Neither past due nor impaired £m	Past due but not impaired by: Up to 3 months £m	3 to 6 months £m	6 months to 1 year £m	Greater than 1 year £m	Total £m
Other interest bearing investments	2,116.8	-	-	-	-	2,116.8
Other investments and other assets	104.8	-	-	-	-	104.8
Derivative financial instrument – assets	25.8	-	-	-	-	25.8
Other debtors	6.5	-	-	-	-	6.5
Debtors arising out of direct insurance operations	501.9	-	27.0	6.0	6.3	541.2
Debtors arising out of reinsurance operations	212.3	58.2	34.2	10.2	28.6	343.5
	2,968.1	58.2	61.2	16.2	34.9	3,138.6

2021	Neither past due nor impaired £m	Past due but not impaired by: Up to 3 months £m	3 to 6 months £m	6 months to 1 year £m	Greater than 1 year £m	Total £m
Other interest bearing investments	1,767.3	-	-	-	-	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	2,589.0

(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 2022

11. Financial risk (continued)

(iii) Liquidity risk (continued)

At 31 December 2022, the average duration of cash and fixed interest securities was 2.3 years (2021 4.1 years).

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

Due within one year:	2022 £m	2021 £m
Creditors	382.9	299.5
	382.9	299.5

The Syndicate has no significant concentration of liquidity risk.

12. Technical provisions

2022 Provision for unearned premiums	Gross £m	Reinsurance £m	Net £m
At 1 January	822.3	(61.8)	760.5
Movement per the technical account	172.4	(24.0)	148.4
Foreign exchange	0.2	(1.1)	(0.9)
At 31 December	994.9	(86.9)	908.0
Claims outstanding			
At 1 January	2,590.2	(727.5)	1,862.7
Claims payments	(752.0)	183.9	(568.1)
Claims expense – current financial year	1,145.5	(320.9)	824.6
Claims expense – previous financial year	103.2	(69.8)	33.4
Foreign exchange	212.8	(82.3)	130.5
At 31 December	3,299.7	(1,016.6)	2,283.1
Total at 31 December	4,294.6	(1,103.5)	3,191.1

The disclosure of the technical provisions in the table above has been enhanced to include the allocation of current and prior year movements.

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 £36.3m (2021 £58.5m). Discount of £58.6m (2021 £23.1m) has been applied using a rate of 3.7% (2021 1.0%) and based on mean term of liabilities of 34.6 years (2021 36.5 years).

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2022

12. Technical provisions (continued)

2021 Provision for unearned premiums	Gross £m	Reinsurance £m	Net £m
At 1 January	733.0	(78.7)	654.3
Movement per the technical account	58.8	23.5	82.3
Foreign exchange	30.5	(6.6)	23.9
At 31 December	822.3	(61.8)	760.5
Claims outstanding			
At 1 January	2,474.1	(886.0)	1,588.1
Claims payments	(811.3)	398.4	(412.9)
Claims expense – current financial year	891.5	(228.0)	663.5
Claims expense – previous financial year	40.6	(6.9)	33.7
Foreign exchange	(4.7)	(5.0)	(9.7)
At 31 December	2,590.2	(727.5)	1,862.7
Total at 31 December	3,412.5	(789.3)	2,623.2

The claims outstanding comparative disclosure has been expanded to provide further information on the development of claims, consistent with the current year.

13. Debtors

(i) Debtors arising out of direct insurance operations

	2022 £m	2021 £m
Due within one year		
Due from intermediaries	541.2	439.4
	541.2	439.4

(ii) Debtors arising out of reinsurance operations

	2022 £m	2021 £m
Due within one year	343.6	318.5
Due after one year	-	0.1
	343.6	318.6

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2022

13. Debtors (continued)
(iii) Other debtors

	2022 £m	2021 £m
Unsettled investment trade debtors	0.3	0.3
Salvage and subrogation	8.0	6.0
Trade debtors	1.4	1.0
	9.7	7.3

14. Overseas deposits

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

	2022 £m	2021 £m
Joint Asset Trust Funds	11.3	9.2
Canadian Margin Fund	107.8	107.8
Kentucky Trust Funds	5.4	4.3
Australian Trust Funds	132.2	89.3
South African Trust Funds	20.0	22.5
Additional Securities Limited Overseas deposit	41.5	23.6
Additional Securities Limited Illinois deposit	1.2	0.9
	319.4	257.6

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

15. Deferred acquisition costs

	2022 £m	2021 £m
As at 1 January	227.0	199.6
Movement during the year	46.7	23.2
Foreign exchange	0.7	4.2
	274.4	227.0

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2022

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.

2022 Gross basis	**2012 and prior £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**2021 £m**	**2022 £m**	**Total £m**
At end of year		262.7	189.1	226.3	355.6	628.5	404.5	321.2	381.7	504.3	587.0	
One year later		520.6	466.7	543.8	684.6	1,004.7	752.3	717.6	703.3	990.1		
Two years later		595.7	605.7	636.3	789.7	1,184.7	832.2	843.3	879.2			
Three years later		615.0	608.8	667.3	785.3	1,191.2	846.1	877.5				
Four years later		576.2	654.2	655.5	785.3	1,207.6	906.5					
Five years later		591.2	660.2	688.8	812.9	1,253.9						
Six years later		599.5	682.4	693.4	838.1							
Seven years later		602.8	702.0	716.1								
Eight years later		601.2	709.6									
Nine years later		599.4										
Current estimate of gross cumulative claims cost		599.4	709.6	716.1	838.1	1,253.9	906.5	877.5	879.2	990.1	587.0	
Cumulative gross claims payments to date		(552.0)	(631.4)	(569.4)	(685.6)	(1,030.0)	(624.8)	(571.9)	(410.7)	(256.3)	(30.1)	
Gross outstanding claims	304.5	47.4	78.2	146.7	152.5	223.9	281.7	305.6	468.5	733.8	556.9	3,299.7

2022 Net basis	**2012 and prior £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**2021 £m**	**2022 £m**	**Total £m**
At end of year		205.6	171.0	185.0	284.1	322.6	290.1	278.3	310.9	374.1	449.3	
One year later		407.3	354.9	430.8	523.0	576.8	526.7	533.5	544.0	738.7		
Two years later		454.8	459.0	507.9	598.5	683.4	611.3	647.5	688.1			
Three years later		480.5	443.4	497.8	579.9	676.9	617.8	680.2				
Four years later		434.9	453.1	472.2	575.1	672.3	674.1					
Five years later		440.9	434.1	482.4	588.3	719.2						
Six years later		442.0	440.0	482.1	621.0							
Seven years later		438.6	436.3	514.3								
Eight years later		436.8	443.5									
Nine years later		441.0										
Current estimate of net cumulative claims cost		441.0	443.5	514.3	621.0	719.2	674.1	680.2	688.1	738.7	449.3	
Cumulative net claims payments to date		(414.0)	(393.4)	(426.1)	(507.4)	(604.3)	(499.7)	(464.4)	(335.8)	(222.8)	(30.0)	
Net outstanding claims	211.6	27.0	50.1	88.2	113.6	114.9	174.4	215.8	352.3	515.9	419.3	2,283.1

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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2022

16. Outstanding claims – claims development (continued)

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.

All estimates of 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 reasonably 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.

		2022		2021	
		Profit / (loss) and members‘ balance		Profit / (loss) and members‘ balance	
	Sensitivity	Gross	Net	Gross	Net
	%	£m	£m	£m	£m
Claims outstanding	+5	133.3	92.5	104.9	75.4
	-5	(133.3)	(92.5)	(104.9)	(75.4)
Change in Ogden rate on certain long term	+0.5	(14.9)	(14.9)	(15.1)	(15.1)
personal injury claims	-0.5	17.5	17.5	17.8	17.8
Sterling to US Dollar exchange rate	+10	148.6	75.7	102.6	54.4
	-10	(148.6)	(75.7)	(102.6)	(54.4)
Sterling to Australian Dollar exchange rate	+10	16.4	15.4	10.7	10.2
	-10	(16.4)	(15.4)	(10.7)	(10.2)
Sterling to Euro exchange rate	+10	11.5	10.7	11.6	10.6
	-10	(11.5)	(10.7)	(11.6)	(10.6)
Sterling to Canadian Dollar exchange rate	+10	30.6	26.3	27.2	22.5
	-10	(30.6)	(26.3)	(27.2)	(22.5)

NOTES TO THE ANNUAL ACCOUNTS (continued)
for the year ended 31 December 2022

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

The syndicate's current year exposure to the sensitivity on foreign exchange movements compared to the prior year has increased as a result of the weakening of the pound Sterling against major currencies.

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
2022	647.7	432.9	298.7	221.9	166.2	515.7	2,283.1
2021	517.4	365.5	258.1	192.4	144.6	384.7	1,862.7

20. Creditors

(i) Creditors arising out of direct insurance operations

	2022 £m	2021 £m
Due within one year		
Due to intermediaries	44.5	68.9
	44.5	68.9

(ii) Creditors arising out of reinsurance operations

	2022 £m	2021 £m
Due within one year	287.3	185.0
	287.3	185.0

21. Other creditors including taxation and social security

	2022 £m	2021 £m
Due within one year		
Unsettled investment trade creditors	0.3	7.7
Amounts due to group undertakings	27.7	24.9
Taxation and social security	23.1	13.0
	51.1	45.6

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 2022

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 QBE EO. In addition, C A Brown, T C W Ingram, S Maddock 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 £30.3m (2021 £19.1m) 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 £16.9m (2021 £12.3m). At the year end, there was a £23.0m (2021 £10.9m) share of technical provisions.

	2022	2021 Inwards premiums	2022	2021 Balance Outstanding	2022	2021 Share of technical provisions
	£m	£m	£m	£m	£m	£m
QBE Insurance Corporation	6.2	-	-	0.1	0.5	0.1
Stonington Insurance Company	0.2	0.1	-	-	4.5	8.0
Equator Reinsurances Limited	2.9	2.9	1.5	1.7	3.8	0.1
QBE Insurance (Singapore) Pte Ltd	15.5	16.1	12.4	8.6	9.4	2.5
QBE Insurance (Malaysia) Berhad	-	-	0.4	1.9	0.2	0.2
QBE Blue Ocean Re Limited	5.5	-	2.6	-	4.6	-
	30.3	19.1	16.9	12.3	23.0	10.9

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 £100.7m (2021 £75.4m) 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 £506.6m (2021 £407.2m).

Administrative expenses

Total expenses recharged from QBE Partner Services (Europe) LLP in respect of services provided to the Syndicate amounted to £143.5m (2021 £119.0m). The balance outstanding at year end with QBE Partner Services (Europe) LLP is £18.1m (2021 £16.3m). 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 2022

24. Subsequent events

On 17 February 2023, the Company entered into a 100% retrospective reinsurance arrangement covering certain prior year claims reserves within the syndicate, equating to approximately 10% of the total net claims reserves held on the balance sheet as at 31 December 2022. The effective date of the arrangement is 1 January 2023. The arrangement is part of a wider transaction entered into by QBE Group on the same day and, as at 23 February 2023, completion remains subject to regulatory approval.

During February 2023, Turkey and Syria experienced devastating earthquakes. Whilst we do have exposure to the Turkey earthquakes, we are not expecting this to be a significant insurance loss.

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