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QBE Syndicate 2999 Annual report 2018



QBE Syndicate 2999

Annual Report

31 December 2018

ANNUAL REPORT

for the year ended 31 December 2018

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MANAGING AGENCY – CORPORATE INFORMATION

Directors

W-F Au*
T C W Ingram*
M G McCaig*
C R O’Farrell
R V Pryce
S W Sinclair*
N J D Terry
D J Winkett

* non-executive Directors

Company secretary

A J Smith

Registered office

Plantation Place
30 Fenchurch Street
London
EC3M 3BD

Independent auditors

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

STRATEGIC REPORT

The Directors of QBE Underwriting Limited, the Managing Agent for QBE Syndicate 2999 (the Syndicate), present their Strategic report for the Syndicate for the year ended 31 December 2018.

Background

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

In 2017, QBE European operations (QBE EO or EO) Retail and International Markets divisions were merged into a single Insurance division, led by Sam Harrison, Managing Director. This, coupled with EO’s reinsurance franchise, QBE Re, led by Jonathan Parry, CUO, enables the Syndicate to offer a diverse range of insurance and reinsurance products via an extensive distribution network.

The sub-syndicates and associated classes of business for 2018 are as follows:

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

Business review, key performance indicators, and future developments

	2018 Total £000	2017 Total £000
Gross written premium	1,191,629	1,169,175
Net earned premiums	881,703	791,266
Net claims	(530,827)	(572,215)
Acquisition costs	(241,422)	(231,484)
Other net operating expenses	(92,047)	(76,275)
Net underwriting profit / (loss)	17,407	(88,708)
Investment return	29,414	33,003
Non-technical account (charges) / income	(21,272)	43,598
Total profit / (loss) for the year	25,549	(12,107)
Claims ratio	60.2%	72.3%
Combined operating ratio	98.0%	111.2%

The Active Underwriters’ comment as follows:

The 2018 financial year has produced a total profit for the year of £25,549k (2017 £12,107k loss) and a combined ratio of 98.0% (2017 111.2%).

The year was dominated by three principal themes:

- continued excess capacity, despite the exceptional catastrophe loss experience in 2017, including hurricanes Harvey, Irma and Maria (HIM);
- significant large and catastrophe loss activity; and
- attritional loss experience.

STRATEGIC REPORT (continued)**The Active Underwriters' comment (continued)**

Overall gross written premium of £1,191,629k was 1.9% up on the previous year (2017 £1,169,175k) mainly due to a weaker sterling relative to the major trading currencies. Actual rate experience was positive for the 2018 underwriting year at +5.6%, however it fell short of the +7.8% plan as the ability for alternative capital markets to recapitalise post-HIM proved more resilient than anticipated.

Despite the Syndicate's profitable result, significant loss activity continued to dominate. The global (re)insurance market experienced another year of large catastrophe loss, totalling circa US\$80bn, predominantly during the second half of the year. For Syndicate 2999 these included: North American hurricanes Florence and Michael; Japanese cyclones Jebi and Trami; Papua New Guinea Earthquake; Californian wildfires and; Philippine typhoon Mangkhut. Despite this high frequency, these losses were largely mitigated by the Syndicate's reinsurance programme and remained materially within anticipated net levels.

The Syndicate also experienced significant large losses, including: the Lurssen shipyard loss in Bremen, where mega yacht "Sassi" caught fire during the final stages of construction; a fire loss at Meridian Magnesium's main plant in Michigan and; a prior year deterioration in the Samarco Dam loss in Brazil. Attritional loss experience was worse than anticipated, particularly within the Motor and Property portfolios.

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

Outlook

The global political uncertainty prevalent at the start of 2019 remains largely unchanged from that of 12 months ago, from the protectionist strategies of the major powers to the continued issues surrounding Brexit. However, there are positive early rate indicators for 2019, as alternative capital markets struggle to re-load following another year of large catastrophe loss. This, coupled with increased performance oversight by Lloyd's, has seen an overall increase in specialty insurance rates in the London market and a consequent negotiating power shift in underwriters' favour for the first time in several years.

Following in-depth and constructive engagement with Lloyd's, the Syndicate's 2019 business plan represents no material change from 2018 and stamp capacity remains static at £1,100,000k. The Syndicate's 2019 reinsurance programme cost and structure is materially unchanged from 2018, except for the non-renewal of the Divisional Large Risk and Cat (DLRC) reinsurance cover, which has the potential to introduce greater volatility.

With regards to Brexit, Lloyd's Brussels subsidiary (LBS) will enter into an Outsourcing Agreement with QBE, allowing the Syndicate to underwrite on behalf of LBS. In this capacity QBE will be an outsourced underwriting service provider to LBS. Under the terms of the Outsourcing Agreement business will be reinsured back to the Syndicate less RI commission. It is possible that where costs do increase, our customers may instruct us to change to our company platform to mitigate their costs.

As we move towards 2020, considerable energies will continue to be expended in ensuring our post-Brexit platform meets our regulatory and customer needs, with an additional focus on operational efficiencies and cost control.

Investment policy

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

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

STRATEGIC REPORT (continued)

Investment policy (continued)

Responsibility for the oversight and monitoring of the asset / liability strategy falls within the remit of the QBE European operations investment committee. Risks monitored include the matching of investment assets and the liabilities generated by insurance activities. In 2018 the Syndicate held investments with shorter average duration than would normally be expected if it were wholly matching the duration of liabilities relating to long-tail classes of business.

Management of the investment portfolios for the Syndicate is delegated, under an arm's length agreement, to QBE Group Services Pty Limited, (the investment manager), a wholly owned subsidiary of the QBE Insurance Group.

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

Investment performance

The total investment returns achieved for each financial year are set out below. These include income earned on funds which are not managed by the investment manager, such as certain regulatory overseas deposits managed directly by Lloyd's. The combined currency average return for the year was 2.6% (2017 2.3%).

Portfolio currency	2018 Average funds £'000	2018 Average return %	2018 Target return %	2017 Average funds £'000	2017 Average return %	2017 Target return %
Australian dollar	96,204	2.7	2.7	106,670	1.6	2.4
Canadian dollar	596,333	1.9	2.0	559,269	0.6	1.0
Euro	68,089	(0.3)	0.6	169,867	1.0	2.9
Sterling	45,407	0.8	0.5	29,040	0.1	3.1
US dollar	566,367	3.6	3.4	698,634	4.2	2.0
S African rand	-	-	-	8,433	8.4	8.1

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

Following a year that saw a return of market volatility, trade war concerns between the US and China and continued Brexit uncertainty, central bank monetary policy normalisation continued against a backdrop of economic stabilisation. The US Federal Reserve and the Bank of Canada increased policy rates, while the ECB confirmed it would stop net asset purchases by the end of the year. However, associated tightening of financial conditions, coupled with some weakness in economic data and elevated geopolitical concerns led to a rapid reappraisal of future rate expectations across markets. The decline in yields was particularly sharp in US short maturity fixed income assets, as the market surprisingly started to price in the possibility that the Fed might need to ease policy in the near future. Growth Asset markets experienced considerable volatility and divergence of performance throughout the year, with the final quarter especially challenging for investors. US equity and high yield credit markets had been strong performers, despite the rate hikes by the US Federal Reserve during the year. However later in the year, the flatter yield curve, a dramatic retreat in oil prices, and ongoing escalation of trade concerns, were some of the catalysts for a market wide sell off that reversed much of the previous gains for these asset classes.

The US dollar denominated investment holdings outperformed their currency target for the year, reflecting the performance of US investment markets, negating underperformance in the Syndicates Euro denominated investment holdings, where some markets were impacted by weaknesses in Eurozone economic data. The overall investment return for the Syndicate at 2.6% (2017 2.3%) was ahead of the weighted annual target return of 2.5% (2017 1.9%).

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

STRATEGIC REPORT (continued)**Corporate governance**

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

During 2018, the Company's corporate governance structure and system of governance has continued to evolve, reflecting the Boards' ongoing commitment to ensuring that it remains efficient, relevant and supportive of the strategic aims of the Company. The structure continues to comply with all relevant regulatory and legal requirements. As a member of the QBE Group, the Company is not bound by the UK Corporate Governance Code. However, as a matter of best practice, the Board seeks to adopt practices recommended by the Code (which was updated in July 2018), where practical and relevant.

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

In June 2018, the QBE EO Boards, undertook a Board Effectiveness Review. The Review was conducted by an external provider, supported by QBE EO Company Secretarial. A series of minor recommendations to support continuous improvement of effectiveness arising from the Review were discussed and agreed by the Boards.

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

In light of the implementation of the Senior Managers & Certification Regime in December 2018, the Company has adopted requisite new and updated policies and approved a Management Responsibilities Map which describes the management and governance arrangements of the Company.

The main QBE EO Boards and Board Committees met regularly during the year with strong attendance from all members. The Board of the Company met 12 times during 2018.

The Board of QBE Underwriting Limited

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

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

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

Succession planning is undertaken in conjunction with QBE Group and supported by the Remuneration and Nomination Committee.

STRATEGIC REPORT (continued)

Board Committees

The Board of the Company, EO plc and the other PRA regulated companies in QBE EO, have jointly constituted Board Committees. The Committees all comprise appropriately skilled members and are supported by attendees as necessary.

QBE EO's key Committees comprise:

- Audit Committee
- Investment Committee
- Remuneration and Nomination Committee
- Risk and Capital Committee

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

Principal risks and uncertainties of the syndicates and the Company

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

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

Strategic risk

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

The Company manages strategic risk using the following:

- considering strategic options in light of the impact on return volatility and capital requirements of the syndicates; and
- planning and monitoring capital levels of the syndicates on an ongoing basis, with reference to regulatory and economic requirements.

Group and Lloyd's risk

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

The Company manages group risk using the following:

- challenge and oversight of independent non-executive Directors on the Company Board;
- contractual arrangements in place for material services provided by other QBE Group divisions and companies;
- the QBE Group services framework which governs the procurement, monitoring and review of services provided to the Syndicates and the Company by the wider QBE Group;
- monitoring the Company's key financial exposures to the QBE Group; and
- involvement of QBE EO individuals within all material QBE Group initiatives impacting the Syndicates and the Company's operations.

Liquidity risk

The Company defines liquidity risk as 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.

The Company manages liquidity risk using the following:

- setting minimum levels of liquid, short term money market securities; and
- matching assets and liabilities in our major currency positions.

STRATEGIC REPORT (continued)

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

Operational risk

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

The Company manages operational risk using the following:

- actively monitoring our key controls, processes and systems;
- conducting scenario reviews to identify and quantify potential exposures for mitigation; and
- maintaining effective segregation of duties, access controls, governance and reconciliation procedures.

Compliance risk

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

The Company manages compliance risk using the following:

- actively monitoring our key controls, processes and systems;
- conducting scenario reviews to identify and quantify potential exposures for mitigation;
- monitoring of internal / external fraud and improper business practices; and
- maintaining effective segregation of duties, access controls, governance and reconciliation procedures.

Solvency II and capital adequacy

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

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

Business continuity management

An established business continuity management framework is in place to ensure the Company is resilient and able to respond effectively to incidents that threaten business continuity, including any material failures in significant outsourcing arrangements. It is designed to ensure that the impact of any major disruption is minimised.

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

This Strategic report was approved by the Board of Directors on 15 March 2019 and signed on its behalf by:

D J Winkett
Director

QBE Underwriting Limited
London

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of QBE Underwriting Limited, the Managing Agent for the Syndicate, present their report and the audited annual accounts of the Syndicate for the year ended 31 December 2018.

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 8.

Internal audit

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

Relationship with Managing Agent

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

Statement of Managing Agent's responsibilities

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

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

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

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

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

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

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Statement of disclosure of information to auditors

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

- so far as the Director is aware, there is no information relevant to the audit of the Syndicate's annual accounts for the year ended 31 December 2018 of which the auditors are unaware; and
- the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of, and to establish that the Syndicate's auditors are aware of, any relevant audit information.

Independent auditors

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

On behalf of the Board of the Managing Agent,

D J Winkett
Director

QBE Underwriting Limited
London
15 March 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2999

Report on the syndicate annual accounts

Opinion

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

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018, the profit and loss account for the year then ended, the statement of income and members balances, the statement of cash flows, the accounting policies, and the notes to the syndicate annual accounts, which include other explanatory information.

Basis for opinion

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

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

Independence

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

Conclusions relating to going concern

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

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

Reporting on other information

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

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

Reporting on other information (continued)

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

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

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

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2018 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the managing agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 9, the managing agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's member as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the managing agent in respect of the syndicate has not kept adequate accounting records; 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.

Thomas Robb (Senior statutory auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2019

QBE SYNDICATE 2999

PROFIT AND LOSS ACCOUNT - TECHNICAL ACCOUNT - GENERAL BUSINESS

for the year ended 31 December 2018

	Note	£'000	2018 £'000	2017 £'000
Continuing operations				
Earned premiums, net of reinsurance				
Gross premiums written	3	1,191,629		1,169,036
Outward reinsurance premiums		(315,368)		(349,642)
Net premiums written			876,261	819,394
Change in the gross provision for unearned premiums		(478)		(38,153)
Change in the provision for unearned premiums, reinsurers' share		5,920		15,053
			5,442	(23,100)
Earned premiums, net of reinsurance			881,703	796,294
Allocated investment return transferred from the non-technical account				
			29,414	33,003
Claims incurred, net of reinsurance				
Claims paid				
Gross amount		(828,187)		(727,162)
Reinsurers' share		259,947		140,575
		(568,240)		(586,587)
Change in the provision for claims				
Gross amount		(14,947)		(331,648)
Reinsurers' share		52,360		352,222
		37,413		20,574
Claims incurred, net of reinsurance			(530,827)	(566,013)
Net operating expenses	4		(333,469)	(303,975)
Balance on the technical account for general business – continuing operations			46,821	(40,691)

The notes set out on pages 21 to 42 form an integral part of these annual accounts

QBE SYNDICATE 2999

PROFIT AND LOSS ACCOUNT - TECHNICAL ACCOUNT - GENERAL BUSINESS

for the year ended 31 December 2018

	Note	£'000	2018 £'000	2017 £'000
Discontinued operations				
Earned premiums, net of reinsurance				
Gross premiums written	3	-	139	
Outward reinsurance premiums		-	(5,328)	
Net premiums written			-	(5,189)
Change in the gross provision for unearned premiums		-	134	
Change in the provision for unearned premiums, reinsurers' share		-	27	
			-	161
Earned premiums, net of reinsurance			-	(5,028)
Claims incurred, net of reinsurance				
Claims paid				
Gross amount		-	(33,295)	
Reinsurers' share		-	6,276	
		-	(27,019)	
Change in the provision for claims				
Gross amount		-	25,913	
Reinsurers' share		-	(5,096)	
		-	20,817	
Claims incurred, net of reinsurance			-	(6,202)
Net operating expenses	4		-	(3,784)
Balance on the technical account for general Business – discontinued operations			-	(15,014)

The notes set out on pages 21 to 42 form an integral part of these annual accounts

**PROFIT AND LOSS ACCOUNT -
NON-TECHNICAL ACCOUNT**

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Balance on the general business technical account		46,821	(55,705)
Investment income	7(a)	43,196	44,741
Unrealised gains on investments		256,171	234,767
Investment expenses and charges	7(b)	(16,851)	(16,606)
Unrealised losses on investments		(253,102)	(229,899)
Investment return		29,414	33,003
Allocated investment return transferred to the general business technical account		(29,414)	(33,003)
Non-technical account (charges) / income		(21,272)	43,598
Profit / (loss) for the financial year		25,549	(12,107)

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

The notes set out on pages 21 to 42 form an integral part of these annual accounts

QBE SYNDICATE 2999

STATEMENT OF INCOME AND MEMBERS' BALANCES

for the year ended 31 December 2018

	2018 £'000	2017 £'000
Members' balances as at 1 January	(187,937)	(41,374)
Profit / (loss) for the financial year	25,549	(12,107)
Payments out of profit to members' personal reserve funds	(79,996)	(134,711)
Other non-standard personal expenses	(4,272)	255
Members' balances as at 31 December	(246,656)	(187,937)

The notes set out on pages 21 to 42 form an integral part of these annual accounts

QBE SYNDICATE 2999

BALANCE SHEET

as at 31 December 2018

Assets	Note	2018 £'000	2017 £'000
Investments			
Other financial investments	8	1,113,963	1,261,072
Derivative financial instrument - assets	9	6,305	15,389
		1,120,268	1,276,461
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	78,754	67,490
Claims outstanding	12	927,351	859,202
		1,006,105	926,692
Debtors			
Debtors arising out of direct insurance operations	13(i)	445,600	378,166
Debtors arising out of reinsurance operations	13(ii)	214,556	176,837
Other debtors	13(iii)	24,007	19,759
		684,163	574,762
Other assets			
Cash at bank and in hand		31,724	38,404
Overseas deposits	14	203,813	192,552
		235,537	230,956
Prepayments and accrued income			
Accrued interest and rent		6,730	6,218
Deferred acquisition costs		166,240	153,614
Other prepayments and accrued income		10,074	3,212
		183,044	163,044
Total assets		3,229,117	3,171,915

The notes set out on pages 21 to 42 form an integral part of these annual accounts

QBE SYNDICATE 2999

BALANCE SHEET

as at 31 December 2018

Liabilities	Note	2018 £'000	2017 £'000
Members' balance		(246,656)	(187,937)
Technical provisions			
Provision for unearned premiums	12	658,011	624,066
Claims outstanding	12	2,491,275	2,434,540
		3,149,286	3,058,606
Creditors			
Creditors arising out of direct insurance operations	19(i)	94,390	51,486
Creditors arising out of reinsurance operations	19(ii)	163,858	211,329
Other creditors including taxation and social security	20	58,858	31,422
		317,106	294,237
Accruals and deferred income		9,381	7,009
Total liabilities		3,229,117	3,171,915

These annual accounts on pages 14 to 42 were approved by the Board of QBE Underwriting Limited on 15 March 2019 and were signed on its behalf by:

D J Winkett
Director

The notes set out on pages 21 to 42 form an integral part of these annual accounts

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	2018	2017
	£'000	£'000
Cash flow from operating activities		
Operating profit / (loss)	25,549	(12,107)
Increase in gross technical provisions	90,680	174,562
Increase in reinsurers' share of technical provisions	(79,413)	(316,485)
(Increase) / decrease in debtors	(129,401)	75,570
Increase / (decrease) in creditors	25,241	(52,707)
Investment return	(29,414)	(33,003)
Foreign exchange	(58,371)	115,280
Non-standard personal expenses	(4,272)	255
	(159,401)	(48,635)
Cash flows from investing activities		
Purchase of equity and debt instruments	(2,584,047)	(3,785,752)
Sale of equity and debt instruments	2,803,300	3,953,889
Purchase of derivatives	(280)	(458)
Sale of derivatives	204	450
Investment income received	26,345	28,134
Unrealised investment gain	3,068	4,868
	248,590	201,131
Cash flow from financing activities		
Distribution profit	(79,996)	(134,711)
	(79,996)	(134,711)
Movement in cash, portfolio investments and financing		
Cash and cash equivalents at the beginning of the year	230,956	217,335
Net increase in cash and cash equivalents	9,193	17,785
Foreign exchange movement on cash and cash equivalents	(4,612)	(4,164)
Cash and cash equivalents at the end of the year	235,537	230,956

The notes set out on pages 21 to 42 form an integral part of these annual accounts

NOTES TO THE ANNUAL ACCOUNTS*for the year ended 31 December 2018***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 2018 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 inception during the financial year, together with adjustments made in the year to premiums written in prior years. Premiums are shown gross of commissions payable to intermediaries and exclude taxes and duties levied on them. Estimates are included for premiums due but not yet received or notified, less an allowance for cancellations.

(ii) Unearned premiums

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

(iii) Outwards reinsurance

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

(iv) Claims incurred

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

NOTES TO THE ANNUAL ACCOUNTS (continued)*for the year ended 31 December 2018***1. Accounting policies (continued)****(b) Basis of accounting for insurance (continued)****(v) Claims provisions and related reinsurance recoveries**

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

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

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

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

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

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

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

In accordance with accounting regulations, discounting of outstanding claims is permitted in certain circumstances. For the Syndicate this includes discounting of outstanding reserves in respect of liabilities relating to periodical payment orders.

(vi) Unexpired risks provision

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

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

(vii) Acquisition costs

Acquisition costs (which include commission costs) are the costs associated with obtaining and recording insurance contracts. Acquisition costs are capitalised when they relate to the acquisition of new business or renewal of existing business and are referred to as deferred acquisition costs. These costs are amortised on the same basis as the earning pattern of the premium, over the period of the insurance contract to which they relate. At the reporting date, deferred acquisition costs represent the capitalised costs that relate to the unearned premium. Acquisition costs are deferred in recognition of their future benefit and are measured at the lower of cost and recoverable amount.

NOTES TO THE ANNUAL ACCOUNTS (continued)*for the year ended 31 December 2018***1. Accounting policies (continued)****(c) Foreign currency**

The functional currency of the Syndicate is UK pound sterling (£). The Syndicate presents its accounts in thousands 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) Cash at bank and in hand

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

(e) Investments**(i) Other financial investments and overseas deposits**

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

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

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

(ii) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently stated at fair value obtained from quoted market prices in active markets.

(f) Debtors

Debtors comprise amounts receivable in the normal course of business. Debtors are initially recognised at transaction price, and where applicable are subsequently measured at amortised cost using the effective interest rate method. The recoverability of these assets is assessed at each balance date and appropriate provision made to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty credit risk and the contractual terms of the contract.

(g) Creditors

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

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

1. Accounting policies (continued)

(h) Investment income

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

A transfer is made from the non-technical account to the technical account of the return on investments supporting the insurance technical provisions.

(i) Taxation

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

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

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

(j) Administrative expenses

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

(k) Profit commission

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

No profit commission has been charged by the Managing Agent.

(l) Critical accounting estimates and judgements

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

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

Outstanding claims provisions

The Syndicate’s net outstanding claims provision comprises:

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

Gross estimate

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

NOTES TO THE ANNUAL ACCOUNTS (continued)*for the year ended 31 December 2018***1. Accounting policies (continued)****(I) Critical accounting estimates and judgements (continued)****Gross estimate (continued)**

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 the quantum of damages; and
- social and economic trends, for example price and wage inflation and interest rates.

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

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

Assets arising from contracts with reinsurers

Assets arising from reinsurance recoveries under contracts with the Syndicate's reinsurers are determined using the same methods described above. The recoverability of these assets is assessed at each balance date and appropriate provision made to ensure that the balances properly reflect the amounts that will ultimately be received, taking into account counterparty credit risk and the contractual terms of the reinsurance contract.

2. Capital

Each syndicate in Lloyd's is required to carry out a self-assessment of the capital it requires, the Solvency Capital Requirement (SCR). This is required to reflect the level of capital needed to ensure that the Syndicate will remain solvent at the point where all of the liabilities have run-off in 99.5% of future foreseeable scenarios.

QBE EO has developed a sophisticated stochastic risk-based capital model over the past five years, which incorporates the key risks being faced. The output from this model, which is tailored to QBE's risk profile, is reported to the Risk and Capital Committee, which in turn recommends it to the relevant QBE Boards for adoption. The SCRs have been reviewed by Lloyd's, and form the basis of the minimum capital required by the Syndicate.

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

2. Capital (continued)

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 annual accounts by way of such capital resources. However, the Managing Agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

All externally imposed capital requirements have been complied with during the year.

3. Segmental information

2018	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Accident and health	15,678	14,570	(13,512)	(6,742)	1,010	(4,674)
Motor (third party liability)	14,914	14,906	(18,296)	(4,339)	(884)	(8,613)
Marine, aviation and transport	142,583	145,085	(75,317)	(21,046)	(48,026)	696
Fire and other damage to property	249,396	235,550	(188,569)	(92,634)	30,679	(14,974)
Third party liability	308,295	300,140	(247,783)	(104,970)	71,429	18,816
Credit and suretyship	48,483	43,395	(2,612)	(20,784)	(13,184)	6,815
Other	-	-	86	237	(17)	306
	779,349	753,646	(546,003)	(250,278)	41,007	(1,628)
Reinsurance acceptances	412,280	437,505	(297,131)	(108,542)	(12,797)	19,035
Total	1,191,629	1,191,151	(843,134)	(358,820)	28,210	17,407
Total continuing operations	1,191,629	1,191,151	(843,134)	(358,820)	28,210	17,407
Total discontinued operations	-	-	-	-	-	-

2017	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Accident and health	10,893	9,497	(5,070)	(3,667)	(256)	504
Motor (third party liability)	11,586	10,604	(10,383)	(3,389)	2,083	(1,085)
Marine, aviation and transport	135,811	140,247	(140,276)	(31,608)	25,650	(5,987)
Fire and other damage to property	210,745	192,433	(218,147)	(76,156)	81,168	(20,702)
Third party liability	281,460	276,365	(226,899)	(75,865)	17,703	(8,696)
Credit and suretyship	55,532	31,180	(8,432)	(12,987)	(3,289)	6,472
	706,027	660,326	(609,207)	(203,672)	123,059	(29,494)
Reinsurance acceptances	463,148	470,830	(456,985)	(121,769)	48,710	(59,214)
Total	1,169,175	1,131,156	(1,066,192)	(325,441)	171,769	(88,708)
Total continuing operations	1,169,036	1,130,883	(1,058,810)	(321,657)	175,890	(73,694)
Total discontinued operations	139	273	(7,382)	(3,784)	(4,121)	(15,014)

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.

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NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

3. Segmental information (continued)

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

		2018 £'000	2017 £'000
Europe:	United Kingdom	59,807	57,771
	Other	25,286	24,612
America:	North America	318,710	290,850
	Other	26,896	30,038
Asia		34,646	39,373
Worldwide		683,085	686,287
Other	(including Africa, Oceania and Middle East)	43,199	40,244
		1,191,629	1,169,175
Total continuing operations		1,191,629	1,169,036
Total discontinued operations		-	139

All premiums were concluded in the UK.

4. Net operating expenses

	2018 £'000	2017 £'000
Acquisition costs: direct commission	211,077	210,160
other	62,321	58,171
Changes in deferred acquisition costs	(6,625)	(19,165)
Administrative expenses	92,047	76,275
Reinsurance commission revenue	(25,351)	(17,682)
	333,469	307,759
Total continuing operations	333,469	303,975
Total discontinued operations	-	3,784

Administrative expenses include auditors' remuneration:

	2018 £'000	2017 £'000
Remuneration receivable by the Syndicate's auditors for the auditing of these financial statements	220	277
Other services pursuant to legislation	347	338

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

5. Employees

The Syndicate did not directly incur staff costs during the year (2017 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:

	2018 £'000	2017 £'000
Directors of the Managing Agent	2,566	2,135
Active Underwriters	1,873	988

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

7. Investment income, expenses and charges

(a) Investment income

	2018 £'000	2017 £'000
Income from investments	34,108	28,436
Gains on the realisation of investments	9,088	16,305
	43,196	44,741

(b) Investment expenses and charges

	2018 £'000	2017 £'000
Investment management expenses	207	1,645
Losses on the realisation of investments	16,644	14,961
	16,851	16,606

NOTES TO THE ANNUAL ACCOUNTS (continued)*for the year ended 31 December 2018***8. Other financial investments****Designated at fair value through profit and loss**

	2018		2017	
	Cost £'000	Fair value £'000	Cost £'000	Fair value £'000
Shares and other variable yield securities and units in unit trusts	106,865	120,206	118,303	129,883
Debt securities and other fixed income securities	972,167	979,136	1,112,854	1,113,267
Loan and deposits with credit institutions	13,597	14,621	17,671	17,922
	1,092,629	1,113,963	1,248,828	1,261,072

The debt securities and other fixed income securities are listed on recognised exchanges. £36,407k of the shares and other variable yield securities and units in unit trusts are listed on recognised exchanges (2017 £40,677k).

9. Derivative financial instrument - assets

Fair value	2018 £'000	2017 £'000
Foreign currency derivatives		
Derivative financial instrument – assets	6,305	15,389

Foreign currency derivatives

The Syndicate uses forward foreign exchange derivatives in order to hedge its exposure to foreign currencies. These are valued using the underlying foreign exchange rates at the year end. Derivatives outstanding at the balance sheet date include foreign exchange contracts to buy the net equivalent of £395,660k (2017 buy £410,790k).

The forward foreign exchange derivatives outstanding at year end all expire by 30 October 2019 (2017 10 May 2018).

During the year a gain of £5,049k (2017 gain £19,083k), 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 2018

10. Valuation hierarchy

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

2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Overseas deposits	107,238	96,575	-	203,813
Deposits with credit institutions	1	4,066	10,554	14,621
Variable yield securities and units in unit trusts	38,854	40,475	40,877	120,206
Debt securities and other fixed income securities	344,170	634,966	-	979,136
Derivatives – assets	-	6,305	-	6,305
	490,263	782,387	51,431	1,324,081
Restated 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Overseas deposits	17,347	175,205	-	192,552
Deposits with credit institutions	-	3,796	14,126	17,922
Variable yield securities and units in unit trusts	40,677	47,545	41,661	129,883
Debt securities and other fixed income securities	229,681	883,586	-	1,113,267
Derivatives – assets	-	15,389	-	15,389
	287,705	1,125,521	55,787	1,469,013

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

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

Level 3 Valuation techniques are applied in situations where any one or more significant valuation input is not based on observable market data. This includes infrastructure debt and unlisted assets, 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.

Movements in level 3 investments	2018 £'000	2017 £'000
At 1 January	55,787	7,690
Purchases	14,227	50,149
Unrealised losses	(929)	(1,507)
Redemptions	(17,655)	(545)
At 31 December	51,430	55,787

NOTES TO THE ANNUAL ACCOUNTS (continued)*for the year ended 31 December 2018***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.

	Movement in variable %	2018 Profit / (loss) and equity £'000	Restated 2017 Profit / (loss) and equity £'000
US dollar	+10	10,115	13,314
	-10	(10,115)	(13,314)
New Zealand dollar	+10	-	30
	-10	-	(30)
Euro	+10	3,618	3,912
	-10	(3,618)	(3,912)
Japanese Yen	+10	360	738
	-10	(360)	(738)
Canadian dollar	+10	7,482	7,845
	-10	(7,482)	(7,845)
Australian dollar	+10	1,361	1,199
	-10	(1,361)	(1,199)

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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

11. Financial risk (continued)

(i) Market risk (continued)

Interest rate risk (continued)

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

2018	Floating interest rate £'000	Fixed interest rate maturing in 1 year or less £'000	1 to 2 years £'000	2 to 3 years £'000	3 years over £'000	Total £'000
Interest bearing assets	110,477	221,775	382,722	205,736	339,200	1,259,910

2017	Floating interest rate £'000	Fixed interest rate maturing in 1 year or less £'000	1 to 2 years £'000	2 to 3 years £'000	3 years over £'000	Total £'000
Interest bearing assets	165,807	204,243	463,674	273,750	257,936	1,365,410

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

	Movement in variable %	2018 Profit / (loss) and equity £'000	2017 Profit / (loss) and equity £'000
Interest rate movement – fixed interest securities	+0.5	(11,345)	(9,594)
	-0.5	10,024	8,735

NOTES TO THE ANNUAL ACCOUNTS (continued)*for the year ended 31 December 2018***11. Financial risk (continued)****(i) Market risk (continued)****Equity price risk**

Equity price risk is the risk that the fair value of an equity instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual equity instrument or its issuer, or factors affecting all similar equity instruments traded on the market.

The potential impact of movements in the market value of equities on the profit and loss account and balance sheet is shown in the sensitivity analysis below.

The impact has been shown on the basis that equity funds are fully exposed to market price fluctuations. Equity portfolios are from time to time hedged in order to manage this exposure. Exchange traded futures contracts used from time to time to provide the hedges are not perfectly correlated to the composition of the underlying equity fund. As at 31 December 2018, contractual amounts for exchange traded equity derivatives outstanding at the balance sheet date were £nil (2017 £nil).

	Movement in variable %	Financial impact	
		2018 Profit / (loss) and equity £'000	2017 Profit / (loss) and equity £'000
United States – S&P 500	+20	829	4,044
	-20	(829)	(4,044)
Emerging market equities	+20	265	1,866
	-20	(265)	(1,866)
EURO STOXX	+20	220	1,836
	-20	(220)	(1,836)

Property price risk

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

	Movement in variable %	Financial impact	
		2018 Profit / (loss) and equity £'000	2017 Profit / (loss) and equity £'000
United States	+10	3,026	2,629
	-10	(3,026)	(2,629)
Europe	+10	252	241
	-10	(252)	(241)

NOTES TO THE ANNUAL ACCOUNTS (continued)*for the year ended 31 December 2018***11. Financial risk (continued)****(ii) Credit risk**

Credit risk is the risk that one party to a financial instrument will cause financial loss to the other party by failing to discharge an obligation.

Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with counterparties.

93.4% (2017 92.3%) 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 reinsurers' share of claims outstanding and debtors are also exposed to credit risk. 98.4% (2017 97.6%) of the balance is with reinsurers with an S&P rating of "A-" or greater.

The Syndicate holds letters of credit as security to mitigate credit risk exposure to reinsurers. At the balance sheet date the Syndicate held £18,078k (2017 £17,433k) as collateral against credit risk.

The following table provides information regarding the carrying value of the Syndicate's financial assets.

2018	Neither past due nor impaired £'000	Past due by				Total £'000
		Up to 3 months £'000	3 to 6 months £'000	6 months to 1 year £'000	Greater than 1 year £'000	
Other interest bearing investments	1,259,910	-	-	-	-	1,259,910
Other financial investments	89,590	-	-	-	-	89,590
Derivative financial instrument – assets	6,305	-	-	-	-	6,305
Other debtors	24,007	-	-	-	-	24,007
Debtors arising out of direct insurance operations	402,587	3,669	24,863	9,370	5,111	445,600
Debtors arising out of reinsurance operations	130,526	56,439	14,392	6,257	6,942	214,556
	1,912,925	60,108	39,255	15,627	12,053	2,039,968

Restated 2017	Neither past due nor impaired £'000	Past due by				Total £'000
		Up to 3 months £'000	3 to 6 months £'000	6 months to 1 year £'000	Greater than 1 year £'000	
Other interest bearing investments	1,365,410	-	-	-	-	1,365,410
Other financial investments	126,617	-	-	-	-	126,617
Derivative financial instrument – assets	15,389	-	-	-	-	15,389
Other debtors	19,759	-	-	-	-	19,759
Debtors arising out of direct insurance operations	357,300	2,688	8,239	3,346	6,593	378,166
Debtors arising out of reinsurance operations	139,385	18,994	7,289	6,393	4,776	176,837
	2,023,860	21,682	15,528	9,739	11,369	2,082,178

NOTES TO THE ANNUAL ACCOUNTS (continued)*for the year ended 31 December 2018***11. Financial risk (continued)****(iii) Liquidity risk**

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

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

At 31 December 2018, the average duration of cash and fixed interest securities was 2.5 years (2017 1.7 years).

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

	2018 £'000	2017 £'000
Creditors	317,106	294,237
	317,106	294,237

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

NOTES TO THE ANNUAL ACCOUNTS (continued)*for the year ended 31 December 2018***12. Technical provisions**

2018	Provision for unearned premiums £'000	Claims outstanding £'000	Net £'000
Gross			
At 1 January	624,066	2,434,540	3,058,606
Movement per technical account	478	14,947	15,425
Foreign exchange	33,467	41,788	75,255
At 31 December	658,011	2,491,275	3,149,286

Reinsurance

At 1 January	67,490	859,202	926,692
Movement per technical account	5,920	52,360	58,280
Foreign exchange	5,344	15,789	21,133
At 31 December	78,754	927,351	1,006,105

2017	Provision for unearned premiums £'000	Claims outstanding £'000	Net £'000
Gross			
At 1 January	647,108	2,236,936	2,884,044
Movement per technical account	38,019	305,735	343,754
Foreign exchange	(61,061)	(108,131)	(169,192)
At 31 December	624,066	2,434,540	3,058,606

Reinsurance

At 1 January	59,400	550,808	610,208
Movement per technical account	15,079	347,126	362,205
Foreign exchange	(6,989)	(38,732)	(45,721)
At 31 December	67,490	859,202	926,692

NOTES TO THE ANNUAL ACCOUNTS (continued)*for the year ended 31 December 2018***13. Debtors****(i) Debtors arising out of direct insurance operations**

	2018 £'000	2017 £'000
Due within one year		
Due from policyholders	1,309	1,148
Due from intermediaries	444,028	376,769
Due after one year		
Due from intermediaries	263	249
	445,600	378,166

(ii) Debtors arising out of reinsurance operations

	2018 £'000	2017 £'000
Due within one year	214,326	176,633
Due after one year	230	204
	214,556	176,837

(iii) Other debtors

	2018 £'000	2017 £'000
Unsettled investment trade debtors	15,934	4,442
Salvage and subrogation	6,557	6,383
Trade debtors	1,484	2,387
Amounts due from Group undertakings	32	6,547
	24,007	19,759

14. Overseas deposits

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

	2018 £'000	2017 £'000
Joint Asset Trust Funds	9,739	9,367
Canadian Margin Fund	89,889	82,337
Kentucky Trust Funds	2,386	2,927
Australian Trust Funds	70,067	77,215
South African Trust Funds	9,201	6,886
Additional Securities Limited Overseas deposit	20,636	11,807
Additional Securities Limited Illinois deposit	1,895	2,013
	203,813	192,552

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

15. Outstanding claims – claims development

2018	2010 and prior £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	Total £'000
At end of year		315,893	267,047	204,931	170,275	184,326	282,189	318,935	278,569	
One year later		540,710	456,735	401,421	349,825	425,679	511,705	561,812		
Two years later		552,307	505,343	444,352	448,854	497,327	579,396			
Three years later		550,041	486,813	468,143	429,034	483,682				
Four years later		533,606	499,831	421,566	437,358					
Five years later		543,783	474,121	425,979						
Six years later		543,497	486,388							
Seven years later		547,632								
Current estimate of net cumulative claims cost		547,632	486,388	425,979	437,358	483,682	579,396	561,812	278,569	
Cumulative net claims payments to date		(499,911)	(400,774)	(320,110)	(322,041)	(289,897)	(359,936)	(265,567)	(25,496)	
Net outstanding claims	246,840	47,721	85,614	105,869	115,317	193,785	219,460	296,245	253,073	1,563,924

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

The Syndicate writes business in currencies other than Pound Sterling. The translation of outstanding claims denominated in foreign currencies gives rise to foreign exchange movements which have no direct bearing on the development of the underlying claims. To eliminate this distortion, claims liabilities have been retranslated to the Pound Sterling at constant rate of exchange for each reporting year. All estimates of net cumulative claims cost and cumulative claims payments for the seven 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.

16. 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.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

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

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

	Sensitivity	Profit / (loss)	
	%	2018	2017
		£'000	£'000
Net claims outstanding	+5	63,339	63,604
	-5	(63,339)	(63,604)
Sterling to US dollar exchange rate	+10	39,518	51,545
	-10	(39,518)	(51,545)
Sterling to Australian Dollar exchange rate	+10	7,789	5,141
	-10	(7,789)	(5,141)
Sterling to Euro exchange rate	+10	10,766	9,724
	-10	(10,766)	(9,724)
Sterling to Canadian exchange rate	+10	20,069	18,662
	-10	(20,069)	(18,662)

18. Maturity profile of net outstanding claims

	1 year or less	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2018	412,505	278,173	207,057	157,958	118,348	389,883	1,563,924
2017	442,324	308,375	196,193	148,512	108,106	371,828	1,575,338

19. Creditors

(i) Creditors arising out of direct insurance operations

	2018	2017
	£'000	£'000
Due within one year		
Due to policyholders	379	576
Due to intermediaries	94,011	50,741
Due after one year		
Due to intermediaries	-	169
	94,390	51,486

(ii) Creditors arising out of reinsurance operations

	2018	2017
	£'000	£'000
Due within one year	163,858	211,329
	163,858	211,329

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

20. Other creditors including taxation and social security

	2018	2017
	£'000	£'000
Due within one year		
Unsettled investment trade creditors	12,079	16,176
Amounts due to group undertakings	43,999	13,869
Taxation and social security	2,780	1,377
	58,858	31,422

21. 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.

22. Related parties

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

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

All transactions between the Syndicate and companies within the QBE Insurance Group are conducted on normal market terms on an arm's length basis.

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

Directors' interests

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

Inter-syndicate transactions

In certain instances the Syndicate has underwritten reinsurances of QBE's other managed syndicate. The premiums paid are not material either in the context of that Syndicate's overall reinsurance costs nor are they a material part of this Syndicate's income. All contracts are written on normal market terms at arm's length.

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 £12,729k (2017 £9,863k) were written in the year with related QBE companies. All such contracts were written on normal market terms on an arm's length basis. At the year end, balances due from related QBE companies in respect of inwards reinsurance premium were £5,422k (2017 £3,394k). At the year end, there was a £9,787k (Restated 2017 £6,272k) share of technical provisions.

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 £179,904k (Restated 2017 £172,858k) were placed with Equator Reinsurances Limited (Equator Re). All such contracts were written on normal market terms on an arm's length basis. At the year end, balances due from Equator Re in respect of reinsurers' share of technical provisions were £597,344k (Restated 2017 £410,136k).

NOTES TO THE ANNUAL ACCOUNTS (continued)*for the year ended 31 December 2018***22. Related parties (continued)****Administrative expenses**

Total expenses recharged from QBE Partner Services (Europe) LLP in respect of services provided to the Syndicate amounted to £139,831k (2017 £119,350k). The balance outstanding at year end with QBE Partner Services (Europe) LLP is £18,014k (2017 £12,177k). There are no other transactions or arrangements to be disclosed.

Service companies

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

23. Restatement of prior year comparatives**i) Valuation hierarchy**

The Syndicate has changed the presentation of Deposits with credit institutions and Debt securities and other fixed income securities to reflect a reclassification of certain items. There has been no impact to the profit and loss account or the balance sheet from this change in presentation.

	Adjustment 2017 Level 3 £'000	Adjustment 2017 Total £'000
Deposits with credit institutions	14,126	14,126
Debt securities and other fixed income securities	(14,126)	(14,126)

ii) Currency risk

The Syndicate has restated the prior year currency risk sensitivity note to include unearned premium and deferred insurance costs within the monetary net asset position upon which the currency risk sensitivity calculation is based. The impact of this change is shown below:

	Movement in variable %	Adjustment 2017 Profit / (loss) and equity £'000
US dollar	+10 -10	17,824 (17,824)
Euro	+10 -10	3,668 (3,668)
Japanese Yen	+10 -10	417 (417)
Canadian dollar	+10 -10	7,845 (7,845)
Australian dollar	+10 -10	1,199 (1,199)

There has been no impact to the profit and loss account or the balance sheet from this restatement.

NOTES TO THE ANNUAL ACCOUNTS (continued)

for the year ended 31 December 2018

23. Restatement of prior year comparatives (continued)

iii) Credit risk

The Syndicate has changed the presentation of Debtors arising out of direct insurance operations and Debtors arising out of reinsurance operations has been restated to conform with current year presentation.

The impact of this change is shown below:

Adjustment 2017	Neither past due nor impaired £'000	Past due by				Total £'000
		Up to 3 months £'000	3 to 6 months £'000	6 months to 1 year £'000	Greater than 1 year £'000	
Debtors arising out of direct insurance operations	(20,866)	2,688	8,239	3,346	6,593	-
Debtors arising out of reinsurance operations	14,866	(6,996)	(67)	(223)	(7,580)	-
Total	(6,000)	(4,308)	8,172	3,123	(987)	-

There has been no impact to the profit and loss account or the balance sheet from this restatement.

iv) Related parties

Inwards reinsurance contracts with related QBE companies

Following a review of underlying source data, the Syndicate has restated the share of technical provisions due to related QBE companies (increased by £1,139k).

Outwards reinsurance contracts with related QBE companies

Following a review of underlying source data, the Syndicate has restated the outward reinsurance premiums purchased from related QBE companies (decreased by £8,620k) and the balances due in respect of reinsurers' share of technical provisions where the reinsurer is a related QBE company (increased by £393,363k). There has been no impact to the profit and loss account or the balance sheet from this restatement.

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