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Argenta

Argenta Syndicate Management Limited
Syndicate 2121

Report, Annual Accounts
and Underwriting Year Accounts
as at 31 December 2014

Argenta Syndicate Management Limited
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Contents of Report and Accounts

	Page
Managing Agent's Report	**3**
Annual Accounts	
Statement of managing agent's responsibilities	16
Independent auditor's report	17
Profit and loss account: technical account	19
Profit and loss account: non-technical account	20
Balance sheet	21
Statement of cash flows	23
Notes to the accounts	24
Underwriting Year Accounts	
Statement of managing agent's responsibilities	41
Independent auditor's report	42
Profit and loss account: 2012 technical account	44
Profit and loss account: 2012 non-technical account	45
Balance sheet	46
Statement of cash flows	47
Notes to the accounts	48

Managing Agent's Report

The directors of Argenta Syndicate Management Limited (ASML) present their report for the year ended 31 December 2014.

The annual accounts are prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

A separate set of underwriting accounts has been prepared on the traditional three year accounting basis in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). These relate to the 2012 year of account which has been reinsured to close with effect from 31 December 2014.

Overview of business

Syndicate 2121 writes a largely direct and short tail account across a range of non-marine and marine product lines with a worldwide geographical spread. It operates within the Lloyd's insurance market in London and through a service company on the Lloyd's platform in Singapore. The largest area of business is the direct and facultative property book, built around a number of long standing relationships with managing general agents and supplemented with an open market book of small commercial and homeowners' business. The syndicate also writes onshore power and utility business and terrorism in the property sector. The marine book consists of the traditional classes including hull, cargo, specie, war and fine art. Energy including exploration, production and distribution is underwritten, although refining risks are not. Marine and energy liabilities, both in conjunction with the physical damage lines and on a standalone basis, are written. The syndicate has a small international (i.e. non-USA) treaty account split across catastrophe excess of loss and risk excess business. In 2013 an international casualty book written via a Lloyd's approved consortium was added along with an accident and health book in 2014. For 2015 the syndicate plans to introduce a book of UK small and medium sized commercial package business.

For the 2014 year the stamp capacity was increased to £240 million in line with the ASML strategic objective to grow Syndicate 2121 subject always to market conditions. This increase follows three years at £200 million and allows further headroom for growth organically or through the introduction of new classes.

Review of underwriting activities for 2014

On an annual accounting basis, the result of the syndicate for calendar year 2014 is a profit of £33.5 million (combined ratio 83%) with the 2012, 2013 and 2014 underwriting years producing profits of £7.0 million, £16.4 million and £10.1 million respectively. On the traditional Lloyd's basis of reporting, the 2012 year of account has closed with a profit of 13.5% of capacity, with a pure year 2012 profit of 12.4% and a 2011 and prior year profit of 1.1%.

The table below summarises the capacity, premium volumes and performance of Syndicate 2121 for 2014 alongside comparative numbers for 2013. Other than in respect of capacity, the numbers shown are on an annually accounted basis. The table is followed by further detailed comments in relation to each of the years on an annually accounted basis and also on an underwriting year of account basis.

Key performance indicators	*2014*	*2013*
Capacity (underwriting year)	£240 million	£200 million
Premiums written gross of commission	£218 million	£239 million
Net premiums earned	£182 million	£202 million
Profit for the year	£34 million	£27 million
Claims ratio (net)	42%	45%
Combined ratio	83%	87%
Cash and investments at 31 December	£246 million	£219 million

Review of underwriting activities for 2014 *continued*

The downside of the good results reported for the past few years is that premium rating in many areas has softened and continues to fall; the position is such that even on accounts that have suffered losses rates are still under pressure in some classes. The overall rate reduction was 3.4% compared to an expected increase of 0.5% for the whole syndicate. Not only is there competition from traditional capacity that is hungry for more premium but this has been exacerbated by new capital markets with non-traditional or ILS products. Now is the time to ensure that the work required not only on risk selection but also in making the syndicate easy to deal with, remains paramount in maintaining a profitable account as the syndicate navigates its way through an extremely tough cycle in the market.

The 2014 calendar year was once again benign from a catastrophe and large loss perspective. According to Swiss Re's insurance research arm Sigma, natural catastrophe and man made losses in 2014 totalled US$34 billion. This is down from US$45 billion in 2013 and US$80 billion in 2012 which is again fuelling overcapacity and increased competition. The syndicate's largest losses were in respect of a turbine fire from EIF Risk Management and generator damage from Eneva in the utility class, whilst the marine class picked up a loss from the tragic capsizing of the ferry MV Sewol in South Korea. All of these losses are below the attachment point of the applicable reinsurances. The year also saw increases in Superstorm Sandy, Costa Concordia and Westshore Pipeline which are, and remain, within the relevant reinsurance programmes and only reinstatement premiums impact the net position.

As at 31 December 2014, the cash and investments held by the syndicate increased from £219 million to £246 million.

2012 year of account

As previously reported the losses that have affected the 2012 year of account were dominated by Superstorm Sandy, which made landfall in the north eastern United States in October of that year. This is the largest loss to the syndicate in recent years but was fairly evenly split between the 2011 and 2012 years of account. The other significant losses to impact the 2012 year, being Oxbow mining and the Canadian floods, have also been mentioned previously and very little deterioration has been seen during the last 12 months. It is the reduced level of losses, as a result of the re-underwriting that began to be implemented late in 2011 and on into 2012, that has continued to keep attrition below expectation for this year thus improving the actual return above levels previously predicted.

Reserves in respect of the 2011 and prior years of account continue to improve and develop satisfactorily, generating a surplus of £2.2 million.

As a result of all of the above, the 2012 and prior years of account have produced a profit of 13.5% of stamp capacity.

2013 year of account

The 2013 year of account is relatively benign from a catastrophe, large and attritional loss perspective and the run-off continues to develop as anticipated. A handful of larger losses were experienced dominated by the Blue Racer midstream vapour cloud explosion, the Julius Klein diamond theft in Cannes and the EIF Risk Management turbine damage mentioned above. All bar the diamond theft fell within the retention of the relevant reinsurance purchased demonstrating the low level impact of these losses.

The re-underwriting referred to earlier did result in a reduction in premium. However, the property, utility and specie classes benefited from some improvement in terms in the US following Superstorm Sandy late in 2012. The introduction of the casualty class written by way of a market consortium also helped to offset some of the reduction and these changes are also helping towards the continued improvement in results.

Review of underwriting activities for 2014 *continued*

Only the primary marine employers' liability class, which the syndicate has now ceased underwriting, has had any adverse claims development but this made up a relatively small part of the overall syndicate written premium.

Taking all these factors into consideration and in the absence of any unforeseen adverse developments, the 2013 year of account is developing slightly ahead of business plan targets. The current forecast is a profit in the range of 6% to 12% of capacity.

2014 year of account

From a catastrophe and large loss perspective 2014 was another benign year, the second since Superstorm Sandy in 2012. The year also experienced a very low level of attritional loss across all classes.

The income was lower than expected as rate reductions started to impact the account. These gained momentum as the year went on, offset slightly by the introduction of an accident and health class which is developing above expectations. The only other class ahead of target business plan income is the cargo and specie account which is benefiting from increased world trade and increased shares obtained on core accounts.

Overall the 2014 forecast result is currently developing broadly in line with the business plan. There is still a large amount of business on risk however and the final result will depend on how this runs off.

Trading conditions for 2015

Further weakening is expected in all markets in which the syndicate operates. The January 2015 renewal season was very mixed for the syndicate with rates down 3.9% across all classes. This is in line, however, with the estimated reduction of 4.7% for the whole year factored into the business plan.

The largest reductions were seen in the international treaty class where market conditions are very difficult at the moment following three years of minimal catastrophe losses in the international market and an even longer benign period on the US side. This is the third year of softening; 2013 saw modest pressure on rates, 2014 saw more meaningful rate reductions as well as a relaxation in other terms and conditions such as hours clauses and this has continued fairly aggressively over the 1 January 2015 renewals. The syndicate continues to support its core clients and in fact experienced a slight increase in its signed line on certain accounts. This is probably due to a mixture of some of the larger writers reducing their lines slightly; the fact that the syndicate's percentage lines are modest so a slight increase does not upset the overall signing; and that some larger reinsurers have reduced the level of cat bonds purchased in favour of traditional reinsurance given that the rating levels have reduced significantly by comparison.

The property class is focused on small to medium sized enterprises and not the "Fortune 1000" business and as such remains much more stable with no significant pressure on rates at this time. The most obvious trend is the overwhelming availability of capacity, which means that placements are getting round without any difficulty. Whilst currently this is not a cause for concern, it is unlikely to encourage underwriting discipline if conditions soften later in the year.

The offshore energy rating environment continues to weaken and will continue to do so with the low oil price meaning that drilling is down with very little scheduled. Capital expenditure budgets are reducing and as a result some construction projects are being cancelled.

Managing Agent's Report
continued

Trading conditions for 2015 *continued*

The general marine classes of hull, war, cargo and specie are expected to continue as they were through 2014, with softening of rates except on loss affected accounts and with war breach premiums reducing. The global number of reported piracy attacks was down to 245 in 2014 according to the International Maritime Bureau, 44% lower than the Somali piracy peak of 2011, which is encouraging as is an increase in cargo business as world economies continue to improve.

All of the above is also true for the Singapore service company although as the syndicate's market share there is small, opportunities are still being seen as further classes are developed in conjunction with London in a controlled way, with visits from the London class underwriters being used to establish the appetite in these areas.

Finally the casualty class for the syndicate is written via a market consortium, which has become much more balanced and established since it was first written in 2013. Whilst rates on US domiciled risks are starting to soften this comes after a period of increases since mid-2012. International risks remain static from a rating perspective.

Overarching all of the classes written is the syndicate's reinsurance programme, which in the current market environment has been purchased with wider, more effective cover to protect the account at better than expected terms.

ASML business structure

ASML is the Lloyd's managing agency subsidiary of Argenta Holdings plc (AHP), an unquoted holding company with diversified interests in the Lloyd's insurance market.

ASML has been the managing agent of Syndicate 2121 since its inception in 2000. Since then the syndicate's capacity has steadily been increased to its current level of £240 million and it is intended to continue to grow the syndicate, subject to market conditions. The syndicate underwrites a broad cross-section of mainly short tail classes encompassing marine, property, energy and utilities, as well as small terrorism, accident and health and treaty books of business. For 2015, the syndicate commenced writing a small amount of UK property and liability business. Syndicate 2121 also operates in Singapore via a service company, Argenta Underwriting Asia Pte Ltd (AUA), which is authorised by the Monetary Authority of Singapore and Lloyd's Asia.

ASML has also in the past managed Syndicates 1965 and 1110 on a turnkey basis.

Directors

John LP Whiter – *Non-executive Chairman*

Andrew J Annandale – *Managing Director*

Graham K Allen – *Finance Director*

Peter J Bruin – *Operations Director and Company Secretary*

Paul Hunt – *Non-executive Director (appointed 21 April 2014)*

Ian M Maguire – *Active Underwriter Syndicate 2121*

Nicholas J Moore – *Chief Actuary*

John E Mumford – *Non-executive Director*

Trevor P Newbery – *Non-executive Director*

Gary A Powell – *Non-executive Director*

Matthew P Rowan – *Risk Management and Compliance Director*

David J Thompson – *Claims and Reinsurance Operations Director (appointed 1 April 2014)*

Alan W Tucker – *Non-executive Director*

Graham J White – *Non-executive Deputy Chairman*

David G Williams – *Non-executive Director*

Paul Hunt resigned as Underwriting Director with effect from 31 March 2014 and was reappointed to the Board as a Non-executive Director effective 21 April 2014.

Risk management

As an underwriting business Syndicate 2121 is exposed to a variety of financial and non-financial risks. These risks, which shape the risk management strategy adopted by ASML, are integral to the capital setting process that is undertaken to ensure that there is an appropriate level of capital held in respect of the insurance liabilities. The Own Risk and Solvency Assessment (ORSA) undertaken in respect of Syndicate 2121 reflects the risk profile of the business as well as the business strategy. Risks are managed through the risk management framework in order to ensure that the risk profile of the business is fully understood and can be monitored against the agreed risk appetite.

ASML is committed to risk management as an integral part of management and governance best practice, and has developed a risk management strategy to protect the material assets of Syndicate 2121 and to minimise its losses and liabilities.

The risks to the business are grouped under various categories, each of which is the subject of a risk policy which sets out ASML's approach to the management of the risk in conjunction with the overarching risk management framework and risk strategy. ASML groups risks into the following key categories:

Insurance risk

Insurance risk is the risk that arises from the inherent uncertainties in the occurrence, amount and timing of insurance liabilities. The underwriting profile of Syndicate 2121 is such that it is likely that claims will arise on the business underwritten. An expected level of claims in relation to attritional, large and catastrophe type losses has, therefore, been included in the business planning process. Other precautionary measures, in the form of internal

Risk management *continued*

controls, are used to preserve the syndicate's performance by limiting the exposure to wider underwriting, claims and reserving risks, such as:

- Adverse large and attritional loss experience;
- Poor or inappropriate risk selection;
- Inappropriate reserve estimation; and
- Inadequate reinsurance covering the underwriting portfolio.

ASML manages these risks against an agreed risk appetite. The framework of systems and controls is designed to reduce the likelihood of such risks occurring and to mitigate their impact on the overall business of the syndicate.

Operational risk

Operational risk spans all risk categories. Control procedures are used to proactively address the risks associated with ASML's business processes, systems and other resources which might otherwise be detrimental to overall performance. Business continuity is considered key and ASML has developed a plan that provides for the syndicate to be operational within a 48 hour period in the event that its current offices are no longer available.

The retention of key staff is also fundamental to the success of the business and the strategy adopted by ASML is designed to ensure that the terms and conditions offered to employees, as part of their overall remuneration package, remain competitive with the rest of the London market insurance industry.

As a regulated business, ASML is fully aware of its regulatory obligations to the UK Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA), Lloyd's of London, the Monetary Authority of Singapore and other overseas regulators. The procedures adopted by ASML in this regard rigorously monitor compliance with the regulatory standards and, through continuous assessment, highlight any developments that might impact the business.

Capital risk

Capital risk is defined as the risk to the syndicate of losses arising from inappropriate levels or sources of capital. Syndicate 2121 is supported by third party capital providers whose ongoing support is crucial to the syndicate continuing to trade forward. ASML is committed to the controlled growth of the syndicate and discussions with current and prospective capital providers are an ongoing process.

Liquidity risk

This is the risk that the syndicate will not have sufficient available cash resources to be able to meet its liabilities as they fall due. The liquidity of the syndicate is influenced by a number of factors that have the potential to arise from across the business. Management information is used to enable the effective monitoring of the liquidity risk framework in line with the agreed procedures and governance arrangements. Robust procedures are in place for the monitoring of cash flow and effective credit control. Claims activity is closely scrutinised and the movement of existing claims is reported at regular intervals.

Risk management *continued*

Credit risk

Credit risk is inherent to the business conducted with brokers, reinsurers and other counterparties. The potential for losses arising from a counterparty failing to fulfil its contracted payment obligations is managed by strict control procedures. Aged debt in respect of the payment of premiums and reinsurance recoveries is closely monitored and actively managed. The ASML Finance and Investment Committee approves the brokers, coverholders and reinsurers with which the syndicate may conduct its business. There is no appetite to deal with counterparties who have not been approved.

Market risk

Market risk is partly mitigated by following a predominantly fixed income investment strategy designed to mitigate exposure to potential losses from movement in exchange rates, interest rates or inflation. The business has a low appetite for market risk and as such there is a requirement to hold only high grade fixed income investments with a minimum average portfolio credit quality of ‘AA-’, cash and high quality short term instruments. ASML may also invest in listed, highly diversified collective investment schemes, absolute return funds and funds of hedge funds, which serve to mitigate the impact of movements in the wider investment market. Allocations to the funds of hedge funds and absolute returns funds are currently restricted to a maximum of 20% of the syndicate’s assets under management and are reviewed regularly to ensure the syndicate’s risk appetite budget is not exceeded. ASML also periodically seeks to match assets with liabilities in the syndicate’s principal functional currencies to the extent that funds permit.

Emerging risk

In addition to monitoring the individual risk categories outlined above, ASML has in place an emerging risks process to review risks that may impact upon the business in the future, and to ensure that any such risks are understood and mitigated where possible.

Investment managers and policy

During 2014 Insight Investment Management [Global] Limited (Insight) has been responsible for investing the large majority of the syndicate’s US dollar and euro assets within a fixed income portfolio. Insight also managed the syndicate’s Canadian dollar assets in the regulated trust funds within a fixed income portfolio until June 2014, when the management of these assets was transferred to Lloyd’s treasury. The performance of these assets is measured with reference to an appropriate benchmark.

In addition to the fixed income portfolios, Insight managed approximately 17% of the syndicate’s investment assets in a selection of multi asset absolute return funds that qualify as Undertakings for the Collective Investment of Transferable Securities (UCITS). The syndicate initially invested approximately 10% of the assets under its management into the absolute return funds during 2013. A further tranche was invested in September 2014. The objective of the investment in these funds is to optimise investment returns consistent with capital preservation and liquidity within regulatory constraints, whilst using assets that give diversification from the fixed income portfolio.

The assets under management within the Insight absolute return mandate consisted primarily of allocations to both the euro and US dollar denominated Emerging Market Debt, Currency, Credit and Equity Market Neutral funds. A performance target of achieving 325 basis points in excess of three month LIBID was set with a related value at risk

Investment managers and policy *continued*

budget over a one month period under normal market conditions. The target and risk budget were set with reference to the level of funds invested with Insight and the other assets within the overall portfolio for the syndicate.

Surplus funds that are held in addition to these portfolios are invested in a combination of unitised liquidity funds and bank deposits.

Insight

The fixed income portfolios returned 0.6% and 0.8% on the combined US dollar and euro portfolios respectively. The US dollar portfolio return was broadly in line with its benchmark and the euro portfolio return was 0.2% above its benchmark. The Canadian dollar portfolio returned 1.6% over the year with both Insight and Lloyd's treasury outperforming their respective benchmarks by 0.1% during the period they managed the funds.

The euro and US dollar absolute return funds yielded 1.7% and 1.8% respectively during the year versus a targeted yield of 3.4%. Whilst the under performance against the target yield was a little disappointing, independent analysis undertaken by the syndicate's investment consultants has shown that the performance of the funds was within the second quartile for funds that operate within a similar investment universe. The funds also yielded more than the traditional fixed income portfolios and provided diversification benefits. Insight report on 2014 as follows:

> *"US dollar fixed income portfolio*
>
> The US dollar (USD) portfolio performed in line with the benchmark in 2014. The portfolio had a very low US Treasury duration exposure over much of the year on expectations that yields would likely rise in the US as economic data continued to firm over the period. Signals from the Federal Reserve (Fed) also heightened expectations that the US central bank was moving closer towards lifting interest rates from historic lows, with observers anticipating the first rise could take place in mid-2015. We increased duration slightly at the start of the third quarter and the average weighted duration of the portfolio ended 2014 at 0.40 of a year.
>
> In credit, we continued to add a number of attractively priced new issues to the portfolio over the year, particularly those issued by senior banks, most notably Barclays, Morgan Stanley, ANZ, Deutsche and Westpac. In non-financials, we added new issues from Walgreen, Apple, Honda and Procter & Gamble. We generally had a bias to add floating rate notes where possible, given the very low level of yields and our view that the front end of the yield curve may undergo a significant repricing over the next 12 months as the Fed possibly starts to hike interest rates. We also increased the exposure to supranationals from c.11.5% to c.13% and maintained asset-backed securities (ABS) exposure at c.8-9% throughout the year. Corporate bond spreads tightened over the year, narrowing towards pre-crisis levels. We believe the improving economic backdrop will allow credit spreads to remain tight and so we continue to maximise the allocation within the portfolio.
>
> *Euro fixed income portfolio*
>
> The euro portfolio outperformed the benchmark in 2014. The exposure to interest rate duration positively contributed to performance as yields fell across most of the curve during the period. Credit also outperformed over the period, with the allocation to senior banks and residential mortgage-backed securities the primary drivers of return. Towards the end of the year, the portfolio's allocation to sovereign bonds and supranationals also added to returns as we increased the duration of the portfolio from c.0.75yrs at the end of Q2 to 1.28yrs by the end of Q4.

Investment managers and policy *continued*

Absolute Insight Emerging Market Debt

It was a mixed period for emerging market debt (EMD). The main drivers of risk asset markets over the period included speculation concerning US economic data and its implications for the Fed's quantitative easing (QE) programme and future US interest rate rises. Political risk also came to the fore as political tensions in Ukraine intensified and conflicts in the Middle East developed.

The Fund's holdings in local rates were the largest contributor to performance over the period, and external governments and external corporates were also materially positive. Portfolio hedges and currency positions detracted from returns.

In the final quarter, the Fund generated a near-zero return, even though EMD as a whole suffered its worst month since summer 2013. In December the combination of a stronger USD, weaker commodities prices, uncertainty over the Fed's next move, a falling oil price, the collapse in the Russian rouble and thin year-end liquidity led to a sharp decline in emerging market asset prices. Against this background, there were gains in the strategy's currency positions, external sovereign debt and hedge positions, but losses in corporates and local rates. In terms of activity, the managers increased risk in October and maintained exposures in November, but in December, against a turbulent background, they reduced exposure aggressively and built up a cash buffer.

We believe that until the oil price finds a floor and US economic data gives a clearer picture on when the Fed will start raising interest rates, we expect to keep the strategy's balance sheet at a reduced size, both in terms of long and short positions. We are also watching technical factors closely as a poor month like December is typically followed by significant outflows from the asset class. We believe the disorderly sell-off in December injected risk premium back into the market and this is likely to create good opportunities in 2015. We are therefore maintaining high cash levels to take advantage of potential opportunities in 2015.

Absolute Insight Credit

For most of the year, it was a positive period for credit, supported by broadly dovish statements from central banks and the European Central Bank's (ECB) announcement later in the year that it would purchase ABS as part of a QE programme. However, late in the year heightened volatility and low liquidity had a negative impact on credit.

With regard to the Fund, the largest contribution to returns came from long positions in ABS, with investment grade cash positions also supporting performance. However, high yield cash positions were negative. The Fund lost value at the end of the year as falling oil prices had an impact on the high yield energy sector.

Looking forward, the managers continue to have a long credit spread duration bias as they believe that without a further negative catalyst, credit spreads will tighten again. However, they have increased equity hedges. In investment grade credit, the managers believe the environment remains positive. They favour USD and sterling denominated issues over euro denominated issues because the managers believe they are more attractively valued. In high yield, the managers believe default rates could creep up as the plummeting oil price puts stress on the energy sector and therefore they remain cautious for now, aside from some special situations. They expect to seek out opportunities over the year in both emerging market credit and in the high yield energy sector, but they are waiting for signs of greater stability to emerge. In ABS, the managers believe the asset class continues to provide a strong risk-reward profile: they believe UK ABS provides opportunities in bonds that have been left behind in the rush for assets that will be bought by the ECB.

Investment managers and policy *continued*

Absolute Insight Equity Market Neutral

Looking back over the year, there were several surprises, with falling government bond yields and the oil price collapse probably the two most significant. There were also sharp market rotations as well as big moves in currencies. The investment landscape was dominated by evolving views on macroeconomics and central bank reactions. With investors having to adjust from some broad consensus trades, positioning served to exaggerate price moves over some periods and there were spikes in volatility.

The big moves in currencies and the oil price, as well as differentiated economic growth rates around the world, should create relative winners and losers at the company level within industries and through global value chains. This should provide more stock picking opportunities for us as we move into 2015. More clarity on the ECB's QE plans will hopefully provide a more stable environment for macro expectations. This could in turn allow differences in fundamentals to exert more influence on stock prices and drive more differentiated returns.

The bigger picture remains one of global growth now dangerously close to the stall rate, and uncertainty on the extent to which central bank QE will actually translate into improving growth and inflation. In the near term, markets will likely welcome more QE, but we should not lose sight of the potential medium-term growth deficiency issue that markets may have to reconcile themselves with.

Absolute Insight Currency

The overall theme in the Fund over the year remained a broad overweight in the USD against various currencies, including the Japanese yen (JPY), the euro and the Australian dollar (AUD), along with various emerging market currencies.

This stance led to positive returns in early 2014 due to continuing strength in US economic data and the Fed's decision in December 2013 to reduce its QE programme from January 2014. This stood in contrast to the Bank of Japan's continued commitment to QE and the Reserve Bank of Australia's stated desire for a weaker AUD.

Over the year as a whole, short JPY positions against the USD were the largest contributor to returns, followed by short euro positions against the USD. Short AUD positions were also positive.

Looking ahead, we expect the continuing divergence between tightening US monetary policy and loosening eurozone and Japanese monetary policy to continue to support the USD. At the same time, we remain bearish on the outlook for the euro in light of further QE by the ECB."

Custodians

Citibank and RBC Investor and Treasury Services have acted as the syndicate's custodians in relation to the fixed income portfolios held with Insight and Lloyd's treasury. State Street are the administrators for the syndicate's investment in the absolute return funds.

Investment objectives

The overall objective is to target a return, over the long term, of 3 month LIBOR plus 1% and remain 99.5% confident of not underperforming LIBOR by more than 5%. The return for 2014 is consistent with ASML's risk appetite and below the overall target return of 1.2% primarily due to the continuing low interest rate environment in the US.

Investment performance

Funds for investment were primarily held in US dollars. The investment return for the year and the average funds available for investment were as follows:

Average amount of syndicate funds available for investment during the year:

	2014	*2013*
	'000	*'000*
United States dollars	247,463	254,090
Sterling	43,450	30,081
Euro	18,491	20,932
Canadian dollars	18,057	18,385
Combined in sterling	218,261	222,117
Net aggregate investment return for the calendar year in sterling	1,902	2,017

Net calendar year investment yield	*2014*	*2013*
United States dollars	0.6%	0.7%
Sterling	1.5%	2.0%
Euro	1.0%	0.6%
Canadian dollars	1.5%	1.3%
Combined in sterling	0.9%	0.9%

Statement as to disclosure of information to auditors

The directors of the managing agent at the date of this report have individually taken all the necessary steps to make themselves aware, as directors, of any relevant audit information and to establish that the syndicate auditor is aware of that information.

As far as the directors are aware, there is no relevant audit information of which the syndicate auditor is unaware.

Auditors

Ernst & Young LLP continues to act as the auditor of the syndicate annual accounts and underwriting year accounts, and also as the auditor of ASML. Lloyd's approval for this arrangement under the relevant provisions of the Audit Arrangements Byelaw (No. 7 of 1988) was granted following notification to syndicate members and their non-objection to the arrangement. Notice is hereby given that it is intended to continue with this arrangement unless objections to this proposal are received from syndicate members. Any such objection should be made in writing to the registered office of ASML, within 21 days of receipt of this statement.

Under the 2008 Regulations, the auditor is deemed reappointed in subsequent years if there is no objection. Ernst & Young LLP has signified its willingness to continue in office as the independent auditor to the syndicate and it is proposed that the appointment remains in force.

Annual general meeting of syndicate members

In accordance with the provisions of the 2008 Regulations, it is not intended to hold an annual general meeting of the members of Syndicate 2121, unless objections to this proposal or to the deemed reappointment of the auditor are received from syndicate members. Any such objection should be made in writing to the registered office of ASML, within 21 days of receipt of this statement.

Andrew J Annandale
Managing Director

Approved by the board of Argenta Syndicate Management Limited on 16 March 2015.

SYNDICATE

2121

ANNUAL ACCOUNTS 2014

Statement of Managing Agent's Responsibilities

The managing agent is responsible for preparing the syndicate annual accounts in accordance with applicable law and regulations.

The 2008 Regulations require the managing agent to prepare syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

In preparing the 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 notes to the syndicate annual accounts; and
- prepare the syndicate annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Syndicate 2121

We have audited the syndicate annual accounts of Syndicate 2121 for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Cash Flows, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 16, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the annual accounts sufficient to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the annual accounts. In addition, we read all the financial and non-financial information in the Report and Annual Accounts to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year in which the annual accounts are prepared is consistent with the annual accounts.

Independent Auditor's Report to the Members of Syndicate 2121

continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

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

Ernst & Young LLP

Michael Purrington (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

16 March 2015

Profit and Loss Account

for the year ended 31 December 2014

Technical account – general business

		2014		*2013*	
	Notes	*£'000*	*£'000*	*£'000*	*£'000*
Earned premiums, net of reinsurance					
Gross premiums written	3	217,702		238,548	
Outward reinsurance premiums		(39,513)		(44,492)	
Change in the provision for unearned premiums					
Gross amount		2,316		4,026	
Reinsurers' share		1,184		3,479	
			181,689		201,561
Allocated investment return transferred from the non-technical account			1,902		2,017
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(112,323)		(144,365)	
Reinsurers' share		29,760		35,269	
		(82,563)		(109,096)	
Change in the provision for claims					
Gross amount		23,531		48,385	
Reinsurers' share		(17,460)		(29,449)	
		6,071		18,936	
			(76,492)		(90,160)
Net operating expenses	5		(73,598)		(85,947)
Balance on the technical account for general business			33,501		27,471

All items relate only to continuing operations.

Profit and Loss Account

for the year ended 31 December 2014 continued

Non-technical account

	Notes	*2014* *£'000*	*2013* *£'000*
Balance on the general business technical account		33,501	27,471
Investment income	9	2,501	3,673
Unrealised gains on investments		776	470
Investment expenses and charges	10	(765)	(1,064)
Unrealised losses on investments		(610)	(1,062)
Allocated investment return transferred to the general business technical account		(1,902)	(2,017)
Profit for the financial year	15	33,501	27,471

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts. Accordingly, a separate statement of total recognised gains and losses has not been presented.

Balance Sheet

as at 31 December 2014

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
ASSETS					
Investments					
Financial investments	11		231,631		197,481
Deposits with ceding undertakings			78		17
Reinsurers' share of technical provisions					
Provision for unearned premiums		5,220		4,198	
Claims outstanding		51,978		66,448	
			57,198		70,646
Debtors					
Debtors arising out of direct insurance operations	12	36,373		42,986	
Debtors arising out of reinsurance operations	13	17,908		24,804	
Other debtors		1,868		1,274	
			56,149		69,064
Other assets					
Cash at bank and in hand		1,307		1,535	
Other	14	12,681		19,749	
			13,988		21,284
Prepayments and accrued income					
Accrued interest		164		145	
Deferred acquisition costs		27,570		28,824	
Other prepayments and accrued income		1,346		800	
			29,080		29,769
TOTAL ASSETS			388,124		388,261

Balance Sheet

as at 31 December 2014 continued

	Notes	2014 £'000	2014 £'000	2013 £'000	2013 £'000
LIABILITIES					
Capital and reserves					
Members' balances	15		42,197		26,465
Technical provisions					
Provision for unearned premiums		97,959		105,591	
Claims outstanding		218,224		231,724	
			316,183		337,315
Creditors					
Creditors arising out of direct insurance operations	16	2,063		2,106	
Creditors arising out of reinsurance operations	17	12,709		15,484	
Other creditors		12,373		4,987	
			27,145		22,577
Accruals and deferred income			2,599		1,904
TOTAL LIABILITIES			388,124		388,261

The syndicate annual accounts on pages 19 to 37 were approved by the Board of Argenta Syndicate Management Limited on 16 March 2015 and were signed on its behalf by

Andrew J Annandale
Managing Director

Statement of Cash Flows

for the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Reconciliation of profit to net cash inflow from operating activities			
Profit for the financial year		33,501	27,471
Realised and unrealised investment losses/(gains) including foreign exchange		(13,208)	3,348
Increase/(decrease) in net technical provisions		(7,684)	(26,668)
(Increase)/decrease in debtors		12,915	(4,313)
(Increase)/decrease in prepayments and accrued income		689	114
Increase/(decrease) in creditors		4,568	215
Increase/(decrease) in accruals and deferred income		695	800
Net cash inflow from operating activities		31,476	967
Transfers (to)/from members' personal reserve funds		(16,619)	8,757
Financing:			
Members' agents' fees paid on behalf of members		(1,150)	(1,145)
	18	13,707	8,579
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	18	(212)	751
Increase/(decrease) in deposits with ceding undertakings	18	57	(5)
Net portfolio investment	19	13,862	7,833
Net investment of cash flows		13,707	8,579

Notes to the Accounts

1. Basis of preparation

The financial statements have been prepared in accordance with the 2008 Regulations and applicable Accounting Standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 as revised in December 2006, ("the ABI SORP"), except as follows: exchange gains and losses have been included in the technical account as they are considered to arise only in respect of technical account transactions. The ABI SORP recommends that they should be included in the non-technical account.

2. Accounting policies

(a) Basis of accounting

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(i) Premiums written

Premiums written comprise premiums on contracts incepted during the financial year, together with adjustments made in the year to premiums written in prior accounting periods. They also include estimates for pipeline premiums, representing amounts due to the syndicate not yet notified. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

(ii) Unearned premiums

Written premiums are earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

(iii) Reinsurance premiums ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

(iv) Claims incurred

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end. Claims outstanding are reduced by anticipated salvage and other recoveries.

(v) Claims provisions and related recoveries

The provision for claims comprises amounts set aside for claims notified and claims incurred but not reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters and previous experience of the cost of settling claims with similar characteristics.

2. Accounting policies *continued*

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the syndicate's staff and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The provision for claims includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. The syndicate uses a number of statistical techniques to assist in making these estimates.

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

(b) Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses, likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any deferred acquisition costs.

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together. No account is taken of any future investment return.

(c) Acquisition costs

Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

(d) Foreign currencies

Income and expenditure in US dollars, Canadian dollars and euros are translated at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

2. Accounting policies *continued*

Monetary assets and liabilities are translated into sterling at the rates of exchange at the balance sheet dates unless contracts to buy or sell currency for sterling have been entered into prior to the year end, in which case the contracted rates have been used. Non-monetary assets and liabilities at the balance sheet date, primarily deferred acquisition costs and unearned premiums, are translated at the rate of exchange ruling when the insurance contract was entered into (or an approximate average rate). Differences arising on the translation of foreign currency amounts are included in the technical account under "net operating expenses".

Cash calls made in US dollars are translated at the rate of exchange ruling at the balance sheet date at which they are first declared. Amounts transferred to members in respect of the payment of closed year profits are translated at the rate of exchange ruling at the previous balance sheet date.

(e) Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments and overseas deposits are stated at bid-price value and deposits with credit institutions are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date.

(f) Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

(g) 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 members or their members' agents 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 during the year have been included in the balance sheet under the heading 'other debtors'.

No provision has been made for any other overseas tax payable by members on underwriting results.

2. Accounting policies *continued*

(h) Pension costs

ASML operates a defined contribution pension scheme and its recharges to the syndicate in respect of staff costs include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

(i) Operating lease rentals

Amounts recharged by ASML include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

(j) Profit commission

Profit commission is charged by the managing agent at a rate of 15% of the profit on a year of account basis subject to the operation of a deficit clause; the profit commission rate increases from 15% to 17.5% if an average profit measure exceeds 7.5% of capacity. This is charged to the syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months, although the managing agent may receive payments on account of anticipated profit commissions in line with interim profits released to members.

3. Particulars of business written

Type of business

An analysis of the technical account balance before investment return is set out below:

2014	*Gross premiums written £'000*	*Gross premiums earned £'000*	*Gross claims incurred £'000*	*Gross operating expenses* £'000*	*Reinsurance balance £'000*	*Total £'000*
Direct insurance:						
Accident and Health	994	424	(150)	(166)	(223)	(115)
Motor (other classes)	677	650	(376)	(220)	(71)	(17)
Marine, aviation and transport	27,786	29,287	(26,181)	(8,734)	1,314	(4,314)
Energy	36,446	36,412	(15,335)	(12,871)	(3,597)	4,609
Fire and other damage to property	90,624	93,358	(27,770)	(31,489)	(19,451)	14,648
Third party liability	863	925	(746)	(282)	(256)	(359)
Pecuniary loss	78	49	25	(17)	(52)	5
	157,468	161,105	(70,533)	(53,779)	(22,336)	14,457
Reinsurance acceptances:						
Fire and other damage to property	26,402	25,958	(6,375)	(7,993)	(17)	11,573
Marine, aviation and transport	14,358	14,743	(5,672)	(5,644)	(792)	2,635
Energy	9,436	10,967	(2,228)	(3,818)	(1,999)	2,922
Other	10,038	7,245	(3,984)	(2,364)	(885)	12
	60,234	58,913	(18,259)	(19,819)	(3,693)	17,142
	217,702	220,018	(88,792)	(73,598)	(26,029)	31,599

Notes to the Accounts

continued

3. Particulars of business written *continued*

2013

	Gross premiums written £'000	*Gross premiums earned £'000*	*Gross claims incurred £'000*	*Gross operating expenses* £'000*	*Reinsurance balance £'000*	*Total £'000*
Direct insurance:						
Motor (other classes)	2,132	1,899	(378)	(794)	(109)	618
Marine, aviation and transport	37,606	38,572	(17,723)	(12,869)	(7,968)	12
Energy	35,231	37,511	(11,010)	(13,973)	(8,105)	4,423
Fire and other damage to property	95,511	94,919	(40,430)	(35,550)	(14,386)	4,553
Third party liability	2,108	2,286	(344)	(1,562)	642	1,022
Pecuniary loss	262	262	14	(77)	(1)	198
	172,850	175,449	(69,871)	(64,825)	(29,927)	10,826
Reinsurance acceptances:						
Fire and other damage to property	33,681	36,148	(11,986)	(9,393)	(6,787)	7,982
Marine, aviation and transport	15,936	15,660	(10,087)	(6,071)	1,767	1,269
Energy	12,879	14,474	(3,275)	(4,528)	(342)	6,329
Other	3,202	843	(761)	(1,130)	96	(952)
	65,698	67,125	(26,109)	(21,122)	(5,266)	14,628
	238,548	242,574	(95,980)	(85,947)	(35,193)	25,454

All premiums were concluded in the UK.

Reinsurance balance includes reinsurance commission receivable.

*Gross operating expenses are the same as net operating expenses shown in the profit and loss account, as no commissions in respect of outward reinsurance were set off in arriving at the net operating expenses.

Net assets are not managed by reference to the classes shown above and so no allocation of net assets or net technical provisions is shown.

Geographical analysis by destination

	Gross written premiums 2014 £'000	*2013 £'000*
UK	49,713	41,678
EU	13,821	12,260
Other	154,168	184,610
	217,702	238,548

4. Movement in prior year's provision for claims outstanding

An overall improvement of £1,922,000 on prior year's provisions was experienced during the year. An improvement of £5,890,000 on reinsurance acceptances was partially offset by deteriorations of £1,621,000 on marine, aviation and transport and £2,094,000 on fire and other damage to property.

(2013: An overall improvement of £10,619,000 on prior year's provisions was experienced during the year. Improvements of £1,609,000 on marine, aviation and transport and £8,778,000 on fire and other damage to property accounted for almost all this improvement.)

5. Net operating expenses

	2014 £'000	2013 £'000
Acquisition costs	65,048	65,459
Change in deferred acquisition costs	(132)	406
Administrative expenses	15,969	13,915
Exchange (profit)/loss	(7,287)	6,167
	73,598	85,947

Administrative expenses include:

	2014 £'000	2013 £'000
Auditor's remuneration – audit of the syndicate accounts	112	110
– other services pursuant to regulations and Lloyd's byelaws	44	71
Operating lease rentals – office equipment	64	42
– other	5	9
Standard personal expenses	10,061	7,919
Other remuneration paid to auditors:		
Audit of the managing agent's annual accounts	21	32

Total commissions for direct insurance accounted for in the year amounted to £42.6 million (2013: £43.7 million).

6. Staff numbers and costs

All staff are employed by the managing agency. The following amounts were recharged to the syndicate in respect of salary costs:

	2014 £'000	2013 £'000
Wages and salaries	6,855	5,876
Social security costs	946	723
Other pension costs	426	357
	8,227	6,956

The average number of employees employed by the managing agency but working for the syndicate during the year was as follows:

	2014 Number	2013 Number
Administration and finance	19	17
Underwriting	20	18
Underwriting support	19	16
Claims	7	7
	65	58

7. Emoluments of the directors of ASML and the active underwriter

ASML charged the syndicate the following amounts in respect of emoluments paid to its directors, including the active underwriter of the syndicate:

	2014	*2013*
	£'000	*£'000*
Emoluments	1,077	970

8. Active underwriter's emoluments

The following aggregate remuneration was charged to the syndicate in respect of the active underwriter:

	2014	*2013*
	£'000	*£'000*
Emoluments	266	278

9. Investment income

	2014	*2013*
	£'000	*£'000*
Income from investments	2,322	3,213
Gains on realisation of investments	179	460
	2,501	3,673

10. Investment expenses and charges

	2014	*2013*
	£'000	*£'000*
Investment management expenses, including interest	(122)	(189)
Losses on realisation of investments	(643)	(875)
	(765)	(1,064)

11. Financial investments

	2014		2013	
	Cost	Market value	Cost	Market value
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	107,280	105,564	69,348	69,561
Debt securities and other fixed income securities	118,760	118,496	117,491	116,952
Loans secured by mortgages	7,453	7,498	10,955	10,942
Other investments	71	73	5	26
	233,564	231,631	197,799	197,481

The breakdown of investments by currency is set out below:

Year ended 31 December 2014	US dollar	Canadian dollar	Other	Total converted
	US$'000	Can$'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	86,511	2,512	48,720	105,564
Debt securities and other fixed income securities	163,477	12,092	7,022	118,496
Loans secured by mortgages	10,602	–	702	7,498
Other investments	114	–	–	73
	260,704	14,604	56,444	231,631

Year ended 31 December 2013	US dollar	Canadian dollar	Other	Total converted
	US$'000	Can$'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	49,953	3,517	37,471	69,561
Debt securities and other fixed income securities	169,245	12,660	7,804	116,952
Loans secured by mortgages	17,050	–	671	10,942
Other investments	44	–	–	26
	236,292	16,177	45,946	197,481

By market value, 79% of shares and other variable yield securities and units in unit trusts, and 56% of debt securities and other fixed income securities, are listed on recognised stock exchanges. The shares and other variable yield securities and units in unit trusts relate to holdings in highly diversified collective investment schemes, which include an element of low volatility absolute return funds managed in accordance with the UCITS regulations. Other investments relate to rights under derivative contracts where the syndicate purchases US Treasury interest rate futures to efficiently manage the duration of the investment porfolio.

Notes to the Accounts

continued

12. Debtors arising out of direct insurance operations

	2014 £'000	2013 £'000
Amounts falling due within one year – intermediaries	36,320	42,901
Amounts falling due after one year – intermediaries	53	85
	36,373	42,986

13. Debtors arising out of reinsurance operations

	2014 £'000	2013 £'000
Amounts falling due within one year	17,871	24,790
Amounts falling due after one year	37	14
	17,908	24,804

14. Other assets – other

	2014 £'000	2013 £'000
Amounts advanced in Illinois, USA as a condition of carrying on business there	641	668
Amounts advanced in Australia, South Africa and other countries as a condition of carrying on business there	12,040	19,081
	12,681	19,749

15. Reconciliation of members' balances

	2014 £'000	2013 £'000
Members' balances brought forward at 1 January	26,465	(8,618)
Profit for the financial year	33,501	27,471
Members' agents' fees	(1,150)	(1,145)
Transfers (to)/from members' personal reserve funds	(16,619)	8,757
Members' balances carried forward at 31 December	42,197	26,465

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

15. Reconciliation of members' balances *continued*

Transfers to members' personal reserve funds relate to transfers of £7,626,000 in respect of the 2011 year of account and £8,993,000 in respect of the 2012 year of account. (2013: transfer from members' personal reserve funds of £8,757,000 in respect of the 2010 year of account.)

16. Creditors arising out of direct insurance operations

	2014	*2013*
	£'000	*£'000*
Amounts falling due within one year	2,060	2,106
Amounts falling due after one year	3	–
	2,063	2,106

17. Creditors arising out of reinsurance operations

	2014	*2013*
	£'000	*£'000*
Amounts falling due within one year	12,709	15,484

18. Movement in opening and closing portfolio investments net of financing

	2014 *£'000*	*2013* *£'000*
Net cash (outflow)/inflow from the year	(212)	751
Cash flow – portfolio investments	13,862	7,833
Increase/(decrease) in deposits with ceding undertakings	57	(5)
Movement arising from cash flows	13,707	8,579
Changes in market value and exchange rates	13,208	(3,348)
Total movement in portfolio investments net of financing	26,915	5,231
Balance brought forward at 1 January	218,782	213,551
Balance carried forward at 31 December	245,697	218,782

	At 1 January 2014 *£'000*	*Cash flow* *£'000*	*Changes to market value and currencies* *£'000*	*At 31 December 2014* *£'000*
Cash at bank and in hand	1,535	(212)	(16)	1,307
Overseas deposits	19,749	(7,181)	113	12,681
Shares and other variable yield securities and units in unit trusts	69,561	33,002	3,001	105,564
Debt securities and other fixed income securities	116,952	(8,176)	9,720	118,496
Loans secured by mortgages and other loans	10,942	(3,827)	383	7,498
Other investments	26	44	3	73
Total portfolio investments	217,230	13,862	13,220	244,312
Deposits with ceding undertakings	17	57	4	78
	218,782	13,707	13,208	245,697

19. Net cash outflow on portfolio investments

	2014 *£'000*	*2013* *£'000*
Purchase of shares and other variable yield securities and units in unit trusts	33,015	25,288
Purchase of debt securities and other fixed income securities	133,162	150,416
Purchase/(sale) of loans secured by mortgages and other loans	(3,827)	3
Purchase/(sale) of overseas deposits	(7,181)	(965)
Other investments	44	–
Sale of shares and other variable yield securities and units in unit trusts	(13)	(180)
Sale of debt securities and other fixed income securities	(141,338)	(166,729)
Net cash outflow on portfolio investments	13,862	7,833

20. Related parties

Argenta Holdings plc

ASML is a wholly owned subsidiary of AHP which owns 100% of the voting and economic rights of ASML. AHP is regarded by ASML as its ultimate parent and is also the parent undertaking of the smallest and largest group to consolidate the financial statements of ASML. Copies of the accounts for AHP can be obtained from Companies House.

AHP is controlled by Glenrinnes Farms Ltd, RBC cees Trustee Ltd as trustee of the Argenta Employee Benefit Trust and Wren Properties Ltd, who own 44.75%, 25% and 25% of the economic and voting rights in the company respectively. Mr Alasdair Locke is a 99% controller of Glenrinnes Farms Ltd and up until 2014 owned this shareholding directly. Mr Malcolm Robinson is a 50% controller of Wren Properties Ltd.

AHP and its related parties provide certain underwriting, administrative, accounting, human resource and information technology services to ASML. These services are provided on a non-profit making basis by way of inter-group cross charges and direct salary charges.

Argenta Tax & Corporate Services Ltd (ATCSL), an AHP group company, provides taxation services to the syndicate. Fees are agreed on a commercial basis and the profit to ATCSL generated from providing these services is, as in 2013, less than £1,000.

AUA, a subsidiary of AHP, is a service company approved by Lloyd's and the Monetary Authority of Singapore to operate on the Lloyd's Asia platform. Syndicate 2121 utilises this service company as a coverholder to bind risks on its behalf. Such services are provided at cost plus a small profit margin of 5% mainly for tax reasons. The total value of the margin is less than £40,000 for 2014 (2013: £40,000).

Other than by virtue of salaries and other related remuneration in respect of their employment by AHP or its related parties, and any potential future investment earnings or growth in capital value arising from their shareholding, none of the directors, officers, shareholders or related parties concerned, derive any personal benefit from the arrangements that exist.

Business transactions

Mr Mumford is a director of another Lloyd's managing agency, Marketform Managing Agency Ltd.

Mr Whiter is chairman of Lloyd's broker CGNMB LLP and a director of its parent company, Cooper Gay Swett & Crawford Ltd.

Mr White is a director of Lloyd's broker Marine Aviation & General (London) Ltd.

Mr Newbery is a director of Lloyd's broker Tyser & Co Ltd, a member of the board of underwriting agency Aquila Underwriting LLP, and a director of Hawkes Bay Holdings Ltd, the parent company of both entities.

The above entities may in the past have transacted business with syndicates managed by ASML and may do so in the future. Any such business, however, has been and will continue to be, conducted on an arm's length commercial basis with no involvement, either directly or indirectly, from the individuals above.

Other than directorship fees, salaries and other related remuneration, no personal benefit is derived by the individuals concerned from these arrangements.

Total fees payable to ASML in respect of services provided to the syndicate amounted to £1.8 million (2013: £1.5 million). Profit commission is only due on closure of the year of account though managing agents may receive payments on account of anticipated profit commissions in line with interim profits released to members. During 2014, profit commission of £211,000 (2013: £Nil) was paid to ASML.

Notes to the Accounts
continued

20. Related parties *continued*

Mr Annandale is a director of AUA; Mr Hunt was a director of AUA until his resignation on 31 January 2014; and Mr Maguire was appointed as a director of AUA on 3 June 2014. AUA receives a commission on business accepted under a binding authority granted to it by Syndicate 2121. Commissions payable by the syndicate to AUA in the year were set at a level equivalent to the cost incurred by AUA in providing these services to the syndicate plus a small profit margin of 5%. The total commissions payable were £758,000 (2013: £751,000).

Syndicate 2121 participated in the reinsurance programme purchased by Syndicate 1965 for the period 1 April 2012 to 31 March 2013 to the extent of a 7.5% share of a policy protecting against non-marine and marine catastrophe losses on an excess of loss basis. The reinsurance premium paid to Syndicate 2121 is US$0.5 million and covers losses in excess of US$3 million to a maximum value of US$50 million.

Syndicate 2121 also participated in the reinsurance programme purchased by Syndicate 1965 for the period 1 April 2013 to 31 December 2013 to the extent of a 7.5% share of a policy protecting against non-marine and marine catastrophe losses on an excess of loss basis. The reinsurance premium payable to Syndicate 2121 is US$0.1 million and covers losses in excess of US$3 million to a maximum value of US$18 million.

Syndicate 2121 was not the lead syndicate on the policies concerned and followed the terms and conditions set by the leader, including the premium payable, in all regards.

Capital support for Syndicate 2121

Messrs Annandale, White and Williams are directors of Argenta Private Capital Limited (APCL) a subsidiary of AHP.

Mr Tucker was a director of APCL until his resignation on 31 July 2012.

Mr Tucker is also a director of BHC Winton Underwriting III Ltd, Celeiros Ltd, Kemah Lime Street Capital Ltd, Kling Investment Ltd, Nidarich Ltd and Rechter Underwriting Ltd, all corporate members.

APCL allocates capacity to Syndicate 2121 for the 2012 to 2015 years of account. Rechter Underwriting Ltd allocates capacity to Syndicate 2121 for the 2012 to 2015 years of account. BHC Winton Underwriting III Ltd allocates capacity to Syndicate 2121 for the 2012 year of account. Kling Investment Ltd allocates capacity to Syndicate 2121 for the 2012 to 2015 years of account. Celeiros Ltd allocates capacity to Syndicate 2121 for the 2012 to 2015 years of account, Kemah Lime Street Capital Limited allocates capacity to Syndicate 2121 for the 2012 to 2015 years of account and Nidarich Ltd allocates capacity to Syndicate 2121 for the 2012 to 2015 years of account.

Mr Tucker is also a director of Fifteen B Limited, which is a member of Alizadeh Underwriting LLP that allocates capacity to Syndicate 2121 for the 2014 and 2015 years of account.

Mr Annandale is or was a director of the following corporate members:

Argenta Underwriting No. 2 Limited (AU2)
Argenta Underwriting No. 3 Limited (AU3)
Argenta Underwriting No. 8 Limited (AU8)
Argenta Underwriting No. 9 Limited (AU9)
Argenta Underwriting No. 10 Limited (AU10)
Argenta Underwriting No. 11 Limited (AU11)
Argenta Underwriting No. 12 Limited (AU12)
Ransome’s Underwriting Ltd (resigned 3 April 2014)

20. Related parties *continued*

In relation to Syndicate 2121: AU2, AU3, AU8 and AU9 participate on the 2012 to 2015 years of account. AU10 and AU11 participate on the 2013 to 2015 years of account. AU12 participates on the 2014 and 2015 years of account. Ransome's Underwriting Ltd participates on the syndicate for the 2012 to 2015 years of account.

Other than directorship fees, salaries and other related remuneration and any potential future investment earnings or growth in capital value arising from shareholdings in the Lloyd's corporate members, no personal benefit is derived by the individuals concerned from these arrangements.

Mr Alasdair Locke is a director of and, via his company Glenrinnes Farms Ltd, a shareholder in AHP. Glenrinnes Farms Ltd provides capital to AU2, AU3 and AU9 for the 2012 to 2015 years of account on an excess basis through a Funds at Lloyd's Provider's Agreement. Glenrinnes Farms Ltd also participates on AU3 on a pro-rata basis for each of the 2012 to 2015 years of account. Each corporate member in turn provides capital to Syndicate 2121 for each of the 2012 to 2015 years of account. As part of the consideration for the provision of all such capital by Glenrinnes Farms Ltd, it has been granted an option by AHP and its shareholders to acquire £98.5 million of Syndicate 2121 capacity (previously this was an option over the entire issued share capital of AU2, AU3, AU9 and AU11). The option may be exercised at any time up until November 2018. It is conditional upon, principally, Lloyd's change of control approval. Mr Locke derives no personal benefit from these arrangements other than a fee or a proportionate share of the underwriting result of the corporate members to which he is contractually entitled through his Glenrinnes Farms Ltd participation.

All capital providers who underwrite on Syndicate 2121 are charged managing agency fees and profit commission on a standard basis as disclosed in the Register of Underwriting Agency Charges.

There are no other transactions or arrangements to be disclosed.

21. Funds at Lloyd's

In case syndicate assets prove insufficient to meet members' underwriting liabilities, every member is required to hold additional capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL).

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. FAL is not hypothecated to any specific syndicate participation by a member. Therefore there are no specific funds available to a syndicate which can be precisely identified as its capital. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

SYNDICATE 2121

UNDERWRITING YEAR ACCOUNTS

AS AT 31 DECEMBER 2014

2012 YEAR OF ACCOUNT

CLOSED

Statement of Managing Agent's Responsibilities

The 2008 Regulations require the managing agent to prepare syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the underwriting year accounts.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the 2008 Regulations and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). It is 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.

Independent Auditor's Report to the Members of Syndicate 2121 – 2012 closed year of account

We have audited the syndicate underwriting year accounts for the 2012 year of account of Syndicate 2121 for the three years ended 31 December 2014 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Cash Flows, the related notes 1 to 19 and the Statement of Managing Agent's Responsibilities. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 41, the managing agent is responsible for the preparation of the syndicate underwriting year accounts, under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate underwriting year accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate underwriting year accounts. In addition, we read all the financial and non-financial information in the Report and Underwriting Year Accounts to identify material inconsistencies with the audited underwriting year accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on syndicate underwriting year accounts

In our opinion the syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2012 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) requires us to report to you if, in our opinion:

- the managing agent in respect of the syndicate has not kept proper accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

Ernst & Young LLP

Michael Purrington (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

16 March 2015

Profit and Loss Account Year 2012

closed at the end of the third year at 31 December 2014

Technical account – general business

	Notes	£'000	*Cumulative balance at 31 December 2014* £'000
Syndicate allocated capacity			199,831
Earned premiums, net of reinsurance			
Gross premiums written	3		252,325
Outward reinsurance premiums			(47,974)
			204,351
Reinsurance to close premiums received, net of reinsurance			82,746
			287,097
Allocated investment return transferred from the non-technical account			2,168
Claims incurred, net of reinsurance			
Gross claims paid		(137,853)	
Reinsurers' share		45,770	
		(92,083)	
Reinsurance to close premiums payable, net of reinsurance	5	(85,441)	
			(177,524)
Net operating expenses	6		(84,717)
Balance on the technical account for general business			27,024

Non-technical account

	Notes	*Cumulative balance at 31 December 2014 £'000*
Balance on the general business technical account		27,024
Investment income	8	3,195
Unrealised gains on investments		604
Investment expenses and charges	9	(861)
Unrealised losses on investments		(770)
Allocated investment return transferred to general business technical account		(2,168)
Result for the closed year of account	14	27,024

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts.

Balance Sheet

as at 31 December 2014

	Notes	*2014* £'000	£'000
ASSETS			
Investments	10		107,853
Deposits with ceding undertakings			4
Debtors			
Debtors arising out of direct insurance operations	11	1,011	
Debtors arising out of reinsurance operations	12	6,275	
Other debtors		927	
			8,213
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account			44,597
Other assets			
Cash at bank and in hand		566	
Other	13	7,018	
			7,584
Prepayments and accrued income			97
TOTAL ASSETS			168,348
LIABILITIES			
Amounts due to members	14		16,918
Reinsurance to close premiums payable to close the account – gross amount			125,968
Creditors			
Creditors arising out of direct insurance operations	15	1,419	
Creditors arising out of reinsurance operations	16	8,509	
Other creditors including taxation and social security		14,973	
			24,901
Accruals and deferred income			561
TOTAL LIABILITIES			168,348

The syndicate underwriting year accounts on pages 44 to 58 were approved by the Board of Argenta Syndicate Management Limited on 16 March 2015 and were signed on its behalf by

Andrew J Annandale
Managing Director

Statement of Cash Flows

for the 36 months ended 31 December 2014

	Notes	2014 £'000
Reconciliation of profit to net cash inflow from operating activities		
Profit for the closed year of account		27,024
Realised and unrealised investment profits including foreign exchange		(3,901)
Increase in technical provisions		81,371
Increase in debtors		(8,213)
Increase in prepayments and accrued income		(97)
Increase in creditors		24,901
Increase in accruals and deferred income		561
Net cash inflow from operating activities		121,646
Continuous solvency transfer		(8,993)
Members' agents' fees paid on behalf of members		(1,113)
	17	111,540
Cash flows were invested as follows:		
Increase in cash holdings	17	564
Increase in deposits with ceding undertakings	17	4
Net portfolio investment	18	110,972
Net investment of cash flows		111,540

Notes to the Accounts

1. Basis of preparation

The syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") and in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable accounting standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 as revised in December 2006, ("the ABI SORP"), except as follows. Exchange gains and losses have been included in the technical account as they are considered to arise only in respect of technical account transactions. The ABI SORP recommends that they should be included in the non-technical account.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2012 year of account which has been closed by reinsurance to close at 31 December 2014; consequently the balance sheet represents the assets and liabilities of the 2012 year of account, and the profit and loss account and cash flow statement reflect the transactions for that year of account during the 36 month period until closure.

As each syndicate year of account is a separate annual venture, there are no comparative figures.

2. Accounting policies

Underwriting transactions

(a) The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

(b) The reinsurance to close premium is determined by reference to the outstanding technical provisions (including those for outstanding claims, unearned premiums net of deferred acquisition costs, and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured within) to the members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

(c) Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet notified to the syndicate year of account.

Premiums written are treated as fully earned.

Outwards reinsurance premiums ceded are attributed to the same year as the original risk being protected.

(d) Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

2. Accounting policies *continued*

(e) Outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters, and previous experience of the cost of settling claims with similar characteristics. The amount included in respect of IBNR is based on statistical techniques of estimation applied by syndicate staff and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The provision for claims includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

The syndicate uses a number of statistical techniques to assist in making the above estimates.

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. The methods used, and the estimates made, are reviewed regularly.

(f) Investments and investment return

Investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year on all the syndicate's investments is allocated to open years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the end of the previous calendar year, together with the reversal of unrealised gains and losses recognised in earlier calendar years in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

Investments are stated at current value at the balance sheet date. For this purpose listed investments and overseas deposits are stated at bid-price value and deposits with credit institutions are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date.

2. Accounting policies *continued*

(g) Syndicate operating expenses

Costs incurred by the managing agent in respect of the syndicate are charged to the syndicate and included within the relevant profit and loss account heading. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

Where expenses are incurred jointly by the managing agent and the syndicate, they are apportioned generally based on time spent, estimated utilisation or head count.

The franchise performance and risk management charge to the extent that this is levied by Lloyd's is considered to arise solely in respect of the day to day transaction of underwriting business at Lloyd's. This is therefore allocated to managed syndicates based on their written premium in that year.

The managing agent operates a defined contribution pension scheme and its recharges to the syndicate in respect of salaries and related costs include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

Amounts recharged by the managing agent include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

(h) 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 members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue and Customs.

No provision has been made for any United States Federal Income Tax or any overseas tax payable on the underwriting results or investment earnings.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

(i) Basis of currency translation

Income and expenditure in US dollars, Canadian dollars and euros are translated at the rate of exchange at the date of the transaction or at an approximate average rate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities are re-translated into sterling at the rate of exchange at the balance sheet date unless contracts to sell currency for sterling have been entered into prior to the year end, in which case the contracted rates are used. Non-monetary assets and liabilities at the balance sheet date are maintained at the rate of exchange ruling when the transaction was entered into (or the approximate average rate).

Although transactions are translated as described above, the final result for the year is calculated with US dollars, Canadian dollars and euros translated at the balance sheet rates of exchange.

2. Accounting policies *continued*

Differences arising on the re-translation of foreign currency amounts are included in the technical account under "net operating expenses".

Where US dollars, Canadian dollars or euros are sold or bought relating to the profit or loss of a closed underwriting account after 31 December, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured.

(j) Profit commission

Profit commission is charged by the managing agent for the 2012 year of account at a rate of 17.5% of profit, subject to the operation of a deficit clause. Where profit commission is charged, it is included within members' standard personal expenses within administrative expenses. Profit commission does not become payable until after the appropriate year of account closes, normally at 36 months, although the managing agent may receive payments on account of anticipated profit commissions in line with interim profits released to members.

3. Particulars of business written

2012 year of account after three years

Type of business

An analysis of the technical account balance before investment return is set out below:

	Gross premiums written and earned £'000	*Gross claims incurred £'000*	*Gross operating expenses £'000*	*Reinsurance balance £'000*	*Total £'000*
Direct insurance:					
Marine, aviation and transport	70,470	(35,874)	(22,813)	(4,993)	6,790
Fire and other damage to property	112,673	(66,887)	(34,813)	(3,051)	7,922
Other	1,675	(984)	(872)	(349)	(530)
	184,818	(103,745)	(58,498)	(8,393)	14,182
Reinsurance accepted	150,253	(154,250)	(26,219)	40,890	10,674
	335,071	(257,995)	(84,717)	32,497	24,856

*Reinsurance acceptances include the reinsurance to close premium of £82,746,000 received from the 2011 year of account.

All premiums were concluded in the UK.

Net assets are not managed by reference to the classes shown above and so no allocation of net assets or net technical provisions is shown.

Geographical analysis by destination

	Gross written premiums £'000
UK	46,337
EU	21,755
Other	266,979
	335,071

Notes to the Accounts

continued

4. Analysis of underwriting result

	2011 and prior years of account £'000	*2012 pure year of account £'000*	*Total 2012 year of account £'000*
Technical account balance before allocated investment return and net operating expenses	1,821	107,752	109,573
Acquisition costs	402	(68,349)	(67,947)
	2,223	39,403	41,626

5. Reinsurance to close premiums payable net of reinsurance

	Reported £'000	*IBNR £'000*	*Total £'000*
Gross outstandings	82,759	37,383	120,142
Reinsurance recoveries anticipated	(31,266)	(3,435)	(34,701)
	51,493	33,948	85,441

All amounts are stated at the rate of exchange at the date of the transaction or an approximate average rate.

6. Net operating expenses

	2014 £'000
Acquisition costs	67,947
Administrative expenses	13,763
Exchange losses	3,007
	84,717

The closed year loss is stated after charging:	
Auditors' remuneration – audit services	111
Personal expenses	8,653
Operating lease rentals – office equipment	39
Operating lease rentals – other	12

7. Staff numbers and costs

All staff are employed by the managing agency. The following amounts were recharged to the syndicate in respect of salary costs:

	2014 £'000
Wages and salaries	4,940
Social security costs	612
Other pension costs	345
	5,897

7. Staff numbers and costs *continued*

The average number of employees employed by the managing agency but working for the syndicate during the period was as follows:

	2014 Number
Administration and finance	16
Underwriting	21
Underwriting support	14
Claims	3
	54

The aggregate remuneration charged to the syndicate in respect of emoluments paid to the directors of ASML and the active underwriter was £835,000. This includes £264,000 that relates to the active underwriter.

8. Investment income

	2014 £'000
Income from investments	2,939
Gains on realisation of investments	256
	3,195

9. Investment expenses and charges

	2014 £'000
Investment management expenses	(170)
Losses on realisation of investments	(691)
	(861)

10. Investments

	Market value 2014 £'000
Shares and other variable yield securities and units in unit trusts	49,934
Debt securities and other fixed income securities	54,530
Loans secured by mortgages	3,361
Other investments	28
	107,853

Other investments relate to rights under derivative contracts where the syndicate purchases US Treasury interest rate futures to efficiently manage the duration of the investment porfolio.

By market value, approximately 79% of shares and other variable yield securities and units in unit trusts, and approximately 56% of debt securities and other fixed income securities, are listed on recognised stock exchanges.

Notes to the Accounts
continued

11. Debtors arising out of direct insurance operations

	2014
	£'000
Amounts falling due within one year – intermediaries	998
Amounts falling due after one year – intermediaries	13
	1,011

12. Debtors arising out of reinsurance operations

	2014
	£'000
Amounts falling due within one year	6,275

13. Other assets – other

	2014
	£'000
Amounts advanced in Illinois USA as a condition of carrying on business there	372
Amounts advanced in Australia, South Africa and other countries as a condition of carrying on business there	6,646
	7,018

14. Amounts due to members

	2014
	£'000
Profit for the closed year of account	27,024
Members' agents' fee advances	(1,113)
Continuous solvency transfers	(8,993)
	16,918

15. Creditors arising out of direct insurance operations

	2014
	£'000
Amounts falling due within one year	1,416
Amounts falling due after one year	3
	1,419

16. Creditors arising out of reinsurance operations

	2014
	£'000
Amounts falling due within one year	8,509

17. Movement in opening and closing portfolio investments net of financing

	2014 £'000
Net cash inflow for the period	564
Cash flow – portfolio investments	110,972
Increase in deposits with ceding undertakings	4
Movement arising from cash flows	111,540
Changes in market value and exchange rates	3,901
Total movement in portfolio investments net of financing	115,441
Balance brought forward at 1 January 2012	–
Balance carried forward at 31 December 2014	115,441

	At 1 January 2012 £'000	Cash flow £'000	Changes to market value and currencies £'000	At 31 December 2014 £'000
Cash at bank and in hand	–	564	2	566
Overseas deposits	–	6,899	119	7,018
Shares and other variable yield securities and units in unit trusts	–	48,859	1,075	49,934
Debt securities and other fixed income securities	–	51,981	2,549	54,530
Loans secured by mortgages	–	3,207	154	3,361
Other investments	–	26	2	28
Total portfolio investments	–	110,972	3,899	114,871
Deposits with ceding undertakings	–	4	–	4
	–	111,540	3,901	115,441

18. Net cash outflow on portfolio investments

	2014 £'000
Purchase of shares and other variable yield securities and units in unit trusts	48,864
Purchase of debt securities and other fixed income securities	115,462
Purchase of loans secured by mortgages and other loans	3,207
Purchase of overseas deposits	6,899
Other investments	26
Sale of shares and other variable yield securities and units in unit trusts	(5)
Sale of debt securities and other fixed income securities	(63,481)
Net cash outflow on portfolio investments	110,972

19. Related parties

Argenta Holdings plc

ASML is a wholly owned subsidiary of AHP which owns 100% of the voting and economic rights of ASML. AHP is regarded by ASML as its ultimate parent and is also the parent undertaking of the smallest and largest group to consolidate the financial statements of ASML. Copies of the accounts for AHP can be obtained from Companies House.

AHP is controlled by Glenrinnes Farms Ltd, RBC cees Trustee Ltd as trustee of the Argenta Employee Benefit Trust and Wren Properties Ltd, who own 44.75%, 25% and 25% of the economic and voting rights in the company respectively. Mr Alasdair Locke is a 99% controller of Glenrinnes Farms Ltd and up until 2014 owned this shareholding directly. Mr Malcolm Robinson is a 50% controller of Wren Properties Ltd.

AHP and its related parties provide certain underwriting, administrative, accounting, human resource and information technology services to ASML. These services are provided on a non-profit making basis by way of inter-group cross charges and direct salary charges.

Argenta Tax & Corporate Services Ltd (ATCSL), an AHP Group company, provides taxation services to the syndicate. Fees are agreed on a commercial basis and the profit to ATCSL generated from providing these services is less than £1,000.

AUA, a subsidiary of AHP, is a service company approved by Lloyd's and the Monetary Authority of Singapore to operate on the Lloyd's Asia platform. Syndicate 2121 utilises this service company as a coverholder to bind risks on its behalf. Such services have been provided at cost plus a small profit margin of 5% mainly for tax reasons. The total value of the margin is less than £40,000.

Other than by virtue of salaries and other related remuneration in respect of their employment by AHP or its related parties, and any potential future investment earnings or growth in capital value arising from their shareholding, none of the directors, officers, shareholders or related parties concerned, derive any personal benefit from the arrangements that exist.

Business transactions

Mr Mumford is a director of another Lloyd's managing agency, Marketform Managing Agency Ltd.

Mr Whiter is chairman of Lloyd's broker CGNMB LLP and a director of its parent company, Cooper Gay Swett & Crawford Ltd.

Mr White is a director of Lloyd's broker Marine Aviation & General (London) Ltd.

Mr Newbery is a director of Lloyd's broker Tyser & Co Ltd, a member of the board of underwriting agency Aquila Underwriting LLP, and a director of Hawkes Bay Holdings Ltd, the parent company of both entities.

The above entities may in the past have transacted business with syndicates managed by ASML and may do so in the future. Any such business, however, has been and will continue to be, conducted on an arm's length commercial basis with no involvement, either directly or indirectly, from the individuals above.

Other than directorship fees, salaries and other related remuneration, no personal benefit is derived by the individuals concerned from these arrangements.

Total fees and profit commission payable to ASML in respect of its role as managing agent of the 2012 year of account amounted to £1.5 million and £5.7 million respectively.

19. Related parties *continued*

Mr Annandale is a director of AUA. Mr Hunt was a director of AUA until his resignation on 31 January 2014. Mr Maguire was appointed as a director of AUA on 3 June 2014. AUA receives a commission on business accepted under a binding authority granted to it by Syndicate 2121. Commissions payable by the syndicate to AUA for the 2012 year of account were set at a level equivalent to the cost incurred by AUA in providing these services to the syndicate plus a small profit margin of 5%. The total commissions payable for the 2012 year of account were £0.7 million.

Syndicate 2121 participated in the reinsurance programme purchased by Syndicate 1965 for the period 1 April 2012 to 31 March 2013 to the extent of a 7.5% share of a policy protecting against non-marine and marine catastrophe losses on an excess of loss basis. The reinsurance premium payable to Syndicate 2121 is US$0.5 million and covers losses in excess of US$3 million to a maximum value of US$50 million. Syndicate 2121 was not the lead syndicate on the policy concerned and followed the terms and conditions set by the leader, including the premium payable, in all regards.

Capital support for Syndicate 2121

Messrs Annandale, White and Williams are directors of Argenta Private Capital Limited (APCL), a subsidiary of AHP.

Mr Tucker was a director of APCL until his resignation on 31 July 2012.

Mr Tucker is also a director of BHC Winton Underwriting III Ltd, Celeiros Ltd, Kemah Lime Street Capital Ltd, Kling Investment Ltd, Nidarich Ltd and Rechter Underwriting Ltd, all corporate members.

APC allocates capacity to Syndicate 2121 for the 2012 to 2015 years of account. Rechter Underwriting Ltd allocates capacity to Syndicate 2121 for the 2012 to 2015 years of account. BHC Winton Underwriting III Ltd allocates capacity to Syndicate 2121 for the 2012 year of account. Kling Investment Ltd allocates capacity to Syndicate 2121 for the 2012 to 2015 years of account. Celeiros Ltd allocates capacity to Syndicate 2121 for the 2012 to 2015 years of account, Kemah Lime Street Capital Limited allocates capacity to Syndicate 2121 for the 2012 to 2015 years of account and Nidarich Ltd allocates capacity to Syndicate 2121 for the 2012 to 2015 years of account.

Mr Annandale is or was a director of the following corporate members:

Argenta Underwriting No. 2 Limited (AU2)
Argenta Underwriting No. 3 Limited (AU3)
Argenta Underwriting No. 8 Limited (AU8)
Argenta Underwriting No. 9 Limited (AU9)
Argenta Underwriting No. 10 Limited (AU10)
Argenta Underwriting No. 11 Limited (AU11)
Argenta Underwriting No. 12 Limited (AU12)
Ransome's Underwriting Ltd (resigned 3 April 2014)

In relation to Syndicate 2121: AU2, AU3, AU8 and AU9 participate on the 2012 to 2015 years of account. AU10 and AU11 participate on the 2013 to 2015 years of account. AU12 participates on the 2014 and 2015 years of account. Ransome's Underwriting Ltd participates on the syndicate for the 2012 to 2015 years of account.

Other than directorship fees, salaries and other related remuneration and any potential future investment earnings or growth in capital value arising from shareholdings in the Lloyd's corporate members, no personal benefit is derived by the individuals concerned from these arrangements.

19. Related parties *continued*

Mr Alasdair Locke is a director of and, via his company Glenrinnes Farms Ltd, a shareholder in AHP. Glenrinnes Farms Ltd provides capital to AU2, AU3 and AU9 for the 2012 to 2015 years of account on an excess basis through a Funds at Lloyd's Provider's Agreement. Glenrinnes Farms Ltd also participates on AU3 on a pro-rata basis for each of the 2012 to 2015 years of account. Each corporate member in turn provides capital to Syndicate 2121 for each of the 2012 to 2015 years of account. As part of the consideration for the provision of all such capital by Glenrinnes Farms Ltd, it has been granted an option by AHP and its shareholders to acquire £98.5 million of Syndicate 2121 capacity (previously this was an option over the entire issued share capital of AU2, AU3, AU9 and AU11). The option may be exercised at any time up until November 2018. It is conditional upon, principally, Lloyd's change of control approval. Mr Locke derives no personal benefit from these arrangements other than a fee or a proportionate share of the underwriting result of the corporate members to which he is contractually entitled through his Glenrinnes Farms Ltd participation.

All capital providers who underwrite on Syndicate 2121 are charged managing agency fees and profit commission on a standard basis as disclosed in the Register of Underwriting Agency Charges.

There are no other transactions or arrangements to be disclosed.

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