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Argenta

Argenta Syndicate Management Limited
Syndicate 2121

Report, Annual Accounts and Underwriting Year Accounts

as at 31 December 2017

Argenta Syndicate Management Limited
Company Information

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Contents of Report and Accounts

Managing Agent's Report

The directors of Argenta Syndicate Management Limited ("ASML"), a company registered in England and Wales, present their report for the year ended 31 December 2017.

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 year 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 2015 year of account which has been reinsured to close with effect from 31 December 2017.

The financial reporting framework that has been applied is United Kingdom Generally Accepted Accounting Practice ("UK GAAP") including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102") and Financial Reporting Standard 103 'Insurance Contracts' ("FRS 103").

Principal activity

There has been no change during the year to the syndicate's principal activity which continues to be the transaction of general insurance and reinsurance business.

Overview of business

Syndicate 2121 offers specialty insurance and reinsurance products with a focus on a predominantly direct and short tail account across a broad range of marine and non-marine classes of business, although some long tail business is also written. The business, which is underwritten with a worldwide geographical spread, includes property, casualty, marine, energy, terrorism, cyber, international treaty, political risk, credit risk and others, including coverage provided through third party delegated underwriting authorities.

The syndicate operates within the Lloyd's of London ("Lloyd's") insurance market in London and through a service company on the Lloyd's platform in Singapore, Argenta Underwriting Asia Pte Ltd ("AUA"). This service company has a branch office in the central business district of Sydney, Australia and, in 2016, purchased the business of an established managing general agent in the region writing a niche property account. This business had been written by the syndicate on a subscription basis since 2005 and in a lead capacity since 2011 with consistent results that have beaten the business plan average. Since the start of 2016 the syndicate assumed 100% of this account which is now fully integrated with the remainder of the book of business written.

Finally, at the beginning of 2016 the syndicate established a dedicated underwriting division of Lloyd's Insurance Company (China) Limited ("LICCL") based in Shanghai, accessing Chinese domiciled reinsurance business.

The largest book of business continues to be 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 predominantly small commercial and homeowners' business. This account has grown with the Sydney office underwriting Australasian property business both on a delegated authority basis through third party coverholders and on an open market basis. 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 downstream refining risks are not. Marine and energy liabilities, both in conjunction with the physical damage lines and on a standalone basis, are also written. The syndicate has a small international (i.e. non-USA) treaty account split across catastrophe excess of loss and risk excess business. A worldwide casualty book written via Lloyd's approved consortia is written, which also includes a small product recall account and is now in its fifth year of development. An accident and health book covering both sports and general personal accident business was added three years ago, and in 2015 the syndicate started to develop a UK commercial combined book for

Overview of business *continued*
small to medium enterprises which packages property with both employers' and public liability risks. For 2016 the syndicate expanded its cyber book predominantly through participation on another Lloyd's approved consortium and quota share reinsurance placements. Finally, during the last quarter of 2016, a new political risks account writing contract frustration, credit and political risks was added to the portfolio. This account has got off to a good start with support from major banks and trading companies.

For the 2017 year of account the stamp capacity was increased to £300 million, which is in line with the ASML strategic objective to grow Syndicate 2121 and to add new lines of business or aligned distribution sources that are able to deliver profit in a competitive market. This strategy is expected to continue, but will always be subject to market conditions and either the recruitment of high quality underwriters with a proven track record, or through the support of market consortia which have lead expertise.

Review of underwriting activities
On an annual accounting basis, the result of the syndicate for calendar year 2017 is a profit of £14.0 million (combined ratio 96%) with the 2015 and 2016 underwriting years producing profits of £9.3 million and £12.7 million respectively, and 2017 producing a first year loss of £8.0 million. On the traditional Lloyd's basis of reporting, the 2015 year of account has closed with a profit of £12.6 million or 5.3% of capacity, with a pure year loss of 0.1% and a release from the 2014 and prior years of 5.4%.

The table below summarises the capacity, premium volumes and performance of Syndicate 2121 for 2017 alongside comparative numbers for 2016. 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	*2017*	*2016*
Capacity (underwriting year)	£300 million	£270 million
Premiums written gross of commission	£346 million	£281 million
Net premiums earned	£246 million	£217 million
Profit for the year	£14 million	£15 million
Claims ratio (net)	51%	50%
Combined ratio	96%	94%
Cash and investments at 31 December	£247 million	£262 million

The combined ratio is the ratio of net incurred claims plus net operating expenses, together with non-technical foreign exchange differences, to net earned premiums.

The 2017 calendar year saw an exceptional level of natural catastrophes when compared to recent years, with hurricanes Harvey, Irma and Maria; earthquakes in Mexico; wildfires in California; and Cyclone Debbie in Australia combining to make it the third most expensive year on record. According to Swiss Re's insurance research arm Sigma, natural catastrophe and man-made losses in 2017 totalled US$135.6 billion. This is up from US$64.6 billion in 2016 and US$38.5 billion in 2015.

The syndicate's largest natural catastrophe loss was incurred in respect of Hurricane Maria closely followed by Hurricane Irma and to a lesser extent Hurricane Harvey and Cyclone Debbie. It is estimated that these four combined will contribute US$18 million of net loss to the syndicate. This relatively low number reflects the prudent approach taken to the management of aggregates and the continuing strategy of purchasing a comprehensive reinsurance programme to protect against this size of industry loss. The losses from the Mexico earthquake and California wildfires turned out to be negligible for the syndicate.

Review of underwriting activities *continued*

Terms and conditions for 2017 remained very challenging with continued overcapacity across most lines of business. This resulted in the first three quarters providing limited new business and reduced renewal ratios due to continued rate reductions. These were not as bad as first feared and whilst the decision taken in previous years not to support the large broker-led whole account facilities had a further, albeit limited, impact on income, the ability to maintain underwriting discipline and produce a better return more than made up for this. The 2017 combined ratio is testament to this decision.

Since June 2011 the strategy for Syndicate 2121 has been to improve and enhance all classes within the underwriting portfolio. Back then the talk from Lloyd's was of "managing the cycle"; now it is "closing the performance gap". Both of these objectives have been embraced and delivered, with vastly improved results over the last few years following a thorough re-underwriting programme and the controlled addition of new classes to complement the existing portfolio.

Premium rates in many areas of the portfolio continued to fall during the year, albeit at a level slightly below that anticipated on a whole account basis. The overall rate reduction on business that was renewed in 2017 was 2.1% compared to an expected reduction of 2.7% for the syndicate as a whole. This reduction in rates was slightly below the 3.8% witnessed in 2016.

Reductions in income were seen on the property direct and facultative account as US facility business suffered from increased competition following the approval of new vehicles to underwrite this class. This had a negative impact on commission levels to a point, in some cases, where the syndicate was obliged to cease to participate. In respect of the UK insurance class, introduced during 2015, the initial years' expectations were not achieved as the introduction of stricter regulatory reporting requirements had a detrimental impact on the ability of certain coverholders to meet the exacting standards required to operate in the Lloyd's environment. The income from the Singapore and Shanghai platforms was also below expectation, mainly due to the non-renewal of a small number of contracts against a lower expected premium base.

Offsetting these reductions in target premium levels is the new political risks account. The launch of this class coincided with some extremely favourable market conditions that allowed the syndicate to 'cherry-pick' and participate on some larger established policies earlier than anticipated. This, along with a very healthy pipeline of regular commodity trade and bank finance business, has resulted in income predictions being ahead of plan for the period. It has been very much a case of taking advantage of a market which has seen commodity price stability and favourable bank lending conditions creating solid opportunities for the syndicate.

The syndicate has also seen similar growth potential from the Sydney branch office of the Singapore service company. This office is part of the Lloyd's Australia Platform and benefits from the co-location arrangements that exist. The response to the platform's increased presence in the local market has been better than expected with second year momentum being higher than anticipated.

Finally, a new US motor physical damage facility was written as this class is seeing some significant re-rating following the collapse of the US domestic market package products, which has resulted in stand-alone ratings for the individual perils and products offered.

2015 year of account

As previously reported, from a catastrophe perspective 2015 was a benign year although there was an increase in the level of attritional and large loss experience compared with the 2012 to 2014 years. Some of the larger losses in the 2015 year are a cable fire on a Colombian power account; an over-voltage loss on Dynergy; a Californian wildfire; a bearing failure on the Jubilee oilfield in Ghana; flood damage to an energy plant in the utility class; and the explosion at Tianjin Port. The result for a year of account may also be impacted by events in subsequent calendar years prior to its closure.

Review of underwriting activities *continued*

Reserves in respect of the 2014 and prior years of account continue to improve and develop satisfactorily, generating a surplus of £13 million as at 31 December 2017.

As a result of all of the above, the 2015 and prior years of account have produced a profit of 5.3% of stamp capacity.

2016 year of account

The largest loss to impact this year is Hurricane Matthew, with larger non-cat losses for this year including a steam turbine loss from the utility account and an underground blowout loss emanating from the energy account.

Overall premium income was lower than planned with the loss of business to broker-led facilities and pure rate reductions continuing to impact all classes, particularly the treaty, marine cargo and specie, marine liability, energy and terrorism accounts.

Overall the 2016 year of account forecast result is currently developing in line with expectations and in the absence of any further adverse developments is expected to be a profit of up to 7.5% of capacity.

2017 year of account

The 2017 year witnessed a significant increase in losses from a catastrophe perspective, although the improved attritional and large loss experience compared with the 2016 year at the same stage has mitigated the impact of these. The largest losses to impact this year so far are the catastrophe losses referred to above, with examples of non-cat losses being the grounding of the Kea Trader container ship in the marine account; a control of well loss in British Columbia in the energy account; and damage to a compressor in the US from the utility book of business.

The estimated premium income for the year was within £1 million of the business plan and, as previously indicated, whilst still negative, the actual rate change on renewed business was less than anticipated with both November and December renewals showing an increase in rate over the previous year.

Overall the 2017 forecast result appears to be developing behind the business plan target but is currently still expected to be positive. There is, however, a significant element of 2017 business still exposed through into 2018 and it is hoped that the work on managing the attrition pays dividends over the next 24 months. The final result, however, will depend on how this develops.

Trading conditions for 2018

Following the major losses experienced in 2017 a plan for 2018 was subsequently agreed with Lloyd's in which the opportunity was taken to re-estimate the rate expectations for the year. Prior to the impact of the 2017 catastrophes becoming known, it had been assumed that rates for 2018 would continue to soften albeit below the reductions of 3.8% and 2.1% witnessed for 2016 and 2017 respectively. As a result of the events that occurred during 2017, the 2018 business plan now assumes that rates will strengthen by an expected 3.7%.

The 1 January 2018 renewal season was underwhelming. Whilst renewals on an "as before" basis or with increased rates were common in all classes bar terrorism, they were not at the levels predicted. It can only be hoped that rates continue to improve by at least this level throughout the year.

The AUA branch office in Sydney is continuing to develop and this is being aided by a strengthening in the current property market rating in Australia and New Zealand that has seen 10% increases becoming the norm.

The casualty class will increase as the syndicate has written a larger line on the main consortium in the market for this class and an innovative new consortium for companies operating in the sharing economy.

Trading conditions for 2018 *continued*

In respect of political risks, the syndicate has seen more high quality commodity trade and bank finance business for 2017 than had been predicted earlier in the year and the healthy pipeline of business continues apace. It has been very much a case of taking advantage of a market which has seen commodity price stability and favourable bank lending conditions creating solid opportunities and it is predicted that the account will continue to grow, albeit at a vastly reduced rate to that seen in 2017.

The syndicate's appetite for catastrophe exposure has not changed from that adopted for 2017 and the risk metrics for major US perils is expected to remain consistent with previous years.

As previously indicated, new classes of business will still be considered but only where they complement the syndicate's existing portfolio and provide for either the recruitment of individuals or teams who offer experience, expertise and a proven track record, or through the further support of leading market practitioners on consortia.

Finally, Syndicate 2121 continues to purchase a comprehensive reinsurance programme, the structure of which has been slightly enhanced from that in 2017 that served the syndicate well in terms of mitigating the impact of the recent catastrophe losses.

ASML business structure

ASML is the Lloyd's managing agency subsidiary of Argenta Holdings Limited ("AHL"), a private company with diversified interests in the Lloyd's insurance market. In July 2017, 100% of the issued share capital of AHL was acquired by Hannover Rück SE ("Hannover Re") whose immediate parent undertaking is Talanx AG, a leading global insurance group. Hannover Re has for some time supported Syndicate 2121 as both a traditional reinsurer and in terms of supporting capital providers.

As the managing agency of Syndicate 2121, ASML has maintained a strategy of steadily growing the syndicate with capacity increasing from £240 million in 2015 to £340 million in 2018. This growth has been achieved by the selective addition over the years of new classes of business to complement the existing portfolio as well as continued organic growth in a number of areas.

The syndicate underwrites a broad cross section of classes, historically short tail in nature although longer tail business has become an increasing part of the account in recent years. The classes of business written include marine, property, energy and utility on predominantly a short tail basis; and casualty, liability marine and energy and elements of the UK insurance and specialty classes with longer tail characteristics. The syndicate underwrites business on a global basis from London, via a service company in Singapore, AUA, which has a branch office in Sydney and also by way of participating on the Lloyd's China Platform in Shanghai through a division of LICCL.

ASML has been granted approval by Lloyd's to establish a Special Purpose Arrangement ("SPA"), SPA 6134, to be managed alongside Syndicate 2121. The SPA, sponsored and to be capitalised by the Hannover Re group, will write quota share reinsurances of business written by Syndicate 2121 as the host syndicate. Syndicate 2121 will retain at least 10% of the business introduced by the sponsor.

It is intended that the SPA will underwrite gross net written premium in 2018 of £22.6 million across various classes of business within the underwriting capability of the host syndicate. The expectation is that the SPA will develop into something more substantial over time particularly in terms of premium volume. Syndicate 2121 receives an overriding commission in respect of these arrangements. The quota share contracts are initially being underwritten on a funds withheld basis although amounts may be advanced in future to enable the SPA to finance its standalone obligations.

Managing Agent's Report

continued

Directors

John LP Whiter – *Non-executive Chairman*

Andrew J Annandale – *Managing Director*

Graham K Allen – *Finance Director*

Sven Althoff – *Non-executive Director (appointed 31 August 2017)*

Alan E Grant – *Non-executive Director (appointed 16 November 2017)*

Paul Hunt – *Non-executive Director*

Ian M Maguire – *Active Underwriter Syndicate 2121*

Nicholas J Moore – *Chief Actuary*

John E Mumford – *Non-executive Director (died 6 April 2017)*

Gary A Powell – *Non-executive Director*

Matthew P Rowan – *Risk Management and Compliance Director and Company Secretary*

Jens Schäfermeier – *Non-executive Director (appointed 31 August 2017)*

David J Thompson – *Claims and Operations Director*

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 there is an appropriate level of capital held in respect of the insurance liabilities to which Syndicate 2121 is exposed. 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. Further information in respect of this is also disclosed in Note 21 to the Annual Accounts.

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 catastrophe loss experience;
- Adverse large and attritional loss experience;
- Poor or inappropriate risk selection;
- Inadequate reinsurance placement; and
- Final claims costs deviating materially from estimated earned reserves due to the inherent variability of the business.

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, the Monetary Authority of Singapore ("MAS") 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 important 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.

Credit risk

Credit risk is inherent to the business conducted with brokers, coverholders, 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.

Risk management *continued*

Financial market risk

Financial 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 absolute return 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 reporting 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 on the business in the future, and to ensure that any such risks are understood and mitigated where possible.

Conduct risk

ASML defines conduct risk as being the risk that its customers are not treated fairly at all times and has in place a mechanism for identifying, monitoring, reporting and mitigating any conduct issues. This includes monitoring and reporting on a wide range of conduct management information and risk appetite metrics to the ASML board, risk framework and compliance committee and product oversight group.

Investment managers and policy

During 2017 Insight Investment Management (Global) Limited ("Insight") has been responsible for investing the vast majority of the syndicate's assets within a fixed income portfolio. The syndicate's Canadian dollar assets in the regulated trust funds are managed by Lloyd's treasury within a fixed income portfolio. The returns achieved on these portfolios are measured with reference to appropriate benchmarks.

In addition to the fixed income portfolios Insight also managed a separate portfolio of multi asset absolute return funds within a UCITS structure. Initially this represented approximately 18% of the syndicate's assets although it was reduced to closer to 14% by the year end. The objective of this asset class 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 the euro BNY Mellon absolute return bond fund and both the euro and US dollar denominated Emerging Market Debt, Currency, Credit and Equity Market Neutral funds. A gross performance target of achieving 300 basis points in excess of three month Euribor was set for the euro BNY Mellon absolute return bond fund. The other funds operate with gross performance targets ranging from 300 to 500 basis points in excess of three month LIBID.

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

Investment managers and policy *continued*

Insight

The fixed income portfolios returned 1.5% and 0.6% on the combined US dollar and sterling portfolios respectively. This represents marginal underperformance of approximately 0.1% against their relative benchmarks.

The US dollar and euro absolute return funds made returns of 1.9% and 0.1% during the year compared to targeted returns of 4.4% and 2.7% respectively. Whilst the overall performance of the absolute return funds fell short of their target benchmarks, the US dollar yield exceeded that of the US dollar fixed income portfolio and the euro yield was positive whereas typical euro money market funds were yielding negative returns. Insight reports on 2017 as follows:

"US dollar portfolio

After many years of very low interest rates the US Federal reserve raised short term interest rates three times during 2017 which triggered a steady increase in short dated US Treasury yields. The duration exposure was kept relatively short throughout the year, typically between 0.75 and 1 year, in order to minimise the risk of capital losses as yields adjusted upwards. Nonetheless, the returns from interest rate strategy were modestly negative relative to the cash benchmark.

Credit strategy contributed positively over the period. The short-dated credit portfolio was rotated over the year. This added the largest contribution to relative returns over cash for the year as credit spreads tightened consistently with relatively low volatility. Allocations to banking, consumer non-cyclicals and utilities contributed positively over the period.

For the time being the majority of the portfolio's risk budget will continue to be allocated to corporate bonds with favoured sectors including supranational issuers, senior banks and large technology companies.

Sterling portfolio

The Bank of England changed interest rates by 0.25% in November removing some of the post Brexit easing. Interest rate positioning had a mixed contribution during the year. The portfolio started with a duration position of 1.3 years before reducing to just under one year with a continuing focus on 0 to 3 year maturities.

Credit strategy was the main driver of positive performance during the year. Allocations to banking and supranational issuers were the best performing credit sectors. In general, credit markets had a strong year, tightening to a level not seen since 2007, with consistently low volatility throughout the year. Current credit spread levels are still believed to more than compensate for the risk of default. Looking ahead, growth risks remain a concern with the UK economy relative to other advanced economies, as the impact from the Brexit referendum becomes more pronounced.

Insight BNY Mellon Absolute Return Bond Fund

The fund recorded a negative return over 2017. Fund gains were led by market allocation although this theme had a significant negative impact between April and August. Investment grade corporate bonds were a significant contributor to performance although August also proved to be a difficult month for this asset class.

Investment managers and policy *continued*

Economic data has continued to be supportive in most major economies. With inflation still relatively subdued, it provided a 'Goldilocks' zone for risk assets, allowing central banks to avoid sharply withdrawing monetary accommodation. Looking ahead strategies that are able to implement short overall duration exposure appear likely to be beneficial. Credit spreads should be supported by the improving growth outlook but given stretched valuations, stock and sector selection will be key to driving outperformance. The ability to hedge directional market risk could allow portfolios to benefit in the case of a market correction.

Absolute Insight Emerging Market Debt

Fund performance was positive over the year. In terms of attribution, local currency interest rates, corporate credit and sovereign credit all contributed positively to performance, however, currency exposure overall proved to be detrimental. The strong asset class performance over the year meant the fund's positive performance came overwhelmingly from long positions. From a regional perspective, Latin America was the predominant source of outperformance. Positive risk sentiment, a commodity price recovery, a global upswing in economic fundamentals and an ongoing investor push for yield supported the higher yielding segments of the market. Emerging Market corporate fundamentals also provided a positive contribution.

Absolute Insight Credit

Fund performance was positive over the year. It was a strong period for credit markets and the fund benefited from its overall long bias position in credit. Allocations to ABS, high yield, and investment grade corporates and financials, remained relatively steady and each performed well. In corporate high yield a buoyant market early in the year was exploited before reducing risk given stretched valuations. Efforts were focused on short-dated opportunities where it was believed that the reward from yields available outstripped the low expected near-term default rate risk. Exposure via credit default swap indices and options also contributed positively. Looking ahead, a cautious strategic outlook will be maintained as global central banks embark on tighter monetary policy with the potential for political risk to resurface.

Absolute Insight Equity Market Neutral

The fund generated a positive return over the year. Market-friendly election outcomes in Europe led political risk to wane, and markets focused instead on synchronised global growth, benign inflation and continued central bank balance sheet expansion. Equity market volatility fell, returns were dominated by market direction and dispersion between stock returns remained low as markets increasingly recognised the approaching change in the central bank liquidity regime. Individual share prices started to move more with fundamental news flow, presenting a better environment for the fund.

Absolute Insight Currency

The fund generated a negative return over the year. The most significant contributors to this were long US dollar ("USD") positions against short Japanese yen ("JPY") and euro ("EUR") positions. Meanwhile, the strongest positive contributions came from long positions in the Czech koruna and the Indian rupee. Exposures were actively managed over the course of the year with the long USD versus short JPY position being reduced as it became clear the USD was not following relative interest rates. The short EUR position added in June suffered after less dovish comments from European Central Bank President Mario Draghi gave the EUR a further boost."

Investment managers and policy *continued*

Lloyd's treasury

The Canadian dollar portfolio returned 0.8% over the year, which marginally outperformed the benchmark for the calendar year. The fund's outperformance over the benchmark was driven by its short duration position as the Bank of Canada raised rates twice which caused Canadian yields to move higher. Lloyd's treasury expects central banks to slowly remove some of their extraordinary accommodative measures with the result that core government curves will continue to flatten, albeit at a slower pace than in 2017. The front-end is already pricing-in a large percentage of the expected rate movements for 2018 and therefore it is not expected that a material move higher in yields will occur from current levels. The yields in the long-end are expected to remain close to their current levels due to the long-term inflation picture remaining subdued and in-line with market expectations. The Canadian portfolio duration remains slightly shorter than the benchmark and it continues to be overweight in agency bonds and underweight in Canadian Government bonds. In credit, 2018 is likely to be a year of transition, unlike 2017 when corporate credit returns were strong. Credit performance will particularly be driven by the ongoing withdrawal of central bank liquidity and, to a lesser extent, political uncertainty. This will inevitably lead to some asset price correction; however, it is unlikely to be too severe. Underlying operating trends remain strong and relative value opportunities are still believed to exist for the investment grade space.

Custodians

Citibank and RBC Investor & 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 and BNY Mellon are the administrators for the syndicate's investments 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 2017 is consistent with ASML's risk appetite but below the overall long term target return primarily due to the desire not to take more investment risk in current market conditions.

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:

	2017	*2016*
	'000	*'000*
United States dollars	245,035	245,031
Sterling and other currencies	32,959	34,702
Canadian dollars	25,038	22,684
Euro	14,889	13,473
Combined in sterling	250,962	239,923
Net aggregate investment return for the calendar year in sterling	3,077	1,770

Net calendar year investment yield:	*2017*	*2016*
United States dollars	1.4%	0.7%
Sterling and other currencies	1.7%	1.6%
Canadian dollars	0.7%	0.7%
Euro	0.1%	(0.4%)
Combined in sterling	1.2%	0.7%

Research and development

The syndicate has not participated in any research and development activity during the year.

Disclosure of information to the auditor

In the case of each of the persons who are directors of the managing agent at the time the report is approved:

- So far as the director is aware, there is no relevant audit information, being information needed by the syndicate's auditor in connection with the auditor's report, of which the auditor is unaware; and

- Having made enquiries of fellow directors of the agency and the syndicate's auditor, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the syndicate's auditor is aware of that information.

Auditor

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 15 March 2018.

SYNDICATE

2121

ANNUAL ACCOUNTS 2017

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 UK GAAP (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

Opinion

We have audited the syndicate annual accounts of syndicate 2121 ('the syndicate') for the year ended 31 December 2017 which comprise the Income Statement, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 21, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual accounts section of our report below. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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 and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

The other information comprises the information included in the annual report, other than the syndicate annual accounts and our auditor's report thereon. The managing agent is responsible for the other information.

Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate annual accounts or a material misstatement of the other information. If, based on the

Independent Auditor's Report to the Members of Syndicate 2121

continued

work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the managing agent's report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts; and
- the managing agent's report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified material misstatements in the managing agent's report.

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; or
- certain disclosures of the managing agent's emoluments specified by law are not made.

Responsibilities of the managing agent
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 18, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

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

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

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

15 March 2018

Income Statement

for the year ended 31 December 2017

Technical account – general business

	Notes	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Earned premiums, net of reinsurance					
Gross premiums written	2	346,020		280,715	
Outward reinsurance premiums		(73,607)		(52,580)	
Net premiums written		272,413		228,135	
Change in the provision for unearned premiums					
Gross amount		(31,963)		(15,987)	
Reinsurers' share		5,086		4,452	
Change in the net provision for unearned premiums		(26,877)		(11,535)	
Earned premiums, net of reinsurance			245,536		216,600
Allocated investment return transferred from the non-technical account	8		3,077		1,770
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(135,614)		(112,968)	
Reinsurers' share		12,102		14,556	
Net claims paid		(123,512)		(98,412)	
Change in the provision for claims					
Gross amount		(83,595)		(12,692)	
Reinsurers' share		81,985		2,972	
Change in the net provisions for claims		(1,610)		(9,720)	
Claims incurred, net of reinsurance			(125,122)		(108,132)
Net operating expenses	4		(109,217)		(98,438)
Balance on the technical account for general business			14,274		11,800

All items relate only to continuing operations.

Income Statement

for the year ended 31 December 2017 continued

Non-technical account

	Notes	*2017* *£'000*	*2016* *£'000*
Balance on the general business technical account		14,274	11,800
Investment income	8	2,450	2,100
Net unrealised gains/(losses) on investments	8	714	(243)
Investment expenses and charges	8	(87)	(87)
Allocated investment return transferred to the general business technical account		(3,077)	(1,770)
Exchange gains/(losses)		(294)	3,230
Profit for the financial year		13,980	15,030

There is no other comprehensive income in the accounting period other than that dealt with in the technical and non-technical accounts. Accordingly, a separate statement of comprehensive income has not been presented.

Statement of Changes in Members' Balances

for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
At 1 January		18,299	26,779
Profit for the financial year		13,980	15,030
Members' agents' fees		(1,292)	(1,345)
Payments of profit to members' personal reserve funds	14	(25,031)	(22,165)
At 31 December		5,956	18,299

Statement of Financial Position

as at 31 December 2017

	Notes	2017 £'000	2017 £'000	2016 £'000	2016 £'000
ASSETS					
Investments					
Financial investments	9		217,295		235,775
Deposits with ceding undertakings			19		17
Reinsurers' share of technical provisions					
Provision for unearned premiums	10	21,229		17,564	
Claims outstanding	10	131,771		57,471	
			153,000		75,035
Debtors					
Debtors arising out of direct insurance operations	11	80,608		66,846	
Debtors arising out of reinsurance operations	12	32,408		25,232	
Other debtors		642		944	
			113,658		93,022
Cash and other assets					
Cash at bank and in hand		13,481		11,367	
Other assets	13	16,365		15,082	
			29,846		26,449
Prepayments and accrued income					
Accrued interest		122		36	
Deferred acquisition costs	10	48,002		42,664	
Other prepayments and accrued income		1,274		1,543	
			49,398		44,243
TOTAL ASSETS			563,216		474,541

Statement of Financial Position

as at 31 December 2017 continued

		2017		2016	
	Notes	£'000	£'000	£'000	£'000
MEMBERS' BALANCES AND LIABILITIES					
Members' balances			5,956		18,299
Technical provisions					
Provision for unearned premiums	10	170,230		148,737	
Claims outstanding	10	327,578		264,389	
			497,808		413,126
Creditors					
Creditors arising out of direct insurance operations	15	11,687		10,595	
Creditors arising out of reinsurance operations	16	40,297		21,421	
Other creditors		4,394		8,746	
			56,378		40,762
Accruals and deferred income			3,074		2,354
TOTAL MEMBERS' BALANCES AND LIABILITIES			563,216		474,541

The syndicate annual accounts on pages 21 to 67 were approved by the board of Argenta Syndicate Management Limited on 15 March 2018 and were signed on its behalf by

Andrew J Annandale
Managing Director

Statement of Cash Flows

for the year ended 31 December 2017

	Notes	2017 £'000	Restated 2016 £'000
Profit on ordinary activities		13,980	15,030
Increase/(decrease) in unearned premiums and outstanding claims		111,143	29,625
(Increase)/decrease in reinsurers' share of unearned premiums and outstanding claims		(83,392)	(7,990)
(Increase)/decrease in debtors		(42,128)	(19,068)
Increase/(decrease) in creditors		20,975	16,727
Investment return		(3,077)	(1,770)
Movements in other assets/liabilities		1,007	573
Exchange differences		6,592	(14,576)
Net cash inflow/(outflow) from operating activities		25,100	18,551
Investing activities			
Investment income received		1,952	1,922
Purchases of debt and equity instruments		(106,710)	(97,494)
Sales of debt and equity instruments		113,324	111,292
Purchases of derivatives		(2,263)	(1,553)
Sales of derivatives		2,259	1,553
(Increase)/decrease in overseas deposits		(1,690)	(902)
(Increase)/decrease in deposits with ceding undertakings		(3)	81
Net cash inflow/(outflow) from investing activities		6,869	14,899
Financing activities			
Payments of profit to members' personal reserve funds		(25,031)	(22,165)
Members' agents' fee advances		(1,292)	(1,345)
Net cash inflow/(outflow) from financing activities		(26,323)	(23,510)
Increase/(decrease) in cash and cash equivalents		5,646	9,940
Cash and cash equivalents at 1 January		12,768	2,679
Exchange differences on opening cash and cash equivalents		(109)	149
Cash and cash equivalents at 31 December	17	18,305	12,768

Notes to the Accounts

1. Accounting policies

1.1 Statement of compliance

The financial statements have been prepared in compliance with the 2008 Regulations and FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

1.2 Basis of preparation

The financial statements for the year ended 31 December 2017 were approved for issue by the board of directors on 15 March 2018.

The financial statements are prepared in sterling which is the functional and presentational currency of the syndicate and rounded to the nearest £'000.

As permitted by FRS 103 the syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

1.3 Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the year-end date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The syndicate's key sources of estimation uncertainty are as follows:

Insurance contract technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some types of policies, claims IBNR form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. The provision for claims outstanding is based on the estimated ultimate cost of all claims notified but not settled by the year-end date assessed on an individual case basis, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims IBNR at the year-end date based on statistical methods.

1. Accounting policies *continued*

These methods generally involve projecting from past experience 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 amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premiums. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premiums on a basis other than time apportionment.

Estimates of future premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue being recorded in the financial statements.

The main assumption underlying these estimates is that past premium development can be used to project future premium development.

Fair value of financial assets and derivatives determined using valuation techniques

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk and model inputs such as estimated future cash flows based on management's best estimates and discount rates.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Further details are given in note 21.

1.4 Significant accounting policies

Financial investments

As permitted by FRS 102, the syndicate has elected to apply the recognition and measurement provisions of sections 11 and 12 in full to account for all of its financial instruments.

Financial assets and financial liabilities are recognised when the syndicate becomes a party to the contractual provisions of the instrument.

1. Accounting policies *continued*

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Derivative financial instruments

The syndicate uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The syndicate does not hold or issue derivative financial instruments for speculative purposes. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less, net of outstanding bank overdrafts.

Fair value of financial assets

The syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

See note 9 for details of financial instruments classified by fair value hierarchy.

Impairment of financial assets

For financial assets not held at fair value through profit or loss, the syndicate assesses at each reporting date whether the financial asset or group of financial assets is impaired. The syndicate first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

Notes to the Accounts

continued

1. **Accounting policies** *continued*

Derecognition of financial assets

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- The rights to the cash flows from the asset have expired; or
- The syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement and either (a) the syndicate has transferred substantially all the risks and rewards of the asset; or (b) the syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the syndicate has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards nor transferred control of the asset, the asset is recognised to the extent of the syndicate's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the syndicate could be required to repay. In that case, the syndicate also recognises an associated liability.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial liabilities

The syndicate's financial liabilities include trade and other payables, borrowings, insurance payables and derivative financial instruments, where applicable. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in investment return in the profit or loss.

Derivative financial liabilities are subsequently measured at fair value through profit or loss. A financial liability is derecognised when the obligation under the liability is discharged or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in profit or loss.

1. **Accounting policies** *continued*

Investment return

Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Interest income is recognised on a time proportionate basis taking into account effective interest yield.

Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered in detail under the accounting policy for financial investments.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated members' balance is made from the non-technical account to the technical account. Investment return related to non-insurance business and members' balance is attributed to the non-technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Insurance contracts – product classification

Insurance contracts are those contracts when the syndicate (the insurer/reinsurer) has accepted significant insurance risk from another party (the policyholder/reinsured) by agreeing to compensate the policyholder if a specified uncertain future event (the re/insured event) adversely affects the policyholder. As a general guideline, the syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Any separable embedded derivatives within an insurance contract are separated and accounted for in accordance with sections 11 and 12 of FRS102 unless the embedded derivative is itself an insurance contract (i.e. the derivative is not separated if the policyholder benefits from the derivative only when the insured event occurs).

Gross premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a remeasurement of the initial premium. Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

Written premiums include an estimate for pipeline premiums (i.e. premiums written but not reported to the syndicate by the reporting date) relating only to those underlying contracts of insurance where the period of cover has commenced prior to the reporting date. The most significant assumption in this estimate is that current experience will be consistent with prior year experience.

1. Accounting policies *continued*

Under some policies, written premiums are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. Where written premiums are subject to a reduction, a remeasurement taking account of such a reduction is made as soon as there is an obligation to the policyholder.

Reinsurance premiums

Reinsurance written premiums comprise the total premiums payable for all of the cover provided by contracts entered into in the period, including portfolio premiums payable, and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Under some policies, reinsurance premiums payable are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is recognised as soon as there is an obligation to the reinsurer.

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

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.

Claims

Claims include all claims occurring during the year, whether reported or not; related internal and external claims handling costs that are directly related to the processing and settlement of claims; a reduction for the value of salvage and other recoveries; and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Technical provisions

Technical provisions comprise claims outstanding, provisions for unearned premiums and provisions for unexpired risks.

Claims outstanding

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the

1. **Accounting policies** *continued*

expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

Provisions for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard, where appropriate, to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

Unexpired risks

A liability adequacy provision (the unexpired risks provision) is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date is expected to exceed the provision for unearned premiums, net of deferred acquisition costs.

The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available at the reporting date, after offsetting surpluses and deficits arising on products which are managed together. Investment income is taken into account in calculating the provision.

At 31 December 2017 and 31 December 2016 the syndicate did not have an unexpired risks provision.

Deferred acquisition costs

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

Deferred acquisition costs are costs arising from the conclusion of insurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods.

Deferred acquisition costs are amortised over the period in which the related premiums are earned.

The reinsurers’ share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement.

Commissions receivable on outwards reinsurance contracts are deferred and amortised over the same period in which the related gross premiums are earned.

1. Accounting policies *continued*

Reinsurance assets

The syndicate cedes insurance risk in the normal course of business for all of its areas of operation. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2017 or 2016.

Ceded reinsurance arrangements do not relieve the syndicate from its obligations to policyholders.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the EIR method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the EIR method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

Foreign currencies

The syndicate's functional currency and presentational currency is sterling. Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions or at an approximate average rate.

Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items denominated in a foreign currency, measured at fair value, are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded in the non-technical account.

1. **Accounting policies** *continued*

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, any 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 are included in the statement of financial position under the heading 'other debtors'.

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

Pension costs

The underwriting agency operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

2. **Particulars of business written**

Type of business

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

2017	*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	6,564	5,832	(3,029)	(2,778)	1,572	1,597
Motor (other classes)	15,131	8,147	(4,850)	(3,270)	(182)	(155)
Marine, aviation and transport	28,892	25,958	(18,637)	(10,609)	(4,472)	(7,760)
Energy	24,677	25,246	(1,975)	(8,774)	(4,067)	10,430
Fire and other damage to property	124,488	119,247	(108,903)	(41,356)	30,851	(161)
Third party liability	53,438	49,790	(26,978)	(17,167)	(1,054)	4,591
Pecuniary loss	22,709	11,932	(6,862)	(3,500)	(770)	800
	275,899	246,152	(171,234)	(87,454)	21,878	9,342
Reinsurance acceptances:						
Fire and other damage to property	36,055	33,601	(17,623)	(10,157)	(1,564)	4,257
Marine, aviation and transport	22,935	23,611	(23,981)	(8,023)	5,475	(2,918)
Energy	8,780	8,123	(875)	(3,019)	(20)	4,209
Casualty	2,351	2,570	(5,496)	(564)	(203)	(3,693)
	70,121	67,905	(47,975)	(21,763)	3,688	1,855
	346,020	314,057	(219,209)	(109,217)	25,566	11,197

2. Particulars of business written *continued*

2016

	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	5,927	4,509	(2,304)	(1,965)	(397)	(157)
Motor (other classes)	1,233	1,260	(994)	(467)	(108)	(309)
Marine, aviation and transport	25,354	25,721	(9,926)	(11,331)	(2,439)	2,025
Energy	25,970	28,239	(5,272)	(11,920)	(4,230)	6,817
Fire and other damage to property	110,060	109,794	(64,950)	(39,661)	(9,443)	(4,260)
Third party liability	12,198	7,495	(4,827)	(3,235)	(247)	(814)
Pecuniary loss	6,240	1,223	(579)	(561)	(157)	(74)
	186,982	178,241	(88,852)	(69,140)	(17,021)	3,228
Reinsurance acceptances:						
Fire and other damage to property	28,835	28,468	(11,151)	(8,325)	(4,713)	4,279
Marine, aviation and transport	23,824	21,442	(5,336)	(8,667)	(6,692)	747
Energy	10,862	10,569	(3,939)	(4,270)	(754)	1,606
Casualty	30,212	26,008	(16,382)	(8,036)	(1,420)	170
	93,733	86,487	(36,808)	(29,298)	(13,579)	6,802
	280,715	264,728	(125,660)	(98,438)	(30,600)	10,030

All premiums were concluded in the UK.

The reinsurance balance includes reinsurance commission receivable.

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

Geographical analysis by destination

	Gross written premiums 2017 £'000	*2016 £'000*
UK	105,987	91,544
EU	24,530	16,106
Other	215,503	173,065
	346,020	280,715

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

An overall improvement of £16.9 million on prior years' provisions was experienced during the year. Improvements comprised of £4.9 million on fire and other damage to property, £3.8 million on marine, aviation and transport, £2.7 million on energy, £2.8 million on reinsurance acceptances and £2.5 million on third party liability.

(2016: An overall improvement of £14.7 million on prior years' provisions was experienced during the year. Improvements of £5.0 million on fire and other damage to property, £6.0 million on marine, aviation and transport and £4.0 million on energy were partially offset by a deterioration of £0.2 million on reinsurance acceptances.)

4. Net operating expenses

	2017	*2016*
	£'000	*£'000*
Acquisition costs	99,081	85,488
Change in deferred acquisition costs	(8,004)	(5,138)
Administrative expenses	18,140	18,088
	109,217	98,438

Administrative expenses include:

	2017	*2016*
	£'000	*£'000*
Auditor's remuneration – audit of the syndicate accounts	215	210
– other services pursuant to regulations and Lloyd's byelaws	134	127
Operating lease rentals – office equipment	37	43
Members' standard personal expenses	7,801	8,084
Other remuneration paid to auditors:		
Audit of the managing agent's annual accounts	15	15

Total commissions for direct insurance accounted for in the year amounted to £71.3 million (2016: £53.4 million).

Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission.

5. Staff numbers and costs

The following amounts were recharged to the syndicate in respect of staff costs:

	2017	*2016*
	£'000	*£'000*
Wages and salaries	9,022	8,649
Social security costs	2,269	1,172
Other pension costs	618	639
	11,909	10,460

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

	2017	*2016*
	Number	*Number*
Administration and finance	14	21
Underwriting	25	22
Underwriting support	24	24
Claims	9	8
	72	75

The staff numbers exclude employees providing services by way of a cross charge from other group companies.

Notes to the Accounts

continued

6. 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:

	2017	*2016*
	£'000	*£'000*
Emoluments	1,672	1,889

No advances or credits granted by ASML to any of its directors subsisted during the year.

7. Active underwriter's emoluments

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

	2017	*2016*
	£'000	*£'000*
Emoluments	350	316

8. Investment return

	2017	*2016*
	£'000	*£'000*
Income from other financial investments	2,824	2,343
Net losses on realisation of investments		
– designated at fair value through profit or loss	(374)	(243)
Total investment income	2,450	2,100
Net unrealised gains/(losses) on investments		
– designated at fair value through profit and loss	714	(243)
Investment expenses and charges	(87)	(87)
Total investment return	3,077	1,770

9. Financial investments

	31 December 2017		
	Carrying value	*Purchase price*	*Listed*
	£'000	*£'000*	*£'000*
Shares and other variable yield securities and units in unit trusts			
– designated at fair value through profit or loss	66,995	66,229	37,915
Debt securities and other fixed income securities			
– designated at fair value through profit or loss	133,513	133,430	–
Participation in investment pools	10,269	10,204	–
Derivative assets held at fair value through profit and loss	4	4	–
Deposits with credit institutions held at fair value	3,032	3,032	–
Loans secured by mortgages held at fair value	3,482	3,488	–
	217,295	216,387	37,915

	31 December 2016		
	Carrying value	*Purchase price*	*Listed*
	£'000	*£'000*	*£'000*
Shares and other variable yield securities and units in unit trusts			
– designated at fair value through profit or loss	79,002	79,370	57,800
Debt securities and other fixed income securities			
– designated at fair value through profit or loss	140,187	139,922	–
Participation in investment pools	10,450	10,379	–
Derivative assets held at fair value through profit and loss	–	–	–
Deposits with credit institutions held at fair value	1,854	1,854	–
Loans secured by mortgages held at fair value	4,282	4,290	–
	235,775	235,815	57,800

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.

There was no material change in fair value for financial instruments held at fair value attributable to own credit risk in the current or comparative period.

There have been no day one profits recognised in respect of financial instruments designated at fair value through profit or loss.

The syndicate's investment managers are permitted to directly purchase derivative financial instruments (interest rate futures) to hedge the syndicate's interest rate risks. These derivatives are classified as trading instruments.

9. Financial investments *continued*

The following table shows financial investments including overseas deposits (note 13) recorded at fair value analysed between the three levels in the fair value hierarchy.

31 December 2017	*Level 1* *£'000*	*Level 2* *£'000*	*Level 3* *£'000*	*Total* *£'000*
Shares and other variable yield securities and units in unit trusts	31,587	35,408	–	66,995
Debt securities and other fixed income securities	–	133,513	–	133,513
Participation in investment pools	6	10,263	–	10,269
Loans, deposits with credit institutions and derivatives	3,036	3,482	–	6,518
Overseas deposits	4,067	12,298	–	16,365
	38,696	194,964	–	233,660

31 December 2016	*Level 1* *£'000*	*Level 2* *£'000*	*Level 3* *£'000*	*Total* *£'000*
Shares and other variable yield securities and units in unit trusts	31,830	47,172	–	79,002
Debt securities and other fixed income securities	73,195	66,992	–	140,187
Participation in investment pools	42	10,408	–	10,450
Loans, deposits with credit institutions and derivatives	1,854	4,282	–	6,136
Overseas deposits	3,624	11,458	–	15,082
	110,545	140,312	–	250,857

Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry syndicate, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the syndicate's own models whereby the significant inputs into the assumptions are market observable.

Previously US Treasuries were classified as level 1, which was consistent with the view held at the time. At the reporting date, based on the levels of recent trading activity these are now considered to be classified as level 2.

9. Financial investments *continued*

Included in the level 3 category are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect the syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the syndicate's own data.

10. Technical provisions

Claims outstanding

		2017	
		Reinsurers'	
	Gross	*share*	*Net*
	£'000	*£'000*	*£'000*
At 1 January	264,389	(57,471)	206,918
Claims incurred in current underwriting year	120,185	(54,472)	65,713
Claims incurred in prior underwriting years	99,024	(39,615)	59,409
Claims paid during the year	(135,614)	12,102	(123,512)
Foreign exchange	(20,406)	7,685	(12,721)
At 31 December	327,578	(131,771)	195,807

		2016	
		Reinsurers'	
	Gross	*share*	*Net*
	£'000	*£'000*	*£'000*
At 1 January	215,546	(46,311)	169,235
Claims incurred in current underwriting year	66,048	(11,599)	54,449
Claims incurred in prior underwriting years	59,612	(5,929)	53,683
Claims paid during the year	(112,968)	14,556	(98,412)
Foreign exchange	36,151	(8,188)	27,963
At 31 December	264,389	(57,471)	206,918

10. Technical provisions *continued*

Provision for unearned premiums

	2017 Gross £'000	2017 Reinsurers' share £'000	2017 Net £'000
At 1 January	148,737	(17,564)	131,173
Premiums written in the year	346,020	(73,607)	272,413
Premiums earned in the year	(314,057)	68,521	(245,536)
Foreign exchange	(10,470)	1,421	(9,049)
At 31 December	170,230	(21,229)	149,001

	2016 Gross £'000	2016 Reinsurers' share £'000	2016 Net £'000
At 1 January	113,187	(11,074)	102,113
Premiums written in the year	280,715	(52,580)	228,135
Premiums earned in the year	(264,728)	48,128	(216,600)
Foreign exchange	19,563	(2,038)	17,525
At 31 December	148,737	(17,564)	131,173

Deferred acquisition costs

	2017 £'000	2016 £'000
At 1 January	42,664	32,357
Change in deferred acquisition costs	8,004	5,138
Foreign exchange	(2,666)	5,169
At 31 December	48,002	42,664

11. Debtors arising out of direct insurance operations

	2017 £'000	2016 £'000
Amounts falling due within one year – intermediaries	80,153	66,789
Amounts falling due after one year – intermediaries	455	57
	80,608	66,846

12. Debtors arising out of reinsurance operations

	2017	2016
	£'000	£'000
Amounts falling due within one year	30,934	25,131
Amounts falling due after one year	1,474	101
	32,408	25,232

13. Other assets

	2017	2016
	£'000	£'000
Overseas deposits		
Amounts advanced in the following locations as a condition of carrying on business there:		
Illinois, USA	851	1,295
Australia	6,909	6,829
South Africa and other countries	8,605	6,958
	16,365	15,082

14. Reconciliation of members' balances

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.

Transfers to members' personal reserve funds relate to transfers of £25,031,000 in respect of the 2014 year of account. (2016: transfers to members' personal reserve funds of £13,765,000 in respect of the 2013 year of account and £8,400,000 in respect of the 2014 year of account).

15. Creditors arising out of direct insurance operations

	2017	2016
	£'000	£'000
Amounts falling due within one year	11,670	10,595
Amounts falling due after one year	17	–
	11,687	10,595

16. Creditors arising out of reinsurance operations

	2017	2016
	£'000	£'000
Amounts falling due within one year	40,287	21,369
Amounts falling due after one year	10	52
	40,297	21,421

Notes to the Accounts

continued

17. Cash and cash equivalents

	2017 £'000	Restated 2016 £'000
Cash at bank and in hand	13,481	11,367
Short-term deposits with financial institutions	4,824	1,401
	18,305	12,768

Restatement

Amounts deposited in UCITS and investment pool structures previously included within the value of cash equivalents, and their related movements in the statement of cash flows, have now been removed in recognition of their potential exposure to market value fluctuations. The comparatives for the 2016 statement of cash flows have been restated, removing from cash equivalents previously included amounts deposited in UCITS and investment pool structures of £90.8m, as well as the related movements in other assets/liabilities of £0.6m and purchases of debt and equity instruments of £6.1m. Accordingly, the cash and cash equivalents balance as at 1 January 2016 has also been restated to £2.7m.

Amounts in the statement of cash flows previously described as 'changes to market values and currencies' of £14.6m have been reclassified from investing activities to operating activities and are now described as 'exchange differences'.

18. Off balance sheet items

The syndicate has not been party to an arrangement which is not reflected in its statement of financial position, where material risks or benefits arise for the syndicate.

19. Related parties

Argenta Holdings Ltd

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

Prior to July 2017 AHL was controlled by Glenrinnes Farms Ltd, RBC cees Trustee Ltd as trustee of the Argenta Employee Benefit Trust and Wren Properties Ltd, who owned 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. Wren Properties Ltd is owned and controlled by members of the Robinson family. In July 2017, the then shareholders of AHL entered into a transaction whereby Hannover Re acquired 100% of the issued share capital of AHL. The parent undertaking of Hannover Re is Talanx AG which holds a 50.2% interest in the company. The principal shareholder in Talanx AG is Haftpflichtverband Der Deutschen Industrie V.a.G. ("HDI") which holds 79.0% of Talanx AG's issued share capital.

AHL and its related parties provide certain underwriting, administrative, accounting, human resource, information technology, risk management and compliance 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 AHL 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 2016, less than £1,000.

19. Related parties *continued*

AUA, a subsidiary of AHL, is a service company approved by Lloyd's and the MAS to operate on the Lloyd's Asia platform. AUA also holds a licence granted by the Australian Securities and Investments Commission and has a branch office approved by Lloyd's in Sydney, Australia. Syndicate 2121 uses this service company as a coverholder to bind risks on its behalf. Such services relating to business written in Singapore are provided at cost plus a small profit margin of 5% mainly for tax purposes. The total value of the margin is less than £90,000 (2016: £80,000). The commission retained by AUA for business underwritten by the Australian branch is at most 28.5% of gross premium, which is in line with other Australian facilities currently supported by the syndicate. The commission charged in Australia covers original acquisition costs, branch office expenses and processing costs. The total commissions payable were £6.7 million (2016: £2.7 million).

Mr Andrew Annandale and Mr Ian Maguire are directors of AUA.

Other than by virtue of directorship fees, salaries and other related remuneration in respect of their employment by either AHL or its related parties, and the increase in capital value arising on their historic shareholdings, none of the directors, officers, shareholders or related parties concerned, derive any personal benefit from the arrangements that exist.

Business transactions

Hannover Re

Hannover Re and certain of its subsidiaries have, in the past, provided and are likely to provide in the future, traditional types of reinsurance protection to Syndicate 2121.

Syndicate 2121 has in the past, and may in the future, provide insurance or reinsurance cover to Hannover Re and its subsidiaries.

Lloyd's has granted approval for ASML to establish a Special Purpose Arrangement, SPA 6134, to operate alongside Syndicate 2121 as the host syndicate. The SPA will be sponsored and capitalised by the Hannover Re group through its corporate member Inter Hannover No. 1 Ltd. SPA 6134 will write quota share reinsurances across various classes of business within the underwriting capability of the host syndicate. The gross net written premium of the SPA for 2018 is forecast to be £22.6 million.

Syndicate 2121 will charge the SPA an overriding commission of between 5% and 10% of gross net written premium depending on the class of business in relation to this arrangement, with exception of the political risk class which is charged on gross written premiums. The commission to be charged is in line with similar facilities currently operating in the Lloyd's market.

All such business underwritten and reinsurances purchased have in the past been, and will continue to be, transacted on an arm's length commercial basis with no personal benefit derived by the directors, officers, shareholders or related parties concerned.

ASML Directors

The late Mr John Mumford was a director of another Lloyd's managing agency, Neon Underwriting Ltd (formerly Marketform Managing Agency Ltd), until his resignation on 10 February 2017.

Mr John Whiter is chairman of Lloyd's broker Ed Broking (London) Ltd (formerly CGNMB LLP) and a director of its parent company, Ed Broking Group Ltd (formerly Cooper Gay Swett & Crawford Ltd).

19. Related parties *continued*

Mr Graham White, who was a director of ASML until his resignation on 31 March 2015, is a director of Lloyd's broker Marine Aviation & General (London) Ltd.

Mr Paul Hunt became a director of the Britannia Steam Ship Insurance Association Limited on 11 July 2017.

Mr Alan Grant, who joined the Board of ASML on 16 November 2017, is a director of Thomas Miller Holdings Ltd, the parent company of the Thomas Miller group, and of Osprey Underwriting Agency Limited, a Lloyd's coverholder within the Thomas Miller group.

Mr Sven Althoff is a director of Apollo Syndicate Management Limited, a Lloyd's Managing Agent; a member of the Executive Board of Hannover Re; a member of the Supervisory Board of Inter Hannover SE; and a director of Integra Insurance Solutions Ltd, a UK managing general agent.

Mr Jens Schäfermeier is employed as the managing director of a property and casualty division within Hannover Re.

Mr Trevor Newbery, who was a director of ASML until his resignation on 25 June 2016, was 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) until his resignation from all of the companies on 31 October 2015. Mr Newbery became a non-executive director of Arthur J. Gallagher Holdings (UK) Limited, the holding company of a number of Lloyd's brokers and the non-executive chairman of Pen Underwriting Limited, a managing general agent, on 11 November 2015 and 8 December 2015 respectively.

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.

Messrs Grant and Hunt and the late John Mumford benefitted from fees paid in respect of independent review services that they carried out, or continue to carry out, on sections of Syndicate 2121's book of business. It is a regulatory requirement that such reviews are performed by individuals who are separate from the day to day underwriting of the specific classes of business under review and have the necessary skills and experience to fulfill the independent review obligations.

ASML

Total fees payable to ASML in respect of services provided to the syndicate amounted to £2.2 million (2016: £2.0 million). Profit commission is only due on closure of the year of account although managing agents may receive payments on account of anticipated profit commissions in line with interim profits released to members. During 2017, profit commission of £7.3 million (2016: £4.9 million) was due to ASML. Creditors at the year-end include amounts in respect of profit commission due to ASML of £3.8 million (2016: £8.0 million).

In addition to this, £14.8 million (2016: £13.4 million) was recharged by ASML for expenses paid on behalf of the syndicate. Creditors at the year-end include amounts due to ASML of £0.7 million (2016: £0.6 million).

19. Related parties *continued*

Capital support for Syndicate 2121

Hannover Re has supported Syndicate 2121 for the 2015 to 2018 years of account by way of a pro-rata participation agreement with a corporate member. For the 2015 year, this agreement was in relation to 75.48% of the total participation of the member increasing to 100% for the 2016 to 2018 years of account.

Hannover Re also provides capital support to Argenta Underwriting No. 3 Ltd for the 2018 year of account by way of an excess participation agreement.

Inter Hannover (No. 1) Ltd, a wholly owned subsidiary of the Hannover Re group, participates on Syndicate 2121 for the 2018 year of account.

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

Mr Annandale is a director of Argenta Private Capital Limited (APCL), a subsidiary of AHL. Messrs Graham White and David Williams were directors of APCL until their resignations on 31 July 2015 and 29 July 2015 respectively, and were also directors of ASML until their resignations on 31 March 2015.

Mr Alan Tucker, who was a director of ASML until his resignation on 31 March 2015, was also a director of the following corporate members:

Rechter Underwriting Ltd (resigned 15 August 2017)
Cantril Investments Ltd (resigned 15 August 2017)
Kemah Lime Street Capital Limited (resigned 15 August 2017)
Kling Investment Ltd (resigned 15 August 2017)
Nidarich Ltd (resigned 3 December 2015)

APCL allocates capacity to Syndicate 2121 for the 2015 to 2018 years of account. Rechter Underwriting Ltd, Kling Investment Ltd, Kemah Lime Street Capital Limited and Cantril Investments Ltd all allocated capacity to Syndicate 2121 for the 2015 to 2018 years of account. Nidarich Ltd allocated capacity to Syndicate 2121 for the 2015 year of account.

Mr Tucker was also a director of Fifteen B Limited, which is a member of Alizadeh Underwriting LLP that allocates capacity to Syndicate 2121 for the 2015 to 2018 years of account, and also a director of lnswin Ltd, which is a member of Winins LLP that allocates capacity to Syndicate 2121 for the 2017 and 2018 years of account.

Notes to the Accounts

continued

19. Related parties *continued*

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) (resigned 15 December 2016)

AU12 was sold to a third party in December 2016. AU2, AU3, AU8, AU9, AU10 and AU12 participated on Syndicate 2121 for the 2015 to 2018 years of account. AU11 participated on Syndicate 2121 for the 2015 to 2017 years of account.

Other than directorship fees, salaries and other related remuneration and the increase in capital value arising on any direct or indirect historic shareholdings in the Lloyd's corporate members, no personal benefit is derived by the individuals concerned from these arrangements.

Mr Alasdair Locke was a director of and, via his company Glenrinnes Farms Ltd, a shareholder in AHL until 20 July 2017 when he resigned as a director of the company and his shareholding was acquired by Hannover Re.

Glenrinnes Farms Ltd provided capital to AU2, AU3 and AU9 for the 2015 to 2017 years of account on an excess basis through Funds at Lloyd's Provider's Agreements. Glenrinnes Farms Ltd also participated on AU3 on a pro-rata basis for the 2015 year of account.

Each corporate member in turn provides capital to Syndicate 2121 for each of the 2015 to 2018 years of account. 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.

As part of the consideration for the provision of all such capital by Glenrinnes Farms Ltd, it was granted an option by AHL and its shareholders to acquire £98.5 million of Syndicate 2121 capacity. The option was closed out during 2015 following a payment to compensate for this.

All capital providers who underwrite on Syndicate 2121 are charged managing agency fees and profit commission on a standard basis, apart from two where the charges are less advantageous to those entities, as disclosed in the Register of Underwriting Agency Charges.

There are no other transactions or arrangements to be disclosed.

20. 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 and therefore there are no specific funds available to a syndicate which can be precisely identified as its capital. As such, no amount has been shown in these annual accounts by way of FAL. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

21. Risk management

(a) Governance framework

The primary objective of the syndicate's risk management framework is to protect the syndicate's members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. ASML recognises the critical importance of having efficient and effective risk management systems in place.

The managing agent has established a risk management function for the syndicate with clear terms of reference from the board of directors and its sub-committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a syndicate policy framework which sets out the risk profiles for the syndicate, risk management, control and business conduct standards for the syndicate's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the syndicate.

The board of directors approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the syndicate goals, and specify reporting requirements. Significant emphasis is placed on assessment and documentation of risks and controls, including the articulation of 'risk appetite'.

(b) Capital management objectives

Capital framework at Lloyd's

Lloyd's is a regulated undertaking and subject to the supervision of the PRA under the Financial Services and Markets Act 2000.

With effect from 1 January 2016, Lloyd's became subject to the Solvency II capital regime and the Solvency I figures were no longer applicable from that date. Although the capital regime changed, this did not significantly impact the solvency capital requirement (SCR) of the syndicate, since this had been previously calculated based on Solvency II principles, as described below.

21. Risk management *continued*

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

Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2121 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. For a member participating on a single syndicate, its SCR is determined by the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate a credit for diversification is included to reflect the spread of risk. The credit given is consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies an uplift to the member's SCR to determine the overall level of capital required. This is known as the member's Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 35% (2016: 35%) of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (FAL), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates (the latter being adjusted to reflect their value on a Solvency II basis).

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 25, represent resources available to meet members' and Lloyd's capital requirements.

(c) Insurance risk

The principal risk the syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the syndicate is to ensure that sufficient reserves are available to cover these liabilities. References to insurance business should, as appropriate, be understood to include the equivalent reinsurance business underwritten by the syndicate.

21. Risk management *continued*

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The syndicate purchases reinsurance as part of its risk mitigation programme. Reinsurance ceded is placed on both a proportional and non–proportional basis. The majority of proportional reinsurance is quota share reinsurance which is taken out to reduce the overall exposure to certain classes of business. Non–proportional reinsurance is primarily excess of loss reinsurance designed to mitigate the syndicate's net exposure to catastrophe losses and large individual risk losses. Retention limits for the excess of loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the syndicate has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists in respect of ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

The syndicate principally issues the following types of general insurance contracts: fire and other damage to property; marine, aviation and transport; energy; and third party liability. Risks usually cover twelve months duration.

The most significant risks arise from natural disasters, terrorist activities, cyber attacks, large risk losses and adverse attritional claims experience. For longer tail claims that take some years to settle, there is also inflation risk.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the syndicate. The syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account where appropriate when estimating insurance contract liabilities.

The syndicate has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g. hurricanes, earthquakes and flood damage).

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the syndicate's risk appetite as agreed by the ASML board. The overall aim is currently to restrict the impact of a single Realistic Disaster Scenario (RDS) on a gross of reinsurance basis to less than 80% of the sum of the ECA and business plan profit, and less than 30% on a net of reinsurance basis. The reinsurance counterparty exposure is managed such that the exposure to, for instance, a single 'A' rated reinsurer is estimated not to exceed 10% of the total recoverable amount for the programme. The board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

21. Risk management *continued*

The syndicate uses both its own and commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

As a further guide to the level of catastrophe exposure written by the syndicate, the following table shows hypothetical claims arising for various RDS events based on the syndicate's expected risk exposures estimated for the 2018 Syndicate Business Forecast.

RDS event	*Industry loss £m*	*Estimated gross loss £m*	*Estimated final net loss £m*
South Carolina windstorm (second event)	30,000	83	32
Gulf of Mexico windstorm	90,846	129	30
European windstorm	21,053	76	29
Florida windstorm (Pinellas)	103,077	118	29
Sydney earthquake	n/a	83	29

The table below sets out the concentration of outstanding claim liabilities and unearned premiums by type of contract:

	31 December 2017		*31 December 2016*	
	Gross liabilities £'000	*Net liabilities £'000*	*Gross liabilities £'000*	*Net liabilities £'000*
Direct insurance:				
Accident and health	5,890	4,135	4,583	4,318
Motor (other classes)	10,028	10,023	977	973
Marine, aviation and transport	52,628	47,908	52,642	46,866
Energy	40,277	32,640	42,718	37,707
Fire and other damage to property	162,266	95,600	125,891	110,275
Third party liability	80,967	56,448	13,035	11,665
Pecuniary loss	21,677	12,709	6,147	3,759
	373,733	259,463	245,993	215,563
Reinsurance acceptances:				
Fire and other damage to property	58,588	34,122	55,317	37,019
Marine, aviation and transport	47,420	34,967	39,314	32,563
Energy	13,818	12,374	22,708	20,296
Casualty	4,249	3,882	49,794	32,650
	124,075	85,345	167,133	122,528
	497,808	344,808	413,126	338,091

21. Risk management *continued*

The geographical concentration of the outstanding claim liabilities and unearned premiums is noted below. The disclosure is based on the domicile of counterparties. The analysis is not expected to be materially different if based on the countries in which the risks are situated.

	31 December 2017		*31 December 2016*	
	Gross liabilities £'000	*Net liabilities £'000*	*Gross liabilities £'000*	*Net liabilities £'000*
United Kingdom	153,680	110,391	116,283	86,142
EU	20,541	16,253	18,424	15,870
USA	139,362	94,314	142,489	118,455
Canada	12,139	7,997	13,365	11,967
Other	172,086	115,853	122,565	105,657
	497,808	344,808	413,126	338,091

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of claim indemnity costs, claim handling costs and claims inflation for each underwriting year. For more recent years of account, 'a priori' loss ratio selections are also key assumptions in determining the reserves, which are themselves based on historical experience as well as judgements to reflect current underwriting conditions.

Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one–off occurrence; changes in market factors; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include the occurrence of large losses, delays in settlement and changes in foreign currency rates.

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit and members' balances. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in each assumption, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non–linear.

21. Risk management *continued*

31 December 2017	*Change in assumptions*	*Impact on gross liabilities £'000*	*Impact on net liabilities £'000*	*Impact on profit £'000*	*Impact on members' balance £'000*
'A priori' loss ratios	+5%	7,482	5,778	(5,207)	(5,207)
Incurred claims development patterns	Recede development by 1 month	11,681	10,021	(9,291)	(9,291)

31 December 2016	*Change in assumptions*	*Impact on gross liabilities £'000*	*Impact on net liabilities £'000*	*Impact on profit £'000*	*Impact on members' balance £'000*
'A priori' loss ratios	+5%	5,212	4,327	(3,941)	(3,941)
Incurred claims development patterns	Recede development by 1 month	9,293	8,219	(7,624)	(7,624)

The method used for deriving sensitivity information and the significant assumptions are the same for both periods.

Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at 31 December 2017.

The syndicate has taken advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption. The claims development information disclosed is being increased from five years to ten years over the period 2016 to 2020.

In setting claims provisions the syndicate gives consideration to the probability and magnitude of future adverse experience. Due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

21. Risk management *continued*

Gross insurance contract outstanding claims provision as at 31 December 2017:

Underwriting year	*Before 2011*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Estimate of cumulative claims incurred:									
At end of underwriting year		61,337	92,607	57,771	45,780	61,415	66,540	115,473	
12 months later		174,071	149,205	113,800	102,565	132,731	163,950		
24 months later		183,694	150,844	115,760	102,683	143,925			
36 months later		194,224	148,834	112,292	97,292				
48 months later		196,029	145,009	111,606					
60 months later		194,815	140,794						
72 months later		192,875							
Current estimate of cumulative claims incurred		192,875	140,794	111,606	97,292	143,925	163,950	115,473	
Cumulative payments to date		179,332	132,450	92,114	78,430	97,247	63,810	22,150	
Gross outstanding claims provision at 31 December 2017 per the statement of financial position	27,196	13,543	8,344	19,492	18,862	46,678	100,140	93,323	327,578

Notes to the Accounts

continued

21. Risk management *continued*

Net insurance contract outstanding claims provision as at 31 December 2017:

Underwriting year	*Before 2011*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Estimate of cumulative claims incurred:									
At end of underwriting year		55,014	58,570	53,237	42,424	46,763	54,883	63,384	
12 months later		128,700	115,404	106,678	94,788	111,138	119,632		
24 months later		131,626	115,625	107,973	95,639	116,649			
36 months later		133,323	113,720	104,723	90,563				
48 months later		134,746	110,914	102,061					
60 months later		132,682	108,121						
72 months later		130,905							
Current estimate of cumulative claims incurred		130,905	108,121	102,061	90,563	116,649	119,632	63,384	
Cumulative payments to date		127,243	101,021	87,053	74,738	81,586	58,659	21,564	
Net outstanding claims provision at 31 December 2017 per the statement of financial position	16,356	3,662	7,100	15,008	15,825	35,063	60,973	41,820	195,807

The estimate of cumulative claims incurred on an underwriting year will increase whilst premium continues to be earned. This will naturally give rise to an increase in incurred claims in the period up to 24 months beyond the underwriting year.

21. **Risk management** *continued*

(d) Financial risk

(1) Credit risk

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

The following policies and procedures are in place to mitigate the exposure to credit risk:

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

- Net exposure limits are set for each investment counterparty or syndicate of counterparties, with minimum credit quality requirements at a portfolio level.

- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set by the finance and investment committee and are subject to regular reviews. At each reporting date management performs an assessment of creditworthiness of reinsurers, ascertaining a suitable allowance for impairment.

- Guidelines determine when to obtain collateral and guarantees.

- The syndicate sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.

- The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements and the use of credit derivatives.

21. Risk management *continued*

31 December 2017	*Neither past due nor impaired £'000*	*Past due £'000*	*Impaired £'000*	*Total £'000*
Financial investments				
– Debt securities and other fixed income securities	133,513	–	–	133,513
– Shares and other variable yield securities and units in unit trusts	66,995	–	–	66,995
– Participation in investment pools	10,269	–	–	10,269
– Loans secured by mortgages	3,482	–	–	3,482
– Derivative assets	4	–	–	4
– Deposits with credit institutions	3,032	–	–	3,032
Deposits with ceding undertakings	19	–	–	19
Reinsurers' share of claims outstanding	131,771	–	–	131,771
Debtors arising out of insurance operations	54,037	58,979	–	113,016
Other debtors	642	–	–	642
Cash at bank and in hand	13,481	–	–	13,481
Overseas deposits	16,365	–	–	16,365
	433,610	58,979	–	492,589

21. Risk management *continued*

31 December 2016	*Neither past due nor impaired £'000*	*Past due £'000*	*Impaired £'000*	*Total £'000*
Financial investments				
– Debt securities and other fixed income securities	140,187	–	–	140,187
– Shares and other variable yield securities and units in unit trusts	79,002	–	–	79,002
– Participation in investment pools	10,450	–	–	10,450
– Loans secured by mortgages	4,282	–	–	4,282
– Derivative assets	–	–	–	–
– Deposits with credit institutions	1,854	–	–	1,854
Deposits with ceding undertakings	17	–	–	17
Reinsurers' share of claims outstanding	57,471	–	–	57,471
Debtors arising out of insurance operations	81,663	10,415	–	92,078
Other debtors	944	–	–	944
Cash at bank and in hand	11,367	–	–	11,367
Overseas deposits	15,082	–	–	15,082
	402,319	10,415	–	412,734

Assets which are past due but not impaired include amounts relating to binding authority business as at 31 December 2017. The past due amounts have principally been in arrears for less than 3 months from the reporting date.

Notes to the Accounts

continued

21. Risk management *continued*

The table below provides information regarding the credit risk exposure of the syndicate at 31 December 2017 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Insurance and other debtors have been excluded from the table as these are generally not rated.

	AAA	*AA*	*A*	*BBB*	*<BBB*	*Not rated*	*Total*
31 December 2017	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Shares and other variable yield securities and units in unit trusts	28,871	–	–	–	–	38,124	66,995
Debt securities and other fixed income securities	17,168	83,481	28,308	4,556	–	–	133,513
Participation in investment pools	6,544	756	2,010	954	–	5	10,269
Loans secured by mortgages	3,482	–	–	–	–	–	3,482
Deposits with credit institutions	–	–	3,032	–	–	–	3,032
Overseas deposits	8,646	2,062	1,759	953	733	2,212	16,365
Derivative assets	4	–	–	–	–	–	4
Deposits with ceding undertakings	–	–	–	–	–	19	19
Reinsurers' share of claims outstanding	–	24,442	106,066	–	–	1,263	131,771
Cash at bank and in hand	–	–	13,481	–	–	–	13,481
Total credit risk	64,715	110,741	154,656	6,463	733	41,623	378,931

21. Risk management *continued*

31 December 2016	*AAA* *£'000*	*AA* *£'000*	*A* *£'000*	*BBB* *£'000*	*<BBB* *£'000*	*Not rated* *£'000*	*Total* *£'000*
Shares and other variable yield securities and units in unit trusts	31,831	–	–	–	–	47,171	79,002
Debt securities and other fixed income securities	80,143	26,738	28,501	4,805	–	–	140,187
Participation in investment pools	6,761	1,844	1,145	697	–	3	10,450
Loans secured by mortgages	4,282	–	–	–	–	–	4,282
Deposits with credit institutions	–	–	1,854	–	–	–	1,854
Overseas deposits	9,109	2,327	1,904	849	–	893	15,082
Deposits with ceding undertakings	–	–	–	–	–	17	17
Reinsurers' share of claims outstanding	–	5,576	50,029	–	–	1,866	57,471
Cash at bank and in hand	–	–	11,367	–	–	–	11,367
Total credit risk	132,126	36,485	94,800	6,351	–	49,950	319,712

The above comparative has been restated to disclose participation in investment pools.

Maximum credit exposure

It is the syndicate's policy to maintain accurate credit ratings across its portfolio of investments and reinsurance counterparties.

Credit ratings are provided regularly by the syndicate's investment managers and are subject to regular review to ensure any counterparty risk is in line with the syndicate's risk appetite and complies with the specified investment guidelines. The management of the syndicate's investments is largely outsourced to professional investment managers who are given clearly defined credit, concentration and asset parameters within which they can operate. Specific provisions are included within the investment guidelines around notification of any credit breaches which would result in action being taken to rectify the position, subject to materiality.

21. Risk management *continued*

(2) Liquidity risk

Liquidity risk is the risk that the syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out flows and expected reinsurance recoveries.

The following policies and procedures are in place to mitigate the syndicate's exposure to liquidity risk:

- A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

- Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.

Maturity profiles

The table below summarises the maturity profile of the syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and gross outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

	0–1 year £'000	*1–3 years £'000*	*3–5 years £'000*	*Over 5 years £'000*	*Total £'000*
31 December 2017					
Outstanding claim liabilities	152,783	116,472	35,320	23,003	327,578
Other	55,275	1,103	–	–	56,378

	0–1 year £'000	*1–3 years £'000*	*3–5 years £'000*	*Over 5 years £'000*	*Total £'000*
31 December 2016					
Outstanding claim liabilities	111,466	96,106	33,807	23,010	264,389
Other	40,007	755	–	–	40,762

21. Risk management *continued*

(3) Financial market risk

Financial market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial market risk comprises three types of risk:

a. Currency risk;

b. Interest rate risk; and

c. Equity price risk.

The following policies and procedures are in place to mitigate the exposure to financial market risk:

- A financial market risk policy exists that sets out the assessment and determination of what constitutes financial market risk for the syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Strict control over derivative instruments (e.g. equity derivatives are only permitted to be held to facilitate portfolio management or to reduce investment risk).
- For assets backing outstanding claims provisions, financial market risk is managed by ensuring the duration and profile of assets are aligned to the technical provisions they are backing. This helps manage financial market risk to the extent that changes in the values of assets are matched by a corresponding movement in the values of the technical provisions.

(a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The syndicate's functional currency is sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in euros, US dollars and Canadian dollars. The syndicate seeks to mitigate the risk by regularly seeking to match the estimated foreign currency denominated liabilities with assets denominated in the same currency.

21. Risk management *continued*

The table below summarises the exposure of the financial assets and liabilities by settlement currency to foreign exchange risk at the reporting date, as follows:

Converted £'000	*UK £*	*US $*	*CAD $*	*EUR €*	*OTH*	*Total*
As at 31 December 2017						
Total assets	57,298	427,759	21,606	21,848	34,705	563,216
Total liabilities	(62,944)	(429,444)	(14,667)	(20,738)	(29,467)	(557,260)
Net assets	(5,646)	(1,685)	6,939	1,110	5,238	5,956

Converted £'000	*UK £*	*US $*	*CAD $*	*EUR €*	*OTH*	*Total*
As at 31 December 2016						
Total assets	58,279	358,650	20,948	18,887	17,777	474,541
Total liabilities	(60,076)	(353,376)	(14,208)	(17,330)	(11,252)	(456,242)
Net assets	(1,797)	5,274	6,740	1,557	6,525	18,299

The non-sterling denominated net assets of the syndicate may lead to a reported loss (depending on the mix relative to the liabilities), should sterling strengthen against these currencies. Conversely, reported gains may arise should sterling weaken.

In part, foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the syndicate may also choose to utilise options on foreign currency derivatives to mitigate the risk of reported losses due to changes in foreign exchange rates. The degree to which options are used is dependent on the prevailing cost versus the perceived benefit to members' value from reducing the chance of a reported loss due to changes in foreign currency exchange rates. The details of all foreign currency derivatives contracts entered into are given in note 9.

21. Risk management *continued*

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage change in the relative strength of sterling against the value of the main settlement currencies simultaneously. The analysis is based on the information as at 31 December 2017.

Impact on profit

	2017	*2016*
	£'000	*£'000*
Sterling weakens		
10% against other currencies	1,396	1,508
20% against other currencies	3,141	3,392
Sterling strengthens		
10% against other currencies	(1,142)	(1,234)
20% against other currencies	(2,094)	(2,262)

(b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the syndicate to cash flow interest risk, whereas fixed rate instruments expose the syndicate to fair value interest risk.

The syndicate has no significant concentration of interest rate risk.

Insurance liabilities are not discounted and therefore are not exposed to interest rate risk.

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit of the effects of changes in interest rates on financial assets and liabilities for items recorded at fair value through profit and loss.

21. Risk management *continued*

The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that movements in these variables are non-linear.

Changes in variables	*Impact on profit £'000*
31 December 2017	
+50 basis points	(618)
-50 basis points	630
31 December 2016	
+50 basis points	(1,012)
-50 basis points	571

The method used for deriving sensitivity information and the significant variables are the same for both periods.

(c) *Equity price risk*

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

The syndicate's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The financial market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector and market, and careful and planned use of derivative financial instruments.

There is no significant concentration of equity price risk.

21. Risk management *continued*

The analysis below is performed for reasonably possible movements in market indices on financial instruments, with all other variables held constant, showing the impact on profit due to changes in fair value of financial assets and liabilities whose fair values are recorded in the profit and loss account. The correlation of variables will have a significant effect in determining the ultimate impact on equity price risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that movements in these variables are non-linear.

	Change in variables £'000	31 December 2017 *Impact on profit £'000*	31 December 2016 *Impact on profit £'000*
Changes in variables – market indices			
S&P 500/FTSE 100	+5%	38	3
S&P 500/FTSE 100	–5%	(36)	(3)

The method used for deriving sensitivity information and the significant variables are the same for both periods.

SYNDICATE

2121

UNDERWRITING YEAR

ACCOUNTS

AS AT 31 DECEMBER 2017

2015 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 judgments 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 – 2015 closed year of account

Opinion

We have audited the syndicate underwriting year accounts for the 2015 year of account of syndicate 2121 (‘the syndicate’) for the three years ended 31 December 2017 which comprise the Income Statement, the Statement of Changes in Members’ Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ and FRS 103 ‘Insurance Contracts’ (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2015 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).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the syndicate underwriting year accounts section of our report below. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate underwriting year accounts in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the syndicate’s members, as a body, in accordance with The Lloyd’s Syndicate Accounting Byelaw (no. 8 of 2005) and 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 and the syndicate’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The managing agent’s use of the going concern basis of accounting in the preparation of the syndicate underwriting year accounts on the basis that the recorded assets and liabilities will be realised and discharged in the normal course of business is not appropriate; or
- the managing agent has not disclosed in the syndicate underwriting year accounts any identified material uncertainties that may cast significant doubt on the ability of the syndicate to realise its assets and discharge its liabilities in the normal course of business.

Other information

The other information comprises the information included in the annual report, other than the syndicate underwriting year accounts and our auditor’s report thereon. The managing agent is responsible for the other information.

Our opinion on the syndicate underwriting year accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate underwriting year accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate underwriting year accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate underwriting year accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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 adequate accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent’s Responsibilities set out on page 71, the managing agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 and The Lloyd’s Syndicate Accounting Byelaw (no. 8 of 2005) and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate underwriting year accounts, the managing agent is responsible for assessing the syndicate’s ability to realise its assets and discharge its liabilities in the normal course of business, disclosing, as applicable, any matters that impact its ability to do so.

Auditor’s responsibilities for the audit of the syndicate underwriting year accounts

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

A further description of our responsibilities for the audit of financial statements is located on the Financial Reporting Council’s website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

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

15 March 2018

Income Statement for the 2015 year of account

closed at the end of the third year at 31 December 2017

Technical account – general business

	Notes	*£'000*	*Cumulative balance at 31 December 2017 £'000*
Syndicate allocated capacity			239,734
Earned premiums, net of reinsurance			
Gross premiums written	2		229,360
Outward reinsurance premiums			(42,667)
			186,693
Reinsurance to close premiums received, net of reinsurance	2		97,490
			284,183
Allocated investment return transferred from the non-technical account	8		2,266
Claims incurred, net of reinsurance			
Gross claims paid		(117,287)	
Reinsurers' share		16,739	
		(100,548)	
Reinsurance to close premiums payable, net of reinsurance	4	(103,406)	
			(203,954)
Net operating expenses	5		(84,664)
Balance on the technical account for general business			(2,169)

Non-technical account

	Notes	*Cumulative balance at 31 December 2017 £'000*
Balance on the general business technical account		(2,169)
Investment income	8	2,105
Net unrealised gains on investments	8	249
Investment expenses and charges	8	(88)
Allocated investment return transferred to the general business technical account		(2,266)
Exchange gains		14,807
Result for the closed year of account		12,638

There is no other comprehensive income in the accounting period other than that dealt with in the technical and non-technical accounts. Accordingly a separate statement of comprehensive income has not been presented.

Statement of Changes in Members' Balances

for the 36 months ended 31 December 2017

	2015 year of account £'000
At 1 January 2015	–
Profit	12,638
Members' agents' fees	(1,096)
At 31 December 2017	11,542

Statement of Financial Position

as at 31 December 2017

	Notes	2017 £'000	£'000
ASSETS			
Investments	9		100,340
Deposits with ceding undertakings			17
Debtors			
Debtors arising out of direct insurance operations	10	20	
Debtors arising out of reinsurance operations	11	7,784	
Other debtors		12,784	
			20,588
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the year of account			41,103
Cash and other assets			
Cash at bank and in hand		5,622	
Other assets	12	7,887	
			13,509
Prepayments and accrued income			100
TOTAL ASSETS			175,657
LIABILITIES			
Amounts due to members			11,542
Reinsurance to close premiums payable to close the year of account – gross amount			134,116
Creditors			
Creditors arising out of direct insurance operations		8,845	
Creditors arising out of reinsurance operations		8,127	
Other creditors		11,864	
			28,836
Accruals and deferred income			1,163
TOTAL LIABILITIES			175,657

The syndicate underwriting year accounts on pages 74 to 103 were approved by the Board of Argenta Syndicate Management Limited on 15 March 2018 and were signed on its behalf by

Andrew J Annandale
Managing Director

Statement of Cash Flows

for the 36 months ended 31 December 2017

	Notes	*2017* *£'000*
Profit on ordinary activities		12,638
Increase in outstanding claims		134,116
Increase in reinsurers' share of outstanding claims		(41,103)
Increase in debtors		(20,688)
Increase in creditors		29,999
Investment return		(2,266)
Movement in other assets/liabilities		–
Net cash inflow from operating activities		112,696
Investing activities		
Investment income received		1,775
Purchase of debt and equity instruments		(213,464)
Sale of debt and equity instruments		113,933
Purchase of derivatives		(568)
Sale of derivatives		566
Increase in overseas deposits		(7,043)
Increase in deposits with ceding undertakings		(17)
Net cash outflow from investing activities		(104,818)
Financing activities		
Members' agents' fee advances		(1,096)
Net cash outflow from financing activities		(1,096)
Increase in cash and cash equivalents		6,782
Effect of exchange rates on cash and cash equivalents		166
Cash and cash equivalents at 1 January		–
Cash and cash equivalents at 31 December	13	6,948

Notes to the Accounts

1. Accounting policies

1.1 Statement of compliance

The syndicate underwriting year accounts have been prepared under the 2008 Regulations and in accordance with the Syndicate Accounting Byelaw (No.8 of 2005) and applicable accounting standards in the United Kingdom. FRS 102 and FRS 103 have been applied to the extent that they are relevant for a proper understanding of the underwriting year accounts.

The 2015 year of account has closed and all assets and liabilities have been transferred to a reinsuring year of account. The result for the year of account was declared in sterling having been translated at the rate of exchange ruling at the balance sheet date. The payment of the closed year profit will be made in the currency in which it is declared with the exchange risk in respect of this transferring to the capital providers to the syndicate with effect from 31 December 2017. To this extent, the risks that it is exposed to in respect of the reported financial position and financial performance are significantly less than the syndicate annual accounts. Accordingly, these underwriting year accounts do not have associated risk disclosures as required by section 34 of FRS 102 and section 4 of FRS 103. Full disclosures relating to these risks are provided in the syndicate annual accounts. In addition certain other disclosure requirements under FRS 102 and FRS 103, which include reconciliations of changes in insurance liabilities, reinsurance assets and deferred acquisition costs, have not been provided as the directors believe they are not required for a proper understanding of the underwriting year accounts.

1.2 Basis of preparation

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 2015 year of account which has been closed by reinsurance to close at 31 December 2017; consequently the statement of financial position represents the assets and liabilities of the 2015 year of account and the income statement and statement of cash flows reflect the transactions for that year of account during the 36 month period until closure.

The financial statements for the period ended 31 December 2017 were approved for issue by the board of directors on 15 March 2018.

The financial statements are prepared in sterling which is the functional and presentational currency of the syndicate and rounded to the nearest £'000.

As permitted by FRS 103 the syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

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

1.3 Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the period. However, the nature of

1. Accounting policies *continued*

estimation means that actual outcomes could differ from those estimates. The following are the syndicate's key sources of estimation uncertainty:

Insurance contract technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims IBNR at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and, for some types of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. The provision for claims outstanding is based on the estimated ultimate cost of all claims notified but not settled by the statement of financial position date assessed on an individual case basis, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims IBNR at the statement of financial position date based on statistical methods.

These methods generally involve projecting from past experience 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 amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

Fair value of financial assets and derivatives determined using valuation techniques

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk, and model inputs such as estimated future cash flows based on management's best estimates and discount rates.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Further details are given in the syndicate annual accounts in note 21.

1.4 Significant accounting policies

Financial investments

As permitted by FRS 102, the syndicate has elected to apply the recognition and measurement provisions of section 11 and 12 in full to account for all of its financial instruments.

1. Accounting policies *continued*

Financial assets and financial liabilities are recognised when the syndicate becomes a party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Derivative financial instruments

The syndicate uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The syndicate does not hold or issue derivative financial instruments for speculative purposes. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less, net of outstanding bank overdrafts.

Fair value of financial assets

The syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

See Note 9 for details of financial instruments classified by fair value hierarchy.

Impairment of financial assets

For financial assets not held at fair value through profit or loss, the syndicate assesses at each reporting date whether the financial asset or group of financial assets is impaired. The syndicate first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

1. Accounting policies *continued*

Derecognition of financial assets

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- The rights to the cash flows from the asset have expired; or
- The syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement and either (a) the syndicate has transferred substantially all the risks and rewards of the asset; or (b) the syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the syndicate has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards nor transferred control of the asset, the asset is recognised to the extent of the syndicate's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the syndicate could be required to repay. In that case, the syndicate also recognises an associated liability.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial liabilities

The syndicate's financial liabilities include trade and other payables, borrowings, insurance payables and derivative financial instruments, where applicable. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR method amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in investment return in the profit or loss. Derivative financial liabilities are subsequently measured at fair value through profit or loss. A financial liability is derecognised when the obligation under the liability is discharged or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in profit or loss.

1. **Accounting policies** *continued*

Investment return

Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Interest income is recognised on a time proportionate basis taking into account effective interest yield.

Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered in detail under the accounting policy for financial investments.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated members' balance is made from the non-technical account to the technical account. Investment return related to non-insurance business and members' balance is attributed to the non-technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Insurance contracts – product classification

Insurance contracts are those contracts when the syndicate (the insurer/reinsurer) has accepted significant insurance risk from another party (the policyholder/reinsured) by agreeing to compensate the policyholder if a specified uncertain future event (the re/insured event) adversely affects the policyholders. As a general guideline, the syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Any separable embedded derivatives within an insurance contract are separated and accounted for in accordance with sections 11 and 12 of FRS 102 unless the embedded derivative is itself an insurance contract (i.e. the derivative is not separated if the policyholder benefits from the derivative only when the insured event occurs).

Underwriting transactions

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.

The reinsurance to close premium

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.

1. Accounting policies *continued*

Gross premiums

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. Premium written are treated as fully earned. Outwards reinsurance premiums ceded are attributed to the same year as the original risk being protected.

Gross claims

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.

Outstanding claims

Outstanding claims comprise amounts set aside for claims notified and IBNR claims. 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 the auditor's actuarial team. 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 period 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.

Reinsurance assets

The syndicate cedes insurance risk in the normal course of business for all of its areas of operation. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

1. Accounting policies *continued*

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised relating to the 2015 year of account.

Ceded reinsurance arrangements do not relieve the syndicate from its obligations to policyholders.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the EIR method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the EIR method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

Foreign currencies

The syndicate's functional currency and presentational currency is sterling. Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions or at an approximate average rate.

Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items denominated in a foreign currency, measured at fair value, are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded in the non-technical account.

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, any 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 are included in the statement of financial position under the heading 'other debtors'.

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

1. Accounting policies *continued*

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.

Profit commission

Profit commission is charged by the managing agent for the 2015 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.

2. Particulars of business written

2015 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	42,112	(13,736)	(18,777)	(5,650)	3,949
Fire and other damage to property	104,378	(63,416)	(38,301)	(10,421)	(7,760)
Third party liability	6,824	(3,050)	(3,548)	(1,574)	(1,348)
Other	4,233	(2,694)	(2,151)	(1,361)	749
	157,547	(82,896)	(62,777)	(16,284)	(4,410)
Reinsurance accepted	169,303	(173,970)	(21,887)	26,529	(25)
	326,850	(256,866)	(84,664)	10,245	(4,435)

Reinsurance acceptances include the reinsurance to close premium of £97,490,000 received from the 2014 year of account.

All premiums were concluded in the UK.

* 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 received and set off in arriving at the net operating expenses.

Geographical analysis by destination

	Gross written premiums £'000
UK	83,660
EU	18,946
Other	224,244
	326,850

3. Analysis of underwriting result

	2014 and prior years of account £'000	*2015 pure year of account £'000*	*Total 2015 year of account £'000*
Technical account balance before allocated investment return and net operating expenses	12,132	68,097	80,229
Acquisition costs	852	(69,827)	(68,975)
	12,984	(1,730)	11,254

4. Reinsurance to close premiums payable net of reinsurance

	Reported £'000	*IBNR £'000*	*Total £'000*
Gross outstandings	78,469	61,110	139,579
Reinsurance recoveries anticipated	(19,423)	(16,750)	(36,173)
	59,046	44,360	103,406

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

5. Net operating expenses

	2017 £'000
Acquisition costs	68,975
Administrative expenses	15,689
Net operating expenses	84,664

Members' standard personal expenses amounting to £6.2 million are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission.

6. Staff numbers and costs

The following amounts were recharged to the syndicate in respect of staff costs:

	2017 £'000
Wages and salaries	8,251
Social security costs	1,231
Other pension costs	600
	10,082

The average number of employees working for the syndicate during the period was as follows:

	2017 Number
Underwriting	22
Underwriting support	22
Claims	7
Administration and finance	20
	71

The staff numbers exclude employees providing services by way of a cross charge from other group companies.

The aggregate remuneration charged to the syndicate in respect of emoluments paid to the directors of ASML and the active underwriter was £1.7 million. This includes £321,000 that relates to the active underwriter.

7. Auditor's remuneration

	2017 £'000
Audit services	204
Other services pursuant to regulations and Lloyd's byelaws	126
	330

8. Investment return

	2017 £'000
Income from other investments	2,418
Net losses on realisation of investments	(313)
Total investment income	2,105
Net unrealised gains on investments	249
Investment expenses and charges	(88)
Total investment return	2,266

9. Financial investments

	Market value 2017 £'000
Shares and other variable yield securities and units in unit trusts	
– designated at fair value through profit or loss	33,277
Debt securities and other fixed income securities	
– designated at fair value through profit or loss	61,975
Deposits with credit institutions held at fair value	808
Loans secured by mortgages	1,656
Participation in investment pools	2,622
Derivatives	2
	100,340

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.

There was no material change in fair value for financial instruments held at fair value attributable to own credit risk during the 36 month period.

There have been no day one profits recognised in respect of financial instruments designated at fair value through profit or loss.

9. Financial investments *continued*

By market value, approximately 49% of shares and other variable yield securities and units in unit trusts are listed on a recognised stock exchange.

The syndicate's investment managers are permitted to directly purchase derivative financial instruments (interest rate futures) to hedge the syndicate's interest rate risks. These derivatives are classified as trading instruments.

The following table shows financial investments including overseas deposits recorded at fair value analysed between three levels in the fair value hierarchy.

	Level 1	*Level 2*	*Level 3*	*Total*
	£'000	*£'000*	*£'000*	*£'000*
Shares and other variable yield securities and units in unit trusts	14,645	18,632	–	33,277
Debt securities and other fixed income securities	–	61,975	–	61,975
Participation in investment pools	1	2,621	–	2,622
Loans and deposits with credit institutions	808	1,656	–	2,464
Overseas deposits	1,960	5,927	–	7,887
Derivatives	2	–	–	2
	17,416	90,811	–	108,227

Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry syndicate, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the syndicate's own models whereby the significant inputs into the assumptions are market observable.

Included in the level 3 category are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect the syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the syndicate's own data.

10. Debtors arising out of direct operations

	2017
	£'000
Amounts falling due after one year – intermediaries	20

11. Debtors arising out of reinsurance operations

	2017
	£'000
Amounts falling due within one year	6,310
Amounts falling due after one year	1,474
	7,784

12. Other assets

	2017
	£'000
Overseas deposits	
Amounts advanced in the following locations as a condition of carrying on business there:	
Illinois, USA	718
Australia	3,773
South Africa and other countries	3,396
	7,887

13. Cash and cash equivalents

	2017
	£'000
Cash at bank and in hand	5,622
Short-term deposits with financial institutions	1,326
	6,948

14. Off balance sheet items

The syndicate has not been party to an arrangement which is not reflected in its statement of financial position, where material risks or benefits arise for the syndicate.

15. Related parties

Argenta Holdings Ltd

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

Prior to 20 July 2017 AHL was controlled by Glenrinnes Farms Ltd, RBC cees Trustee Ltd as trustee of the Argenta Employee Benefit Trust and Wren Properties Ltd, who owned 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. Wren Properties Ltd is owned and controlled by members of the Robinson family. In July 2017, the then shareholders of AHL entered into a transaction whereby Hannover Re acquired 100% of the issued share capital of AHL. The parent undertaking of Hannover Re is Talanx AG which holds a 50.2% interest in the company. The principal shareholder in Talanx AG is Haftpflichtverband Der Deutschen Industrie V.a.G. ("HDI") which holds 79.0% of Talanx AG's issued share capital.

AHL and its related parties provide certain underwriting, administrative, accounting, human resource, information technology, risk management and compliance 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 AHL 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 AHL, is a service company approved by Lloyd's and the MAS to operate on the Lloyd's Asia platform. AUA also holds a licence granted by the Australian Securities and Investments Commission and has a branch office approved by Lloyd's in Sydney, Australia. Syndicate 2121 uses this service company as a coverholder to bind risks on its behalf. Such services relating to business written in Singapore are provided at cost plus a small profit margin of 5% mainly for tax purposes. The total value of the margin for the 2015 year of account is less than £90,000. The commission retained by AUA for business underwritten by the Australian branch is at most 28.5% of gross premium, which is in line with other Australian facilities currently supported by the syndicate. The commission charged in Australia covers original acquisition costs, branch office expenses and processing costs. The total commissions payable for the 2015 year of account were £1.8 million.

Mr Andrew Annandale and Mr Ian Maguire are directors of AUA.

Other than by virtue of directorship fees, salaries and other related remuneration in respect of their employment by either AHL or its related parties, and the increase in capital value arising on their historic shareholdings, none of the directors, officers, shareholders or related parties concerned, derive any personal benefit from the arrangements that exist.

Business transactions

Hannover Re

Hannover Re and certain of its subsidiaries, have, in the past, provided and are likely to provide in the future, traditional types of reinsurance protection to Syndicate 2121.

15. Related parties *continued*

Syndicate 2121 has in the past, and may in the future, provide insurance or reinsurance cover to Hannover Re and its subsidiaries.

All such business underwritten and reinsurances purchased have in the past been, and will continue to be, transacted on an arm's length commercial basis with no personal benefit derived by the directors, officers, shareholders or related parties concerned.

ASML Directors

The late Mr John Mumford was a director of another Lloyd's managing agency, Neon Underwriting Ltd (formerly Marketform Managing Agency Ltd), until his resignation on 10 February 2017.

Mr John Whiter is chairman of Lloyd's broker Ed Broking (London) Ltd (formerly CGNMB LLP) and a director of its parent company, Ed Broking Group Ltd (formerly Cooper Gay Swett & Crawford Ltd).

Mr Graham White, who was a director of ASML until his resignation on 31 March 2015, is a director of Lloyd's broker Marine Aviation & General (London) Ltd.

Mr Paul Hunt became a director of the Britannia Steam Ship Insurance Association Limited on 11 July 2017.

Mr Alan Grant, who joined the Board of ASML on 16 November 2017, is a director of Thomas Miller Holdings Ltd, the parent company of the Thomas Miller group, and of Osprey Underwriting Agency Limited, a Lloyd's coverholder within the Thomas Miller group.

Mr Sven Althoff is a director of Apollo Syndicate Management Limited, a Lloyd's Managing Agent; a member of the Executive Board of Hannover Re; a member of the Supervisory Board of Inter Hannover SE; and a director of Integra Insurance Solutions Ltd, a UK managing general agent.

Mr Jens Schäfermeier is employed as the managing director of a property and casualty division within Hannover Re.

Mr Trevor Newbery, who was a director of ASML until his resignation on 25 June 2016, was 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) until his resignation from all of the companies on 31 October 2015. Mr Newbery became a non-executive director of Arthur J. Gallagher Holdings (UK) Limited, the holding company of a number of Lloyd's brokers; and the non-executive chairman of Pen Underwriting Limited, a managing general agent, on 11 November 2015 and 8 December 2015 respectively.

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.

Messrs Grant and Hunt and the late John Mumford benefitted from fees paid in respect of independent review services that they carried out, or continue to carry out, on sections of Syndicate 2121's book of business. It is a regulatory requirement that such reviews are performed by individuals who are separate from the day to day underwriting of the specific classes of business under review and have the necessary skills and experience to fulfil the independent review obligations.

15. Related parties *continued*

ASML

Total fees and profit commission payable to ASML in respect of services provided to the syndicate in respect of its role as managing agent for the 2015 year of account amounted to £1.8 million and £2.7 million respectively. Creditors at the period-end include amounts in respect of profit commission due to ASML of £2.7 million.

In addition to this, creditors at the period-end include amounts due to ASML of £0.1 million in respect of expenses paid on behalf of the 2015 year of account.

Capital support for Syndicate 2121

Hannover Re has supported Syndicate 2121 for the 2015 to 2018 years of account by way of a pro-rata participation agreement with a corporate member. For the 2015 year, this agreement was in relation to 75.48% of the total participation of the member increasing to 100% for the 2016 to 2018 years of account.

Hannover Re also provides capital support to Argenta Underwriting No. 3 Ltd for 2018 by way of an excess participation agreement.

Inter Hannover (No. 1) Ltd, a wholly owned subsidiary of the Hannover Re group, participates on Syndicate 2121 for the 2018 year of account.

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

Mr Annandale is a director of Argenta Private Capital Limited (APCL), a subsidiary of AHL. Messrs Graham White and David Williams were directors of APCL until their resignations on 31 July 2015 and 29 July 2015 respectively, and were also directors of ASML until their resignations on 31 March 2015.

Mr Alan Tucker, who was a director of ASML until his resignation on 31 March 2015, was also a director of the following corporate members:

Rechter Underwriting Ltd (resigned 15 August 2017)
Cantril Investments Ltd (resigned 15 August 2017)
Kemah Lime Street Capital Limited (resigned 15 August 2017
Kling Investment Ltd (resigned 15 August 2017)
Nidarich Ltd (resigned 3 December 2015)

APCL allocates capacity to Syndicate 2121 for the 2015 to 2018 years of account. Rechter Underwriting Ltd, Kling Investment Ltd, Kemah Lime Street Capital Limited and Cantril Investments Ltd all allocated capacity to Syndicate 2121 for the 2015 to 2018 years of account. Nidarich Ltd allocated capacity to Syndicate 2121 for the 2015 year of account.

15. Related parties *continued*

Mr Tucker was also a director of Fifteen B Limited, which is a member of Alizadeh Underwriting LLP that allocates capacity to Syndicate 2121 for the 2015 to 2018 years of account, and also a director of Inswin Ltd, which is a member of Winins LLP that allocates capacity to Syndicate 2121 for the 2017 and 2018 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) (resigned 15 December 2016)

AU12 was sold to a third party in December 2016. AU2, AU3, AU8, AU9, AU10 and AU12 participated on Syndicate 2121 for the 2015 to 2018 years of account. AU11 participated on Syndicate 2121 for the 2015 to 2017 years of account.

Other than directorship fees, salaries and other related remuneration and the increase in capital value arising on any direct or indirect historic shareholdings in the Lloyd's corporate members, no personal benefit is derived by the individuals concerned from these arrangements.

Mr Alasdair Locke was a director of and, via his company Glenrinnes Farms Ltd, a shareholder in AHL until 20th July 2017 when he resigned as a director of the company and his shareholding was acquired by Hannover Re.

Glenrinnes Farms Ltd provided capital to AU2, AU3 and AU9 for the 2015 to 2017 years of account on an excess basis through Funds at Lloyd's Provider's Agreements. Glenrinnes Farms Ltd also participated on AU3 on a pro-rata basis for the 2015 year of account.

Each corporate member in turn provides capital to Syndicate 2121 for each of the 2015 to 2018 years of account. 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.

As part of the consideration for the provision of all such capital by Glenrinnes Farms Ltd, it was granted an option by AHL and its shareholders to acquire £98.5 million of Syndicate 2121 capacity. The option was closed out during 2015 following a payment to compensate for this.

All capital providers who underwrite on Syndicate 2121 are charged managing agency fees and profit commission on a standard basis, apart from two where the charges are less advantageous to those entities, as disclosed in the Register of Underwriting Agency Charges.

There are no other transactions or arrangements to be disclosed.

16. Risk management

(a) Governance framework

The primary objective of the syndicate's risk management framework is to protect the syndicate's members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. ASML recognises the critical importance of having efficient and effective risk management systems in place.

The managing agent has established a risk management function for the syndicate with clear terms of reference from the board of directors and its sub-committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a syndicate policy framework which sets out the risk profiles for the syndicate, risk management, control and business conduct standards for the syndicate's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the syndicate.

The board of directors approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the syndicate goals, and specify reporting requirements. Significant emphasis is placed on assessment and documentation of risks and controls, including the articulation of 'risk appetite'.

(b) Capital management objectives

Capital framework at Lloyd's

Lloyd's is a regulated undertaking and subject to the supervision of the PRA under the Financial Services and Markets Act 2000.

With effect from 1 January 2016, Lloyd's became subject to the Solvency II capital regime and the Solvency I figures were no longer applicable from that date. Although the capital regime changed, this did not significantly impact the SCR of the syndicate, since this had been previously calculated based on Solvency II principles, as described below.

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

Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2121 is not disclosed in these financial statements.

Lloyd's capital setting process

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

16. **Risk management** *continued*

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. For a member participating on a single syndicate, its SCR is determined by the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate a credit for diversification is included to reflect the spread of risk. The credit given is consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies an uplift to the member's SCR to determine the overall level of capital required. This is known as the member's Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for the 2015 year of account was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (FAL), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates (the latter being adjusted to reflect their value on a Solvency II basis). Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 25 of the syndicate annual accounts, represent resources available to meet members' and Lloyd's capital requirements.

(c) Insurance risk

The principal risk the syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the syndicate is to ensure that sufficient reserves are available to cover these liabilities. Reference to insurance business should, as appropriate, be understood to include the equivalent reinsurance business underwritten by the syndicate.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The syndicate purchases reinsurance as part of its risk mitigation programme. Reinsurance ceded is placed on both a proportional and non–proportional basis. The majority of proportional reinsurance is quota share reinsurance which is taken out to reduce the overall exposure to certain classes of business. Non–proportional reinsurance is primarily excess of loss reinsurance designed to mitigate the syndicate's net exposure to catastrophe losses and large individual risk losses. Retention limits for the excess of loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the syndicate has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists in respect of ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed

16. Risk management *continued*

under such reinsurance agreements. The syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

The syndicate principally issues the following types of general insurance contracts: marine, aviation and transport; fire and other damage to property; energy; and third-party liability. Risks usually cover twelve months duration.

The most significant risks arise from natural disasters, terrorist activities, cyber attacks, large risk losses and adverse attritional claims experience. For longer tail claims that take some years to settle, there is also inflation risk.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the syndicate. The syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account where appropriate when estimating insurance contract liabilities.

The syndicate has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g. hurricanes, earthquakes and flood damage).

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the syndicate's risk appetite as agreed by the ASML board. The overall aim is currently to restrict the impact of a single RDS on a gross of reinsurance basis to less than 80% of the sum of the ECA and business plan profit, and less than 30% on a net of reinsurance basis. The reinsurance counterparty exposure is managed such that the exposure to, for instance, a single 'A' rated reinsurer is estimated not to exceed 10% of the total recoverable amount for the programme. The board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

The syndicate uses both its own and commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

The 2015 year of account has closed, so no catastrophe exposure written by the syndicate remains in respect of the closing year. A further guide to the level of catastrophe exposure written by the syndicate is in note 21 of the syndicate annual accounts.

16. Risk management *continued*

Note 21 of the syndicate annual accounts includes analysis for the syndicate overall of the concentration of outstanding claim liabilities and unearned premiums by type of contract and the geographical concentration of the outstanding claim liabilities and unearned premiums.

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each underwriting year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one–off occurrence; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

Claim liabilities are not sensitive to the key assumptions as the 2015 year of account has closed and all assets and liabilities have been passed to a subsequent year of account by way of a reinsurance to close. Sensitivities relating to open years of account are included in note 21 of the syndicate annual accounts.

Claims development table

The syndicate annual accounts include tables showing the estimates of cumulative incurred claims, including both claims notified and IBNR for each underwriting year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at 31 December 2017.

The syndicate has taken advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption. The claims development information disclosed in the syndicate annual accounts is being increased from five years to ten years over the period 2016 to 2020.

In setting claims provisions the syndicate gives consideration to the probability and magnitude of future adverse experience. Due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

(d) Financial risk

(1) Credit risk

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

16. Risk management *continued*

The following policies and procedures are in place to mitigate the exposure to credit risk:

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the syndicate risk framework and compliance committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Net exposure limits are set for each investment counterparty or syndicate of counterparties with minimum credit quality requirements at a portfolio level.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set by the finance and investment committee and are subject to regular reviews. At each reporting date management performs an assessment of creditworthiness of reinsurers, ascertaining a suitable allowance for impairment.
- Guidelines determine when to obtain collateral and guarantees.
- The syndicate sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.
- The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

All assets will be assumed by the reinsuring year of account. The syndicate annual accounts include tables showing the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the annually accounted statement of financial position.

The syndicate annual accounts also include a table showing information regarding the credit risk exposure of the syndicate at 31 December 2017 by classifying assets according to Standard & Poor's credit ratings of the counterparties.

Maximum credit exposure

It is the syndicate's policy to maintain accurate credit ratings across its portfolio of investments and reinsurance counterparties.

Credit ratings are provided regularly by the syndicate's investment managers and are subject to regular review to ensure any counterparty risk is in line with the syndicate's risk appetite and complies with the specified investment guidelines. The management of the syndicate's investments is largely outsourced to professional investment managers who are given clearly defined credit, concentration and asset parameters within which they can operate. Specific provisions are included within the investment guidelines around notification of any credit breaches which would result in action being taken to rectify the position, subject to materiality.

16. Risk management *continued*

(2) Liquidity risk

Liquidity risk is the risk that the syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out flows and expected reinsurance recoveries.

The following policies and procedures are in place to mitigate the syndicate's exposure to liquidity risk:

- A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.

Maturity profiles

All liabilities will be assumed by the reinsuring year of account. The syndicate annual accounts include a table that summarises the maturity profile of the syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities.

(3) Financial market risk

Financial market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial market risk comprises three types of risk:

a. Currency risk;

b. Interest rate risk; and

c. Equity price risk.

The following policies and procedures are in place to mitigate the exposure to financial market risk:

- A financial market risk policy exists that sets out the assessment and determination of what constitutes financial market risk for the syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Strict control over derivative instruments (e.g. equity derivatives are only permitted to be held to facilitate portfolio management or to reduce investment risk).
- For assets backing outstanding claims provisions, financial market risk is managed by ensuring the duration and profile of assets are aligned to the technical provisions they are backing. This helps manage financial market risk to the extent that changes in the values of assets are matched by a corresponding movement in the values of the technical provisions.

16. Risk management *continued*

(a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The syndicate's functional currency is sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in euros, US dollars and Canadian dollars. The syndicate seeks to mitigate the risk by regularly seeking to match the estimated foreign currency denominated liabilities with assets denominated in the same currency.

The year of account result has closed and is fixed in sterling so there is no foreign currency exchange exposure. The syndicate annual accounts include a table that summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date.

In part, foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the syndicate may also choose to utilise options on foreign currency derivatives to mitigate the risk of reported losses due to changes in foreign exchange rates. The degree to which options are used is dependent on the prevailing cost versus the perceived benefit to members' value from reducing the chance of a reported loss due to changes in foreign currency exchange rates.

Sensitivity to changes in foreign exchange rates

The closed year result is fixed in sterling and therefore not exposed to changes in foreign currency exchange rates. The syndicate annual accounts give an indication of the impact on profit of a percentage change in the relative strength of sterling against the value of the US dollar, Canadian dollar and euro simultaneously based on the information as at 31 December 2017.

(b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the syndicate to cash flow interest risk, whereas fixed rate instruments expose the syndicate to fair value interest risk.

The syndicate has no significant concentration of interest rate risk.

Insurance liabilities are not discounted and therefore are not exposed to interest rate risk.

Analysis in note 21 of the syndicate annual accounts is performed for reasonably possible movements in interest rates with all other variables held constant and shows the impact on profit of the effects of changes in interest rates on financial assets and liabilities for items recorded at fair value through profit or loss.

16. Risk management *continued*

(c) Equity price risk

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

The syndicate's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The financial market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector and market, and careful and planned use of derivative financial instruments.

There is no significant concentration of equity price risk.

Note 21 in the syndicate annual accounts includes analysis performed for reasonably possible movements in market indices on financial instruments, with all other variables held constant, showing the impact on profit due to changes in fair value of financial assets and liabilities whose fair values are recorded in the profit and loss account. The correlation of variables will have a significant effect in determining the ultimate impact on equity price risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that movements in these variables are non-linear.

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