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Pioneer Syndicate 1980

Syndicate Annual Report and Accounts

31 December 2018

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Directors and Administration

Managing Agent

Asta Managing Agency Ltd

Directors

T A Riddell (Chairman)*
R P Barke
C V Barley
L Harfitt
A J Hubbard*
D J G Hunt
P A Jardine*
M D Mohn*
S P A Norton
J W Ramage*
K Shah*
R A Stevenson*
J M Tighe

Non-Executive Directors*

Company Secretary

N J Burdett

Managing Agent's Registered Office

5th Floor
Camomile Court
23 Camomile Street
London
EC3A 7LL

Managing Agent's Registered Number

1918744

Active Underwriter

G Rayner

Bankers

Citibank N.A,
RBC Dexia
Lloyds Bank

Investment Managers

New England Asset Management (NEAM)

Registered Auditors

Deloitte LLP

Active Underwriter's report

Syndicate 1980 underwrites business solely produced via facilities linked to Pioneer Underwriters global distribution network. Pioneer Underwriters is a provider of underwriting services to risk bearing capital, and deploys its underwriters in London, Zurich and the US. Pioneer's operational model is unique in the London Market and Syndicate 1980 is integral to the delivery of risk transfer to our capital partners.

The Syndicate is managed by Asta Managing Agency.

The Syndicate commenced underwriting contracts incepting from January 1st 2018 having transitioned from ACSN 1980. It therefore benefitted from access to a mature book of renewal business, providing a critical mass of premium income.

In light of ongoing extremely competitive market conditions and based on ongoing reassessment of the quality of the transfer of the business from the Syndicate's predecessor, ACSN 1980, the Syndicate did not write to its full planned premium in 2018. Our forecast ultimate GWP is £201m compared to the £240m originally planned. The competitive trading conditions will also impact the Syndicate's underwriting performance and we forecast an underwriting loss when the 2018 year closes. The expected performance was driven by a number of dynamics:

- attritional loss experience on US property classes was worse than expected;
- the Syndicate faced an unusual frequency of large losses on short tail lines; and
- a reassessment at Q4 of prior year experience of ACSN1980 on longer tail lines has affected the Syndicate's view of the level of profitability in those classes for 2018.

This will be offset slightly by lower acquisition costs as the Syndicate reduced commission payable to Pioneer Underwriters, and Pioneer underwriters addressed business mix to reduce original acquisition cost.

With immediate effect I have implemented a number of measures to improve the quality and balance of the Syndicate and thus produce sustainable underwriting profitability:

- implement a performance management programme that applies ever more rigorous oversight and challenge of all underwriting decisions. Our objective is to optimize portfolio mix as the market hardens;
- continue to cut the costs of doing business through enhanced efficiencies and a focus on reducing acquisition costs;
- seek to further improve the value and efficiency of our outwards reinsurance programme; and
- build scale of our existing profitable business lines to reduce volatility.

Active Underwriter's report continued

The above builds on the actions already taken to deliver change across the Syndicate and is supported by a more positive rating environment whereby the increases achieved during 2018 continue to gain pace during 2019.

In summary, 2018 has been a challenging year for Syndicate 1980 but we have built a strong platform from which to build and prosper in future years.

Graeme Rayner
Active Underwriter – Syndicate 1980

Managing Agent's report

The Syndicate's Managing Agent is a company registered in England and Wales. The directors of the Managing Agent present their report for the year ended 31 December 2018.

This annual report is 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 ("Lloyd's Regulations 2008").

Results

The result for the calendar year 2018 is a loss of $39,603,295.

The Syndicate has presented its results under FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. In accordance with FRS102, the Syndicate has identified its insurance contracts and accounted for them in accordance with FRS103.

Principal activity and review of the business

This is the first year of the Syndicate's operations. The Syndicate's principal activity is the underwriting of direct insurance and reinsurance business in the Lloyd's market.

Gross Written premium income by class of business for the calendar year was as follows;

	2018
	$'000
Casualty	29,118
Engineering & MPE	34,816
Financial Institutions	13,836
International Property	11,723
Marine	21,745
Onshore Energy	12,959
Operational Power	11,461
Professional Indemnity	51,098
US Property	34,113
Prior Year Loss Portfolio Transfer	30,368
	251,237

The Syndicate's key financial performance indicators during the year was as follows;

	2018 **$'000**
Gross written premiums	251,237
Loss for the financial year	(39,603)
Combined ratio	(172.7%)

** The combined ratio is the ratio of net claims incurred (which includes an unexpired risk reserve) and net operating expenses to net premiums earned. Lower ratios represent better performance*

The performance of the Syndicate has been assessed by measuring, as a percentage of underwriting capacity, the 36-month forecasted result on a funded accounting basis for a “closed‟ underwriting year of account.

The return on capacity for the open year 2018 is shown below.

	2018 YOA Open
Capacity ($’000)	221,572
Forecast result ($’000)	(37,314)
Forecast return on capacity (%)	(16.84%)

Principal risks and uncertainties

The Syndicate sets risk appetite annually, which is approved by the Agency as part of the Syndicate’s business planning and Solvency Capital Requirement (‘SCR’) process. The Agency Risk and Solvency Committee meets at least quarterly to oversee the risk management framework. The Syndicate Board, a sub-committee of the Agency Board, reviews the risk profile as reflected in the risk register and monitors performance against risk appetite using a series of key risk indicators. The principal risks and uncertainties facing the Syndicate are as follows:

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Syndicate Board manages insurance risk through the approved business plan, which sets out targets for volumes, loss ratios and ceding commission pricing by class of business. The Syndicate Board then monitors performance against the business plan through the year. Reserve adequacy is monitored through quarterly review by the Syndicate actuary and the Reserving Committee. It is also reviewed by an independent firm of actuaries.

Credit risk

The key aspect of credit risk is reinsurance counterparty risk which is the risk of default by one or more of the Syndicate’s reinsurers and intermediaries. The Syndicate Board’s policy is that the Syndicate will only reinsure with approved reinsurers, supported by collateralisation, where required. The Agency Reinsurance Security Committee monitors reinsurer ratings and is required to approve all new reinsurers before business is placed with them.

Market risk

Market risk exposure impacting the Syndicate relates to fluctuations in interest rates or exchange rates. The Syndicate is exposed to foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency’s policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Syndicate Board.

Managing Agent's report continued

Exposure to changes in interest rates comes from the Syndicate's investment portfolio. The Agency seeks to minimise this risk through investing in either fixed interest securities or high quality floating rate notes.

In addition, an investment Committee which reports to the Syndicate board, ensures that the Syndicate investment portfolio is managed by the external investment manager accordance with the Syndicates risk appetite and to guidelines as approved by the Syndicate Board.

Liquidity risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. To mitigate this risk the Syndicate Board reviews cash flow projections regularly.

Operational risk

This is the risk that errors caused by people, processes, systems and external events lead to losses to the Syndicate. The Agency seeks to manage this risk through the use of an operational risk and control framework throughout the Syndicate, detailed procedures manuals and a structured programme of testing of processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulatory Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Agency has a compliance officer who manages a team of four that monitor business activity and regulatory developments and assesses any effects on the Agency.

The Syndicate has no appetite for failing to treat customers fairly. The Syndicate manages and monitors its conduct risk through a suite of risk indicators and reporting metrics as part of its documented conduct risk framework.

Group / strategic risk

This is the risk of contagion that arises from being associated with key stakeholders and the impact that activities and events that occur within other connected or third parties has on the business.

Strategic risk covers the risks faced by the Syndicate due to changes in underlying strategy of the business or that of its key stakeholders (including strategic conflicts of interest).

Future developments

The Syndicate will continue to transact the current classes of reinsurance business. If opportunities arise to write new classes of business, these will be investigated at the appropriate time.

The capacity for the 2019 year of account is $119.2m.

Managing Agent's report continued

Significant uncertainty remains associated with the UK's planned exit from the European Union. The risks to UK economic growth remain significant as the terms of the UK's exit from the EU remain unclear.

To mitigate the risk of losing access to EEA business and mitigate the impact of the Lloyd's syndicates losing EEA passporting rights, Lloyd's have set up an EU regulated insurance company (LIC) in Brussels to underwrite EEA-exposed business from 1 January 2019. This is a fully operational, capitalised insurance company under Solvency II. It is authorised and regulated by the National Bank of Belgium and regulated by the Financial Services and Markets Authority and licensed to write non-life risks across the EEA and the UK.

Writing business via Lloyd's Brussels has necessitated a number of operational changes that syndicates have had to make to enable them to be able to write EEA business via a reinsurance arrangement with LIC. The Managing Agency has been working with the Syndicate to implement these changes to ensure that the Syndicate was set up to write business via Lloyd's Brussels from 1 January 2019.

Pioneer underwrites as an MGA operating a unique underwriting facility model with Syndicate 1980 participating on these facilities aligned with the Syndicate's risk appetite. Although the Lloyd's model allows syndicates to underwrite business from the UK, this does not work for Pioneer in their role as an MGA. An MGA is defined as an insurance intermediary, and local regulations stipulate that all insurance intermediation activities must take place within the EEA. Pioneer has therefore set up a Belgian based coverholder, Pioneer Underwriters Europe S.A. (PUE). Any EEA-exposed business presented in London will be referred to PUE for underwriting, as required by local regulators.

The 2019 Syndicate business plan included $8.5m of EEA-exposed business to be written via Lloyd's Brussels. However, the majority of the Syndicate business is in USD and the Syndicate does not hold any Euro or GBP denominated investments.

Directors

Details of the directors of the Managing Agent that were serving at the year end and up to the date of signing of the financial statements are provided on page 1. Changes to directors were as follows:

R P Barke	Appointed 1 January 2018
P A Jardine	Appointed 1 November 2018
R A Stevenson	Appointed 1 November 2018
C Chow*	Resigned 28 February 2019
N J Burdett*	Appointed 01 March 2019

**Company Secretary*

Disclosure of information to the auditors

So far as each person who was a director of the Managing Agent at the date of approving the report is aware, there is no relevant audit information, being information needed by the Syndicate auditors in connection with the auditors' report, of which the auditors are unaware. Having made enquiries of fellow directors of the Agency and the Syndicate's Auditors, 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 auditors are aware of that information.

Managing Agent's report continued

Auditors

The Managing Agent intends to reappoint Deloitte as the Syndicate's auditors.

Syndicate Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by Syndicate members before 26 April 2019.

On behalf of the Board

N J Burdett
Company Secretary
19 March 2019

Statement of Managing Agent's responsibilities

The Managing Agent is responsible for preparing the financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare financial statements at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland. The financial statements 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 financial statements, the managing agent is required to:

- select suitable accounting policies and then apply them consistently subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate accounts; and
- prepare the Syndicate 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 adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. 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.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors’ report to the members of Syndicate 1980

Independent auditor’s report to the members of Syndicate 1980

Report on the audit of the syndicate annual financial statements

Opinion

In our opinion the syndicate annual financial statements of Syndicate 1980 (the ‘syndicate’):

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

We have audited the syndicate annual financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in members’ balances;
- the cash flow statement; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice).

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 financial statements section of our report.

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the Financial Reporting Council’s (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.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the managing agent’s use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the managing agent has not disclosed in the syndicate annual financial statements 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 financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Independent auditor's report continued

Other information

The managing agent is responsible for the other information. The other information comprises the information included in the annual report and accounts, other than the syndicate annual financial statements and our auditor's report thereon. Our opinion on the syndicate annual financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual financial statements 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 financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of managing agent

As explained more fully in the managing agent's responsibilities statement, the managing agent is responsible for the preparation of the syndicate annual financial statements 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 syndicate annual financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the syndicate annual financial statements

Our objectives are to obtain reasonable assurance about whether the syndicate annual financial statements 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 financial statements.

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

Independent auditor's report continued

Report on other legal and regulatory requirements

Opinions on other matters 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 for which the financial statements are prepared is consistent with the financial statements; and
- the managing agent's report has been prepared in accordance with applicable legal requirements.

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 any material misstatements in the managing agent's report.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Adam Knight (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London
19 March 2019

Income statement

Technical account - General business

For the year ended 31 December 2018

	Notes	2018 $'000
Gross premiums written	3	251,237
Outward reinsurance premiums		(143,885)
Net written premiums		107,352
Change in the provision for unearned premiums		
Gross amount		(128,642)
Reinsurers' share		78,431
Change in the net provision for unearned premiums	4	(50,211)
Earned premiums, net of reinsurance		57,141
Allocated investment return transferred from the non-technical account		983
Claims paid		
Gross amount		(76,833)
Reinsurers' share		6,866
Net claims paid		(69,967)
Changes in the provision for claims outstanding		
Gross amount		(60,065)
Reinsurers' share		50,424
Change in the net provision for claims	4	(9,641)
Claims incurred, net of reinsurance		(79,608)
Net operating expenses	5	(19,096)
Balance on technical account – general business		(40,580)

All the amounts above are in respect of continuing operations.

The notes on pages 18 to 39 form part of these financial statements.

Income statement continued

Non-technical account - General business

For the year ended 31 December 2018

	Notes	2018 $'000
Balance on technical account – general business		(40,580)
Investment income	8	983
Allocated investment return transferred to the general business technical account		(983)
Exchange gains		977
Loss for the financial year		(39,603)

There were no recognised gains and losses in the year other than those reported in the Income Statement and hence no Statement of Other Comprehensive Income has been presented.

All the amounts above are in respect of continuing operations.

The notes on pages 18 to 39 form part of these financial statements.

Statement of changes in Members' balances

For the year ended 31 December 2018

	2018 $'000
At 1 January	-
Loss for the financial year	(39,603)
At 31 December	(39,603)

Statement of financial position

As at 31 December 2018

	Notes	2018 $'000
ASSETS		
Investments		
Other financial investments	9	82,978
Reinsurers' share of technical provisions		
Provision for unearned premiums	4	77,827
Claims outstanding	4	49,482
		127,309
Debtors		
Debtors arising out of direct insurance operations	10	67,999
Debtors arising out of reinsurance operations	11	30,330
Other debtors	12	199
		98,528
Cash and other assets		
Cash at bank and in hand		39,162
Prepayments and accrued income		
Deferred acquisition costs	4	35,912
Prepayments and accrued income		1,571
		37,483
Total assets		385,460

The notes on pages 18 to 39 form part of these financial statements.

Statement of financial position continued

As at 31 December 2018

	Notes	2018 $'000
MEMBERS' BALANCE AND LIABILITIES		
Capital and reserves		
Members' balances		(39,603)
Liabilities		
Technical provisions		
Provision for unearned premiums	4	127,570
Claims outstanding	4	221,625
		349,195
Creditors		
Creditors arising out of reinsurance operations	13	53,396
Accruals and deferred income		22,472
		75,868
Total liabilities		425,063
Total members' balances and liabilities		385,460

The notes on pages 18 to 39 form part of these financial statements.

The financial statements on pages 13 to 39 were approved by board of directors on 19 March 2019 and were signed on its behalf by:

D J G Hunt
Director
19 March 2019

Statement of cash flows

For the year ended 31 December 2018

	2018 $'000
Cash flows from operating activities	
Loss for the financial year	(40,580)
Increase in gross technical provisions	349,195
(Increase) in reinsurers' share of gross technical provisions	(127,309)
(Increase) in debtors	(98,528)
Increase in creditors	53,396
(Increase) in overseas deposit	(1,867)
(Increase) in other assets	(37,483)
Increase in other liabilities	22,472
Movement in foreign exchange	977
Investment return	(983)
Net cash inflow from operating activities	119,290
Cash flows from investing activities	
Purchase of other financial investments	(74,979)
Sale of other financial investments	18,941
Investment income received	749
Net cash outflow from investing activities	(55,289)
Cash flows from financing activities	
Payments of profit to members' personal reserve fund	-
Members' agents fee advances	-
Net cash inflow from financing activities	-
Net increase in cash and cash equivalents	**64,001**
Cash and cash equivalents at beginning of year	**-**
Cash and cash equivalents at end of year	**64,001**

Notes to the financial statements

For the year ended 31 December 2018

1. Basis of preparation

Statement of compliance

The financial statements have been prepared in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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.

These financial statements are prepared on a going concern basis, under the historical cost convention as modified by the recognition of certain financial assets and liabilities measured at fair value.

The financial statements are prepared in US Dollars which is the functional and presentational currency of the Syndicate and rounded to the nearest $'000.

2. Accounting policies

Use of estimates

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses.

The measurement of the provision for claims outstanding involves judgements and assumptions about the future that have the most significant effect on the amounts recognised in the annual accounts.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

The ultimate cost of outstanding claims is estimated using a range of techniques including actuarial and statistical projections, benchmarking, case by case review and judgement. Statistical techniques assume that past claims development experience can be used as a basis to project ultimate claims costs. Judgement is used to assess the extent to which past trends may not apply in the future.

Whilst the directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated based on the information currently available to them, the ultimate liability will vary as a result of subsequent information and events.

Significant accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Syndicate's financial statements.

Accounting policies continued

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. Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

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

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

Reinsurance premiums

Reinsurance written premiums comprise the total premiums payable for the whole cover provided by contracts entered into 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.

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.

Claims incurred

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

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

The claims settlements and provision for the claims notified portion of the claims reserve figures are taken from the XL Group quarterly bordereau. The Syndicate relies on XL Group's loss adjusting and reporting for the derivation of these figures.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. 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. An element of IBNR also relates to specific large losses, such as catastrophe events. The XL Group provides the Syndicate actuaries with CAT data, with an aim to provide for these losses more accurately, given their more material nature.

Accounting policies continued

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 and the claims experience for the year. The Syndicate uses a number of statistical techniques to assist in making these estimates where relevant. Because there was no reinsurance programme in place for the 2018 YOA, this accounting policy was not implemented.

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

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

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

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return.

At the 31 December 2018 the Syndicate had a $9.6m net unexpired risk provision.

Accounting policies continued

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. It is not the Syndicate's policy to reallocate a portion of indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies, to acquisition costs.

Deferred acquisition costs are costs arising from 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.

Insurance and reinsurance receivables

Insurance and reinsurance 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 effective interest rate 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 not recognised when the de-recognition criteria for financial assets have been met.

Insurance and reinsurance payables

Insurance and reinsurance 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 effective interest rate 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 US Dollars.

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. 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.

Accounting policies continued

Exchange differences are recorded in the non-technical account.

The following balance sheet rates of exchange have been used in the preparation of these accounts:

	2018 Year End
GBP	0.787
CAD	1.370
EUR	0.874
AUD	1.425
JPY	110.094

Financial assets and liabilities

In applying FRS 102, the Syndicate has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

Financial assets and financial liabilities at fair value through profit and loss comprise financial assets and financial liabilities held for trading and those designated as such on initial recognition. Investments in shares and other variable yield securities, units in unit trusts, and debt and other fixed income securities are designated as at fair value through profit or loss on initial recognition, as they are managed on a fair value basis in accordance with the Syndicate's investment strategy.

Financial instruments are recognised when the Syndicate becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Syndicate's contractual rights to the cash flows from the financial assets expire or if the Syndicate transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expire.

Regular way purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Syndicate commits itself to purchase or sell the asset.

A financial asset or financial liability is measured initially at fair value plus, for a financial liability at amortised cost, transaction costs that are directly attributable to its acquisition or issue.

Financial assets at fair value through profit or loss are measured at fair value with fair value changes recognised immediately in the income statement. Net gains or net losses on financial assets measured at fair value through profit or loss includes foreign exchange gains/losses arising on their translation to the functional currency, but excludes interest and dividend income.

Accounting policies continued

At each reporting date the Syndicate assesses whether there is objective evidence that financial assets not measured at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Note that since its inception, the Syndicate has not owned any financial assets nor financial liabilities, and so this accounting policy has not been implemented yet.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

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

Fair value measurement of investments

Financial instruments that are classified as fair value through the profit or loss account are assigned a level using a fair value hierarchy that reflects the significance of the inputs used in these measurements.

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

Level 1 financial instruments comprise government bonds that are regularly traded, deposits with credit institutions and collective investment schemes which comprise Money Market Funds. The Syndicate does not currently hold any level 1 financial instruments.

- Bonds have been valued at fair value using quoted prices in an active market.
- Deposits with credit institutions are included at cost plus accrued income.

Accounting policies continued

- Money Market Funds are valued on a stable net asset value (NAV) basis. Money Market Funds are readily convertible into cash, are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Level 2 financial instruments are less regularly traded government and agency bonds, supranational bonds, corporate bonds, currency derivatives, bond futures, and fund investments. The Syndicate does not currently hold any level 2 financial instruments.

- Bonds are included in the balance sheet at bid price using prices supplied by the custodian or by the investment managers, who obtain market data from numerous independent pricing services. The prices used are reconciled against a common market pricing source.
- Currency derivatives and bond futures are included at market price.
- Investments in regulated collective investment schemes are valued on the NAVs of each of the individual funds as published publicly by the managers.
- Investments in pooled investments in unregulated investment schemes (hedge funds) are valued based on the underlying NAVs of each of the individual funds. Hedge fund NAVs are provided by the administrators of the schemes.
- Investments in investment pools are valued on the valuations supplied by the investment manager (Lloyd's).

Level 3 financial instruments have a fair value derived from inputs that are not based on observable market data. The Syndicate does not currently hold any level 3 financial instruments.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 20%) 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 other overseas tax payable by members on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

Pension costs

The Managing Agent operates a defined contribution scheme. Pension contributions to Syndicate staff are charged to the Syndicate and included within net operating expenses.

Accounting policies continued

Syndicate operating expenses

Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent on the administration of managed Syndicates, these expenses are apportioned using various methods depending on the type of expense. Expenses which are incurred jointly for the Managing Agent and managed Syndicates are apportioned between the Managing Agent and the Syndicates depending on the amount of work performed, resources used, and volume of business transacted.

3. Segmental analysis

An analysis of the underwriting result before investment return is set out below:

2018	**Gross written premiums**	**Gross premium earned**	**Gross claims incurred**	**Net operating expenses**	**Reinsurance balance**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Direct						
Casualty	25,921	10,644	(7,375)	(2,094)	1,479	2,654
Engineering & MPE	16,894	5,177	(7,703)	(1,365)	(2,953)	(6,844)
Financial Institutions	13,580	5,523	(4,879)	(1,097)	360	(93)
International Property	2,426	1,218	(466)	(196)	110	666
Marine	13,182	5,763	(7,820)	(1,065)	(1,267)	(4,389)
Onshore Energy	6,715	3,055	(3,474)	(543)	(2,035)	(2,997)
Operational Power	5,169	2,282	(1,537)	(418)	(1,926)	(1,599)
Professional Indemnity	49,214	25,478	(21,333)	(3,976)	(4,483)	(4,314)
US Property	27,878	9,307	(15,603)	(2,253)	(4,529)	(13,078)
	160,979	68,447	(70,190)	(13,007)	(15,244)	(29,994)
Reinsurance						
Prior Year Loss Portfolio Transfer	30,368	22,265	(33,848)	-	-	(11,583)
Other Reinsurance	59,890	31,883	(32,860)	(6,089)	23,408	16,342
	90,258	54,148	(66,708)	(6,089)	23,408	4,759
Total	251,237	122,595	(136,898)	(19,096)	8,164	(25,235)

All premiums were derived in the UK.

4. Technical provisions

	Gross provisions $'000	2018 Reinsurance assets $'000	Net $'000
Claims outstanding			
Balance at 1 January	**-**	**-**	**-**
Portfolio transfer at 1 January	163,213		163,213
Change in claims outstanding	60,065	(50,424)	9,641
Effect of movements in exchange rates	(1,653)	942	(711)
Balance at 31 December	**221,625**	**(49.482)**	**172,143**
Claims notified	83,886	(15,142)	68,744
Claims incurred but not reported	137,739	(34,340)	103,399
Balance at 31 December	**221,625**	**(49,482)**	**172,143**
Unearned premiums			
Balance at 1 January	-	-	-
Change in unearned premiums	128,642	(78,431)	50,211
Effect of movements in exchange rates	(1,072)	604	(468)
Balance at 31 December	**127,570**	**(77,827)**	**49,743**
Deferred acquisition costs			
Balance at 1 January	-	-	-
Change in deferred acquisition costs	36,190	(14,964)	21,226
Effect of movements in exchange rates	(278)	-	(278)
Balance at 31 December	**35,912**	**(14,964)**	**20,948**

5. Net operating expenses

	2018 $'000
Acquisition costs	65,465
Change in deferred acquisition costs	(36,190)
RI acquisition costs	(26,539)
Change in RI deferred acquisition costs	14,964
Administration expenses	7,976
Reinsurance Commission	(6,580)
Net operating expenses	19,096

Members' standard personal expenses amounting to $3,980k are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contribution and Managing Agency fees.

6. Auditors' remuneration

	2018
	$'000
Audit of the Financial Statements	152
Other services pursuant to Regulations and Lloyd's Byelaws	247
	399

Auditors' remuneration is included as part of the administrative expenses in note 5 to the financial statements.

7. Emoluments of the directors of Asta Managing Agency Ltd

The aggregate emoluments of the directors and staff of the Managing Agency are met by Asta Managing Agency Ltd and are disclosed within the financial statements of that company, with the exception of J. M. Tighe, S.P.A. Norton, D.J.G. Hunt and L Harfitt. J.M. Tighe and S.P.A Norton's remuneration is disclosed in the financial statements of Asta Capital Ltd and the remuneration of D.J.G. Hunt and L Harfitt is disclosed in the financial statements of Asta Insurance Markets Ltd and were all charged in the accounts of Asta Managing Agency Ltd.

No emoluments of the directors or staff of Asta Managing Agency Ltd were directly charged to the Syndicate. The emoluments of the Active Underwriter are borne by Pioneer Group and recharged to the Syndicate.

No other compensation was payable to key management personnel.

8. Investment Return

	2018
	$'000
Income from other financial investments	722
Net gains on realisation of investments	
- Fair value through profit or loss designated upon initial recognition	27
Total investment income	749
Net unrealised gains on investments	
- Financial instruments at fair value through profit and loss	234
Total investment return	983

Investment return continued

Average amount of funds available for investing during the year:	2018
	$'000
Sterling	1,872
United States dollars (USD)	83,660
Canadian dollars	9,839
Euro	3,387
Australian dollars	1,135
Japanese Yen	15,164
Combined in USD	98,449

Gross calendar year investment yield:	
Sterling	10
United States dollars (USD)	859
Canadian dollars	129
Australian dollars	16
Combined in USD	983

"Average fund" is the average of bank balances, overseas deposits and investments held at the end of each quarter during the calendar year. For this purpose, investments are revalued at month-end market prices, which include accrued income where appropriate.

9. Financial Investments

		2018	
	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	24,839	24,839	24,839
Debt securities and other fixed income securities			
- Designated at fair value through profit or loss	56,272	56,039	56,540
	81,111	80,878	81,379

Financial investments continued

Amounts included within Shares and other variable securities include CIS/Unit Trusts where funds are invested in a single entity which invests in investments. These have the attributes of a cash instrument with the carrying value and purchase price being the same.

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
31 December 2018				
Shares and other variable yield securities and units in unit trusts	14,955	9,884	-	24,839
Debt securities and other fixed income securities	18,379	37,893	-	56,272
Other assets	258	1,609	-	1,867
Total	33,592	49,386	-	82,978

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 insurance operations

	2018
	$’000
Due from intermediaries (within one year)	67,999
	67,999

11. Debtors arising out of reinsurance operations

	2018
	$’000
Due from intermediaries (within one year)	30,330
	30,330

12. Other assets

Other assets comprise solely of VAT receivable from HMRC ($199k).

13. Creditors arising out of reinsurance operations

	2018
	$’000
Due to intermediaries within one year	51,446
Due to intermediaries after one year	1,950
	53,396

14. Related parties

Asta provides services and support to Syndicate 1980 in its capacity as Managing Agent. During the year, Managing Agency fees of $1,672k were charged to the Syndicate. Asta also recharged $2,747k worth of service charges in the year and as at 31 December 2018 an amount of $512,3k was owed to Asta in respect of this service.

From time to time, Syndicates managed by Asta enter into (re)insurance contracts with one another. All such transactions are subject to Asta’s internal controls which ensure that all are compliant with Lloyd’s Related Party Bylaw provisions. All transactions are entered on an arm’s length basis.

Syndicate 1980’s coverholder is Pioneer Underwriters, whose ultimate parent is Minova insurance Holdings Ltd. The syndicate has paid $42,361k MGA commissions to Pioneer Underwriting and $0.0m is due at 31 December 2018.

Liberty provides 100% of the Syndicates insurance capacity.

15. Disclosure of interests

Managing Agent's interest

During 2018 Asta was the Managing Agent for ten Lloyd's Syndicates and three Special Purpose Arrangements (SPAs). Syndicates 1729, 1897, 1980, 2357, 2525, 2689, 2786, 3268, 4242 and 5886 as well as SPA's 6123, 6126 and 6131 were managed on behalf of third party capital providers.

On 1 January 2018 Asta took on management of Syndicate 1980 and Syndicate 3268. Asta also took on management of Special Purpose Arrangement 6131.

The Agency also provides administrative services to Syndicates and Special Purpose Arrangements and undertakes a number of ancillary roles for clients.

The financial statements of the Managing Agency can be obtained by application to the Registered Office (see page 1).

16. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

17. 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 and benefits arise for the Syndicate.

18. Risk management

a) Governance framework

The Syndicate's risk and financial management framework aims to protect the Syndicate's members capital from events that might otherwise prevent the Syndicate from meeting its policyholder obligations, while maximising the returns to its members. The directors recognise the critical importance of having efficient and effective risk management systems in place.

Asta maintains a risk management function for the Syndicate with clear terms of reference from the Syndicate Board, its committees and sub committees. Asta supplements this with a clear organisational structure with documented delegated authorities and responsibilities from the main Asta Managing Agency board to the Syndicate who perform the underwriting activities. Lastly, the Syndicate policy framework sets its risk management and control and business conduct standards for operations. Asta reviews and monitors each policy to ensure compliance with the policy throughout the Syndicate.

The Syndicate board 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. The Syndicate board places significant emphasis on the assessment and documentation of risks and controls, including the articulation of the Syndicate's risk appetite.

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000.

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 Pioneer Syndicate1980 is not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each Syndicate is required to calculate its Solvency Capital Requirement (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 participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was 35% of the member's SCR 'to ultimate'.

Risk management continued

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), 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. Accordingly, the ending members balances reported on the Statement of Financial Position on page 15, 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.
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.

Sub committees of the Syndicate board oversee the management of reserving risk. The use of standardised and internal modelling techniques, as well as benchmarking and the review of claims development are key in mitigating reserving risk.

The purpose of these underwriting, reinsurance and reserving strategies is to limit exposure to catastrophes or large losses based on the Syndicate's risk appetite as decided by the Syndicate board.

The Syndicate uses both its own and commercially available 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 un-modelled event are greater than those arising from a modelled event.

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: once-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.

Risk management continued

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, uncertainty in the estimation process or reliability of the reserving information provided by XL Group.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on 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 assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

	2018
Gross	**$'000**
Five percent increase in claim liabilities	11,081
Five percent decrease in claim liabilities	(11,081)
Net	
Five percent increase in claim liabilities	8,607
Fiver percent decrease in claim liabilities	(8,607)

Claims development table

The tables below show the Syndicate's cumulative incurred claims development, including both claims notified and IBNR for each underwriting year, together with the cumulative payments to date on a gross and net of reinsurance basis at the balance sheet date.

The Syndicate has elected to translate estimated claims and claims payments at a consistent rate of exchange as determined by the balance sheet date.

Underwriting year	**2018**
	$'000
Estimate of cumulative gross claims incurred:	
At end of first underwriting year	298,342
Less cumulative gross paid	(76,717)
Total gross outstanding claims	**221,625**

Underwriting year	**2018**
	$'000
Estimate of cumulative net claims incurred:	
At end of first underwriting year	241,994
Less cumulative net paid	(69,851)
Total net outstanding claims	**172,143**

The uncertainty associated with the ultimate claims experience of an underwriting year is greatest when the underwriting year is at an early stage of development and the margin for

Risk management continued

future experience potentially being more adverse than assumed is at its highest. As claims develop, and the ultimate cost of the claims becomes more certain, the relative level of margin should decrease. Due, however, to the uncertainty inherent in the claims estimation process, initial reserves may not always be in a surplus. This is particularly so for large catastrophe claims where uncertainly is initially great. The limited data provided to the Syndicate by the XL Group in relation to CAT losses acts as a hindrance to more accurate reserving, which could ordinarily be achieved through the use of the underlying XL Group data.

d) Financial risk

The focus of financial risk management for the Syndicate is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The goal of the investment management process is to optimise the risk-adjusted investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

1) Credit risk

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

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

- Investment guidelines are established setting out the quality of investments to be included within the Syndicates portfolio. The policy is monitored by the Syndicate Board.

- 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. If the counterparty is downgraded or does not have a good credit rating, then collateral is sought to mitigate any risk. This is monitored by the Syndicate Board.

The table at the top of page 36 shows 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.

Risk management continued

2018	$'000			
	Neither past due or impaired	Past due	Impaired	Total
Shares and other variable yield securities	24,839	-	-	24,839
Debt and fixed income securities	56,272	-	-	56,272
Reinsurers' share of claims outstanding	49,482	-	-	49,482
Debtors arising out of underwriting operations	67,999	-	-	67,999
Debtors arising out of reinsurance operations	30,330			30,330
Cash at bank and in hand	39,162	-	-	39,162
Overseas deposits as other assets	1,867	-	-	1,867
Other debtors	115,509	-	-	115,509
Total	385,460	-	-	385,460

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2018 by classifying assets according to independent 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.

Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

2018	$'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	-	-	24,839	-	-	-	24,839
Debt and fixed income securities	18,230	19,167	18,875	-	-	-	56,272
Reinsurers' share of claims outstanding	-	-	49,482	-	-	-	49,482
Debtors arising out of reinsurance operations	-	-	30,330	-	-	-	30,330
Cash at bank and in hand	-	-	39,162	-	-	-	39,162
Overseas deposits as other assets	1,146	260	194	100	32	135	1,867
Total	19,376	19,427	162,882	100	32	135	201,952

Risk management continued

Maximum credit exposure

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business.

During the year, no credit exposure limits were exceeded.

2) Liquidity risk

Liquidity risk is the risk that the Syndicate may not have enough cash to pay insurance claims and other liabilities. The Syndicate tries to reduce this risk by reviewing its expected cash obligations on a quarterly basis and keeping adequate cash on deposit to meet those obligations.

The table below 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**.** Repayments which are subject to notice are treated as if notice were to be given immediately.

2018			**$'000**			
	No stated maturity	**0-1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 years**	**Total**
Claims outstanding	-	74,433	94,375	35,288	17,529	221,625
Creditors	-	51,446	1,950	-	-	53,396
Total	-	125,879	96,325	35,288	17,529	275,021

3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Syndicate exposures to market risk and its objectives, policies and processes for managing market risk have not changed significantly from the prior year.

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 US Dollar and its exposure to foreign exchange risk arises primarily with respect to transactions in Sterling, Euro, Canadian, Australian dollars and Japanese Yen. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

Risk management continued

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

2018				**$'000**			
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**JPY**	**Total**
Total Assets	3,312	359,173	7,494	14,107	1,011	363	385,460
Total Liabilities	(78,997)	(312,559)	(16,424)	(12,159)	(4,272)	(652)	(425,063)
Net Assets	(75,685)	46,614	(8,930)	1,948	(3,261)	(289)	(39,603)

Sensitivity to changes

The table below gives an indication of the impact on profit of a percentage change in the relative strength of the US dollar against the value of Sterling and all other currencies simultaneously. The analysis is based on the information as at 31st December 2018.

	Impact on profit and member's balance 2018 $'000
US Dollar weakens	
10% against other currencies	(8,622)
20% against other currencies	(17,243)
US Dollar strengthens	
10% against other currencies	8,622
20% against other currencies	17,243

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.

Risk management continued

Sensitivity to changes

The table below shows an indication of the potential impact on the Syndicate's result and net assets if interest rates had been 50 basis points higher or lower in the year.

	2018
	$'000
Interest Rate Risk	
Impact of 50 basis point increase on result	(445)
Impact of 50 basis point decrease on result	450
Impact of 50 basis point increase on net assets	(445)
Impact of 50 basis point decrease on net assets	450

19. Post balance sheet events

There are no post balance sheet events to disclose.