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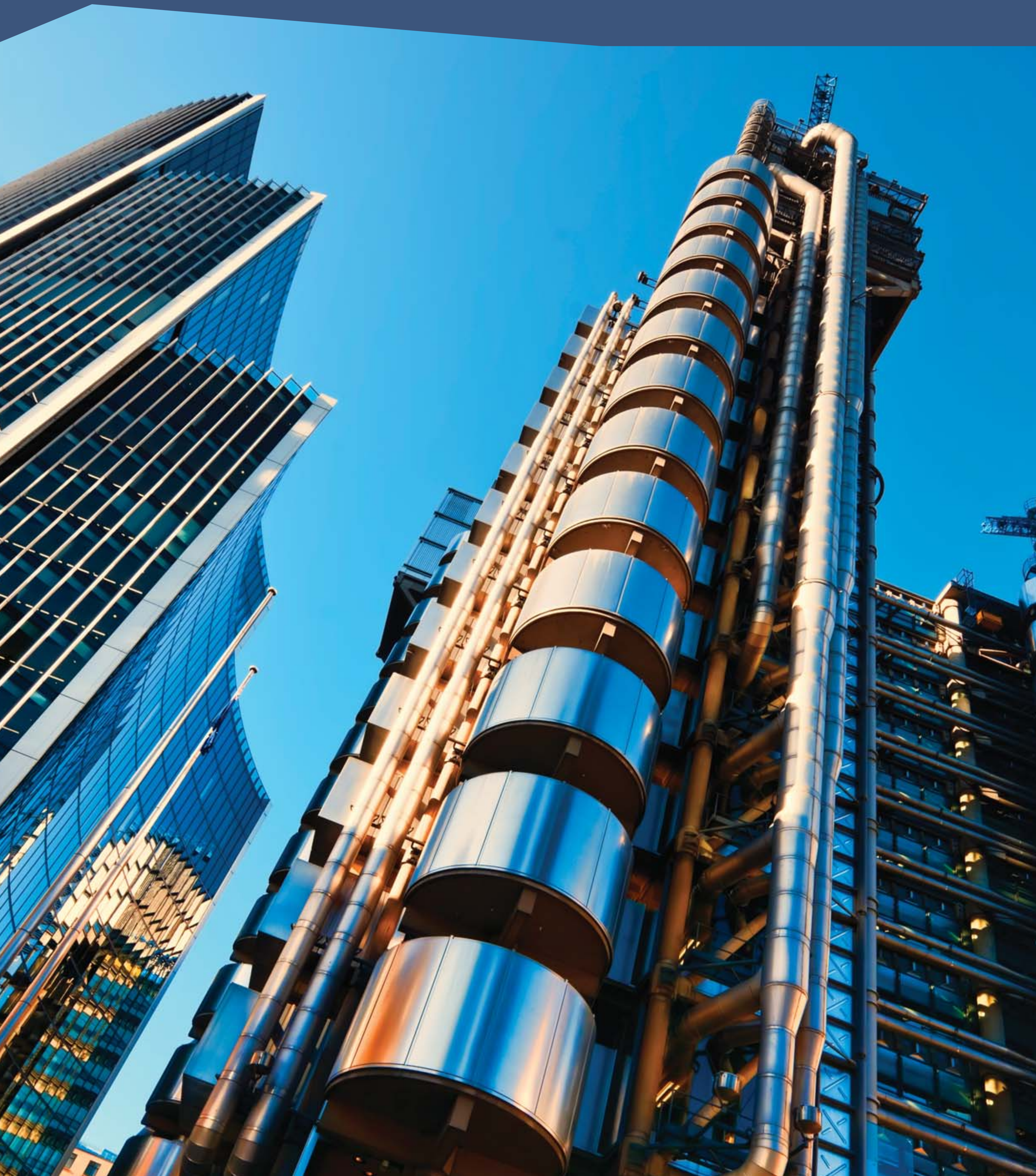
Argenta

Argenta Syndicate Management Limited
Syndicate 2121

Report, Annual Accounts and Underwriting Year Accounts

as at 31 December 2018



Argenta Syndicate Management Limited
Company Information

Directors
John LP Whiter
Andrew J Annandale
Graham K Allen
Sven Althoff
Alan E Grant
Paul Hunt
Ian M Maguire
Nicholas J Moore
Gary A Powell
Matthew P Rowan
Jens Schäfermeier
David J Thompson

Registered office
5th Floor
70 Gracechurch Street
London EC3V 0XL
Registered in England number 3632880

Syndicate auditor
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

Syndicate bankers
Barclays Bank PLC
1 Churchill Place
Canary Wharf
London E14 5HP

Citibank N.A.
Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB

Royal Trust Corporation of Canada
Royal Trust Tower
Toronto
Ontario M5W 1P9

Syndicate actuaries
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

Company auditor
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

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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 2018.

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 2016 year of account which has been reinsured to close with effect from 31 December 2018.

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 continues to underwrite a well balanced portfolio of both insurance and reinsurance business across a broad selection of marine and non-marine classes. Whilst a significant element of the account retains a direct and short tail focus, some long tail business is also underwritten.

Based in London, the syndicate operates within the Lloyd's of London ("Lloyd's") insurance market and through a service company, Argenta Underwriting Asia Pte Ltd ("AUA"), on the Lloyd's Asia platform in Singapore. AUA has branch offices in Australia, one located in the central business district of Sydney and the other located in Tuggerah, north of Sydney, operating as a managing general agent predominantly in the New South Wales region, underwriting a niche property account. Finally, the syndicate has access to Chinese domiciled reinsurance business through a dedicated underwriting division of Lloyd's Insurance Company (China) Limited ("LICCL") based in Shanghai.

The portfolio underwritten can be broken down into six main areas: property (including terrorism, UK commercial combined and transportation); energy (offshore, utilities, renewables and liability); marine (hull and war, liability and cargo and specie); specialty (casualty, cyber, warranty and indemnity and accident and health); worldwide treaty; and political risks.

The business underwritten has a worldwide spread and comprises business assumed through single risk writings, Lloyd's market consortia and coverage provided through third party delegated underwriting authorities.

The largest book of business continues to be the direct and facultative property book. It is built around a number of long-standing relationships with managing general agents, supplemented with an open-market book of predominantly small commercial and homeowners' business and a UK commercial combined book for small to medium enterprises. The latter packages property with both employers' and public liability risks. The property account has grown with the AUA office in Sydney underwriting Australasian property business on both a delegated authority basis through third party coverholders and on an open-market basis.

Managing Agent's Report
continued

Overview of business *continued*

Energy, including utilities, exploration, production and distribution risks are underwritten, but not downstream refining exposures. The marine book consists of the traditional classes including hull, cargo, specie, war, fine art and marine and energy liabilities, both in conjunction with physical damage lines and on a standalone basis. The syndicate has a small worldwide treaty account split between catastrophe excess of loss and risk excess business.

A worldwide casualty book is written via Lloyd's approved consortia, which includes a small product recall account and is now in its sixth year. The syndicate underwrites an accident and health account covering both sports and general personal accident business; and a cyber book predominantly through participation on another Lloyd's approved consortium and quota share reinsurance placements.

Finally, a political risks account covering contract frustration, credit and political risks was added to the portfolio in late 2016.

For the 2018 year of account, the stamp capacity was increased to £340 million, which is in line with the ASML strategic objective to grow Syndicate 2121 by adding 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 2018 is a loss of £37.9 million (combined ratio 114.9%) with the 2016, 2017 and 2018 underwriting years producing losses of £6.0 million, £1.1 million and £30.8 million respectively. On the traditional Lloyd's basis of reporting, the 2016 year of account has closed with a loss of £961,000 or 0.36% of capacity, with a pure year loss of 0.63% and a release from the 2015 and prior years of 0.27%.

The table below summarises the capacity, premium volumes and performance of Syndicate 2121 for 2018 alongside comparative numbers for 2017. 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	*2018*	*2017*
Capacity (underwriting year)	£340 million	£300 million
Premiums written gross of commission	£398 million	£346 million
Net premiums earned	£272 million	£246 million
(Loss)/profit for the year	(£38 million)	£14 million
Claims ratio (net)	71%	51%
Combined ratio	115%	96%
Cash and investments at 31 December	£272 million	£247 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.

Review of underwriting activities *continued*

Across the portfolio as a whole, the difficult trading conditions experienced during 2017 persisted into 2018. Overcapacity continued to hold rates at low levels during the first half of the year, with the only areas of improvement being loss affected classes and territories that suffered most from the record catastrophe losses experienced in 2017. The large losses impacting the second half of 2018 served to further strengthen rates in some classes.

The 2018 calendar year witnessed a high level of losses between September and the year end, with Hurricanes Michael and Florence, wildfires in California, Typhoon Jebi and the Lurssen shipyard loss, all combining to make it the fourth most expensive year on record for insurance losses. According to Swiss Re's insurance research arm, Sigma, natural catastrophe and man-made losses in 2018 totalled US$79.1 billion. This is down on the US$150.3 billion in 2017 but significantly up from the US$57.4 billion and US$39.5 billion of losses impacting the 2016 and 2015 years respectively.

The largest natural catastrophe loss incurred by the syndicate was in respect of Typhoon Jebi, with the largest incurred man-made loss being the Lurssen shipyard fire. Both of these losses occurred in September 2018 and will impact the syndicate's reinsurance programme. The losses from Hurricanes Michael and Florence, the Hawaiian volcanoes and the Californian wildfires, were smaller and all fell within the syndicate's reinsurance retentions for the relevant classes. Taken in the aggregate, the losses incurred were also not sufficiently large to trigger recoveries from the catastrophe aggregate deals purchased by the syndicate.

It is estimated that the six losses mentioned above will contribute US$44 million (including outwards reinstatements) of net loss to the syndicate across various years of account. This compares to a net loss (including outwards reinstatements) from Hurricanes Harvey, Irma and Maria and Cyclone Debbie in 2017 of only US$20.4 million despite the gross losses incurred during 2017 being 63% greater than 2018. This is a direct result of the increased number of losses falling just below the retentions on the 2018 reinsurance programmes.

Although the 2017 and 2018 major loss events have had an impact on market results, they have not materially affected the level of available capital within the market. Any capital that has been depleted or trapped appears to have been replenished. As a result, there would still appear to be excess capital in the (re)insurance sector and supply continues to outstrip demand. Unless this situation changes or the dynamics within financial markets more generally alter, it is unlikely that the market will materially harden in the short term. Post the 2017 and 2018 loss events, however, it has been encouraging to see that most of the classes in which the syndicate operates are seeing some rating improvements.

There has been a dramatic increase in the proliferation of market facilities in recent years which have had an impact on the way certain business is transacted. Increasingly concerns have been expressed about the implications of such market facilities and the potential conflicts of interest that arise. The decision taken by the syndicate in previous years not to support these types of facilities is proving to be correct as they become increasingly impacted by the Lloyd's business planning process. The syndicate is well positioned in its core classes to take advantage of any improvement in trading conditions that may occur as a result of the demise of some of these facilities.

Other than in respect of the cyber, terrorism and political risks classes, premium rates increased during the year, albeit at a level slightly below that anticipated on a whole account basis. The overall rate increases on business that was renewed in 2018 was 3.0% compared to an expected increase of 3.7% for the syndicate as a whole.

Review of underwriting activities *continued*

During the year reductions in income were seen in the transportation account as the syndicate reduced its exposure to this class in anticipation that rates would plateau and start to fall again following some good results. The utility account suffered from continued rate reductions, which resulted in the syndicate deliberately cutting back its participations in certain circumstances rather than following rates down. In respect of the cyber book, the expected increases in income settled at a level lower than anticipated as more markets entered the class.

These reductions in premium income targets were offset, in part at least, by an increase in premium written by the AUA branch office in Sydney. The Australasian market has seen some marked improvements in trading conditions as domestic companies reduce exposures and look to correct the pricing reductions seen previously. This has allowed the syndicate to be more selective about the business it wishes to underwrite and has resulted in income predictions being ahead of plan for the period.

Increased income was also seen under the casualty consortia written by the syndicate as more opportunities present themselves in this class.

Finally, a new warranty and indemnity account was introduced under the specialty class in line with the principle of expanding the classes of business written by supporting existing teams via consortia arrangements or delegated binding authorities.

2016 year of account

As previously reported, from a catastrophe perspective 2016 was largely a benign year although there was an increase in the level of attritional and large loss experience compared with the 2013 to 2015 period. The 2016 year of account was also impacted by Hurricanes Harvey, Irma and Maria and Cyclone Debbie, that all occurred in 2017. Included within the larger losses in the 2016 year are a contract frustration loss for Trafigura, a fire and explosion in a power transformer in Columbia and various large single casualty claims.

Reserves in respect of the 2015 and prior years of account continue to develop satisfactorily, generating a surplus of £0.7 million during the 2018 calendar year.

Following the ruling in favour of insurers in respect of the last remaining dispute in a sprawling litigation over liability from the deadly attacks on the World Trade Centre in September 2001, further releases have been made from the reserves held to cover this event. Unfortunately, however, during late September 2018 the back years were impacted by a fire on a yacht nearing completion in the Lurssen shipyard in Germany. This was close to the end of a five year build with full values exposed.

As a result of all of the above, the 2016 and prior years of account have produced a loss of 0.36% of stamp capacity.

2017 year of account

The 2017 year witnessed a significant increase in losses from a catastrophe perspective, with the syndicate's largest natural catastrophe loss arising from Hurricane Maria closely followed by Hurricane Irma and Hurricane Harvey. All of these losses occurred in 2017 although, pleasingly, there has been little movement in the syndicate's net position on these compared to twelve months ago.

The 2018 losses from the California wildfires, the Hawaiian volcanic eruptions, Hurricane Michael and, to a lesser extent, Hurricane Florence, have also impacted the 2017 year of account. The largest non-catastrophe losses impacting the 2017 account were a fire in the cargo hold of the Maersk Honam in the marine account, a major fire in a property under construction in Oakland and losses emanating from the main market casualty consortium.

Overall, the 2017 forecast result is developing behind the business plan target but it is hoped that the work on managing the level of attrition pays dividends over the next 12 months and the result will be better than the market as a whole.

Review of underwriting activities *continued*

2018 year of account

The 2018 year witnessed a further significant increase in the number of losses from a catastrophe perspective over that experienced in 2017. In terms of the results, however, the main difference was the reduced level of reinsurance recoveries the syndicate was able to make due to the size of these losses on an individual basis falling within the retentions on the syndicate's reinsurance programmes.

The largest losses to impact this year so far are the catastrophe losses referred to above, losses emanating from the syndicate's involvement in the main market casualty consortium and losses from fires at a Macy's warehouse in the US and in a Brazilian warehouse. Both of these losses emanate from the cargo account.

The estimated premium income for the year was within 2.5% of the business plan forecast and, as previously indicated, whilst still positive, the actual rate increase on renewed business was less than anticipated at 3% against an expected 3.7%.

Overall, the 2018 forecast result is developing behind the business plan target and it might prove to be a struggle to produce a positive return. There is also a significant element of 2018 business still exposed throughout a large part of 2019 and it is hoped that this develops favourably over the next 24 months.

Trading conditions for 2019

The overcapacity that is still evident throughout the market, despite the major losses in 2017 and 2018, means that whilst rate expectations for 2019 are predicted to continue to be positive, a conservative stance is being taken when it comes to planning. As previously stated, at a whole account level rates for 2018 increased by 3% and the business plan assumes that rates will only strengthen by a further 1% in 2019.

The 1 January 2019 renewal season was much better than anticipated, helped by the challenges from Lloyd's in the 2019 business planning process on the market as a whole in relation to classes of business written, line sizes and the reliance on market facilities. This will further support the re-underwriting of certain classes that has already begun.

The AUA branch office in Sydney is continuing to develop strongly with further rate improvements expected in the Australian and New Zealand property markets that have seen average increases across the renewable portfolio of the syndicate of 14%.

The treaty reinsurance class will increase in volume as the territorial scope of this class is expanded to include a new US focused element of the account albeit at very small levels to begin with.

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 at a whole account level. The syndicate will continue to purchase a comprehensive reinsurance programme, the 2019 structure of which has been slightly enhanced from that placed for 2017 and 2018.

Further growth in the specialty account is also expected as the syndicate continues to build-out the new warranty and indemnity class started in 2018.

Finally and as previously indicated, new classes of business will continue to 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.

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 £270 million in 2016 to £340 million in 2019. The growth strategy is 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 two branch offices in Australia and also by way of participating on the Lloyd's China Platform in Shanghai through a division of LICCL.

In 2018 ASML established a Special Purpose Arrangement, Syndicate 6134, to be managed alongside Syndicate 2121. Syndicate 6134, sponsored and capitalised by the Hannover Re group, underwrites 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.

Syndicate 6134 underwrote gross net written premium in 2018 of £19.5 million across specific classes of business within the underwriting capability of the host syndicate. For the 2019 year of account the expectation is that Syndicate 6134 will underwrite £29.8 million of gross net premium and that this will increase further over time. Syndicate 2121 receives an overriding commission in respect of these arrangements. The quota share contracts are being underwritten on a funds withheld basis although amounts may be advanced if needed to enable Syndicate 6134 to finance its standalone obligations.

Directors

John LP Whiter – *Non-executive Chairman*
Andrew J Annandale – *Managing Director*
Graham K Allen – *Finance Director*
Sven Althoff – *Non-executive Director*
Alan E Grant – *Non-executive Director*
Paul Hunt – *Non-executive Director*
Ian M Maguire – *Active Underwriter Syndicates 2121 and 6134*
Nicholas J Moore – *Chief Actuary and Operations Director*
Gary A Powell – *Non-executive Director*
Matthew P Rowan – *Risk Management and Compliance Director and Company Secretary*
Jens Schäfermeier – *Non-executive Director*
David J Thompson – *Claims 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 22 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 financial and non-financial 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 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, as far as possible, 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.

Risk management *continued*

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

Liquidity risk 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.

Financial market risk

Financial market risk is concerned with the loss resulting from adverse movements in the financial markets. The risks are 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 or funds of hedge funds, which serve to mitigate the impact of movements in the wider investment market. 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 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 its exposure to conduct related 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 2018 Insight Investment Management (Global) Limited ("Insight") has been responsible for investing the large 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.

During the second quarter of the year, the small sterling fixed income portfolio, less than £5m of assets under management, was redeemed as the funds were required to cover the syndicate's sterling day-to-day operating expenses.

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 14% of the syndicate's assets; however, due to unsatisfactory returns in this asset class the syndicate's holdings were sold in the second half of the year.

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

Insight

The US dollar fixed income portfolio returned 1.9%. Whilst this represents underperformance against the benchmark of 2.8%, it was a reasonable return against a backdrop of the US Fed raising interest rates four times in 2018. Insight report on 2018 as follows:

> "The syndicate started the period with relatively low duration positioning at below 0.7 years. Duration was modestly increased during the year, in response to rising treasury yields, and then ended the period with a modest underweight bias. Purchases during the year focused on securities with a maturity period below three years. During the first three quarters of the year the short duration position detracted from performance but contributed positively towards the end of the year.
>
> The majority of the portfolio's risk budget was allocated to corporate bond exposures with selective participation in a number of new issues. As the year progressed, risk in the secondary market was also added where value opportunities were identified. A cautious approach was taken to investing into credit given the 'risk-off' sentiment. Credit spreads, in Insight's opinion, are at a level where they more than fully compensate for the risk of default.
>
> Looking ahead, the US market appears to have moved from pricing in too many rate hikes from the Federal Reserve to currently pricing in too few. Although risk markets will remain nervous about growth being past its peak, Insight continues to see strong data coming from most parts of the economy. Given current valuations in short dated treasuries it is anticipated that duration exposure will be kept at low levels. Credit markets are currently considered to be at fair value. There is the potential that further widening in credit spreads could occur and with this backdrop, the portfolio will continue to focus on short dated, high quality issues."

Lloyd's treasury

The Canadian dollar portfolio returned 1.9%, which marginally outperformed the benchmark for the calendar year. Lloyd's treasury report on 2018 as follows:

> "The Canadian bond curve was relatively flat over the year with two year yields up 12 basis points and five year yields unchanged.

Investment managers and policy *continued*

The end of 2018 was categorised by a prominent, volatile ‘risk-off’ move in the financial markets brought on by fears of trade wars, possible sharp slowdown in growth and corporate earnings, a US government shutdown, falling energy prices and continued geopolitical risks. The relatively good news is that core front-end government bonds performed against a backdrop of falling equity markets in Q4.

Looking forward to 2019, the outlook is more positive for the global markets despite most of the fears stated above still being largely present. Whilst these retain the potential to destabilise the position, it is believed that most of the ‘risk-off’ move at the end of 2018 was exacerbated by the low liquidity environment that is normal for December.

After raising rates five times in the last 18 months, the Bank of Canada (BOC) is expected to be more balanced in 2019, reflecting the recent large fall in the oil price and financial markets.

The duration position on the Canadian portfolio remains slightly shorter than the benchmark. Current yield levels at the front-end are considered to be expensive, with two and three year bonds yielding around 1.86%, which is just above the cash rate of 1.75%, when they should be trading closer to 2.15% to 2.25%. The portfolio continues to remain overweight in agency bonds and the credit position remains close to neutral against the benchmark.

A significant reversal regarding investor appetite at the start of 2019 is expected in credit. However, due to the significant spread widening seen in credit last year, current levels remain attractive. Nonetheless, appetite for paper will be subject to sector recommendations. Current bias is for financials, companies that continue to deleverage and other defensive sector exposures, on the back of risks related to volatility and liquidity.”

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 were 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 2018 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 during a period of continuing volatility in investment markets.

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:

	2018	*2017*
	'000	*'000*
United States dollars	245,978	245,035
Sterling and other currencies	27,725	32,959
Canadian dollars	30,448	25,038
Euros	16,229	14,889
Combined in sterling	244,454	250,962
Net aggregate investment return for the calendar year in sterling	2,736	3,077

Net calendar year investment yield:	*2018*	*2017*
United States dollars	1.4%	1.4%
Sterling and other currencies	1.6%	1.7%
Canadian dollars	1.8%	0.7%
Euros	(3.5%)	0.1%
Combined in sterling	1.1%	1.2%

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 19 March 2019.

SYNDICATE

2121

ANNUAL ACCOUNTS 2018

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 2018 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 22, 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 2018 and of its loss 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.

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 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 17, 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.

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.

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

20 March 2019

Income Statement

for the year ended 31 December 2018

Technical account – general business

	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Earned premiums, net of reinsurance					
Gross premiums written	2	397,918		346,020	
Outward reinsurance premiums		(113,414)		(73,607)	
Net premiums written		284,504		272,413	
Change in the provision for unearned premiums					
Gross amount		(37,298)		(31,963)	
Reinsurers' share		25,068		5,086	
Change in the net provision for unearned premiums		(12,230)		(26,877)	
Earned premiums, net of reinsurance			272,274		245,536
Allocated investment return transferred from the non-technical account	8		2,736		3,077
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(171,684)		(135,614)	
Reinsurers' share		34,000		12,102	
Net claims paid		(137,684)		(123,512)	
Change in the provision for claims					
Gross amount		(64,984)		(83,595)	
Reinsurers' share		8,618		81,985	
Change in the net provisions for claims		(56,366)		(1,610)	
Claims incurred, net of reinsurance			(194,050)		(125,122)
Net operating expenses	4		(116,714)		(109,217)
Balance on the technical account for general business			(35,754)		14,274

All items relate only to continuing operations.

Non-technical account

	Notes	2018 £'000	2017 £'000
Balance on the general business technical account		(35,754)	14,274
Investment income	8	2,837	2,450
Net unrealised gains on investments	8	72	714
Investment expenses and charges	8	(173)	(87)
Allocated investment return transferred to the general business technical account		(2,736)	(3,077)
Exchange losses		(2,107)	(294)
(Loss)/profit for the financial year		(37,861)	13,980

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 2018

	Notes	*2018* *£'000*	*2017* *£'000*
At 1 January		5,956	18,299
(Loss)/profit for the financial year		(37,861)	13,980
Members' agents' fees		(1,290)	(1,292)
Payments of profit to members' personal reserve funds	14	(11,542)	(25,031)
At 31 December		(44,737)	5,956

Statement of Financial Position

as at 31 December 2018

	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
ASSETS					
Investments					
Financial investments	9		226,778		217,295
Deposits with ceding undertakings			22		19
Reinsurers' share of technical provisions					
Provision for unearned premiums	10	48,274		21,229	
Claims outstanding	10	148,032		131,771	
			196,306		153,000
Debtors					
Debtors arising out of direct insurance operations	11	97,811		80,608	
Debtors arising out of reinsurance operations	12	46,558		32,408	
Other debtors		2,267		642	
			146,636		113,658
Cash and other assets					
Cash at bank and in hand		20,768		13,481	
Other assets	13	24,453		16,365	
			45,221		29,846
Prepayments and accrued income					
Accrued interest		257		122	
Deferred acquisition costs	10	62,265		48,002	
Other prepayments and accrued income		1,300		1,274	
			63,822		49,398
TOTAL ASSETS			678,785		563,216

Statement of Financial Position

as at 31 December 2018 continued

	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
MEMBERS' BALANCES AND LIABILITIES					
Members' balances			(44,737)		5,956
Technical provisions					
Provision for unearned premiums	10	216,409		170,230	
Claims outstanding	10	411,463		327,578	
			627,872		497,808
Creditors					
Creditors arising out of direct insurance operations	15	12,621		11,687	
Creditors arising out of reinsurance operations	16	70,589		40,297	
Other creditors		670		4,394	
			83,880		56,378
Accruals and deferred income	17		11,770		3,074
TOTAL MEMBERS' BALANCES AND LIABILITIES			678,785		563,216

The syndicate annual accounts on pages 20 to 64 were approved by the board of Argenta Syndicate Management Limited on 19 March 2019 and were signed on its behalf by

Andrew J Annandale
Managing Director

Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
(Loss)/profit on ordinary activities		(37,861)	13,980
Increase/(decrease) in unearned premiums and outstanding claims		105,718	111,143
(Increase)/decrease in reinsurers' share of unearned premiums and outstanding claims		(34,870)	(83,392)
(Increase)/decrease in debtors		(28,498)	(42,128)
Increase/(decrease) in creditors		24,554	20,975
Investment return		(2,736)	(3,077)
Movements in other assets/liabilities		411	1,007
Exchange differences		(3,238)	6,592
Net cash inflow/(outflow) from operating activities		23,480	25,100
Investing activities			
Investment income received		2,438	1,952
Purchases of debt and equity instruments		(150,219)	(106,710)
Sales of debt and equity instruments		152,191	113,324
Purchases of derivatives		(2,063)	(2,263)
Sales of derivatives		2,067	2,259
(Increase)/decrease in overseas deposits		(6,917)	(1,690)
(Increase)/decrease in deposits with ceding undertakings		(3)	(3)
Net cash inflow/(outflow) from investing activities		(2,506)	6,869
Financing activities			
Payments of profit to members' personal reserve funds		(11,542)	(25,031)
Members' agents' fee advances		(1,290)	(1,292)
Net cash inflow/(outflow) from financing activities		(12,832)	(26,323)
Increase/(decrease) in cash and cash equivalents		8,142	5,646
Cash and cash equivalents at 1 January		18,305	12,768
Exchange differences on opening cash and cash equivalents		579	(109)
Cash and cash equivalents at 31 December	18	27,026	18,305

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 2018 were approved for issue by the board of directors on 19 March 2019.

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 22.

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.

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.

Notes to the Accounts
continued

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

Notes to the Accounts

continued

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 2018 and 31 December 2017 the syndicate did not have an unexpired risks provision.

Deferred acquisition costs

Acquisition costs comprise costs arising from the conclusion of insurance and reinsurance 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 and reinsurance 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 2018 or 2017.

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.

Notes to the Accounts

continued

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:

2018	*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	8,558	8,141	(3,303)	(3,575)	(660)	603
Motor (other classes)	4,896	6,808	(4,503)	(2,952)	(136)	(783)
Marine, aviation and transport	40,856	35,599	(44,344)	(12,579)	4,908	(16,416)
Energy	24,221	23,515	(19,135)	(6,928)	3,192	644
Fire and other damage to property	130,042	124,021	(72,976)	(42,277)	(33,250)	(24,482)
Third party liability	96,186	71,543	(43,811)	(26,690)	606	1,648
Pecuniary loss	23,001	19,150	(8,692)	(5,319)	(4,193)	946
	327,760	288,777	(196,764)	(100,320)	(29,533)	(37,840)
Reinsurance acceptances:						
Fire and other damage to property	36,909	37,827	(23,833)	(11,196)	(2,154)	644
Marine, aviation and transport	21,849	22,074	(11,377)	(7,031)	(6,015)	(2,349)
Energy	7,875	8,128	(1,431)	(2,677)	(1,684)	2,336
Casualty	3,525	3,814	(3,263)	(1,697)	(135)	(1,281)
	70,158	71,843	(39,904)	(22,601)	(9,988)	(650)
	397,918	360,620	(236,668)	(122,921)	(39,521)	(38,490)

2. **Particulars of business written** *continued*

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

All premiums were concluded in the UK.

*Net operating expenses shown in the income statement include an amount of £6.2 million (2017: £Nil) in respect of commissions on outward reinsurance that have been set off from the gross operating expenses but are included in the reinsurance balance above.

Geographical analysis by destination

	Gross written premiums	
	2018	*2017*
	£'000	*£'000*
UK	152,507	105,987
EU	24,403	24,530
Other	221,008	215,503
	397,918	346,020

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

An overall deterioration of £4.1 million on prior years' provisions was experienced during the year. Deteriorations of £2.0 million on third party liability, £2.8 million on marine, aviation and transport and £3.4 million on fire and other damage to property were partially offset by improvements of £2.2 million on energy and £1.8 million on reinsurance acceptances.

(2017: 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.)

4. Net operating expenses

	2018 *£'000*	*2017* *£'000*
Acquisition costs	120,368	99,081
Change in deferred acquisition costs	(12,075)	(8,004)
Administrative expenses	14,628	18,140
Gross operating expenses	122,921	109,217
Reinsurance commissions	(14,723)	–
Change in deferred reinsurance commissions	8,516	–
Net operating expenses	116,714	109,217

Administrative expenses include:

	2018 *£'000*	*2017* *£'000*
Auditor's remuneration – audit of the syndicate accounts	232	215
– other services pursuant to regulations and Lloyd's byelaws	141	134
Operating lease rentals – office equipment	23	37
Members' standard personal expenses	4,386	7,801
Other remuneration paid to auditors:		
Audit of the managing agent's annual accounts	16	15

Total commissions for direct insurance accounted for in the year amounted to £91.3 million (2017: £71.3 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:

	2018 *£'000*	*2017* *£'000*
Wages and salaries	9,247	9,022
Social security costs	1,345	2,269
Other pension costs	650	618
	11,242	11,909

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

	2018 *Number*	*2017* *Number*
Administration and finance	12	14
Underwriting	26	25
Underwriting support	25	24
Claims	10	9
	73	72

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

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:

	2018	*2017*
	£'000	*£'000*
Emoluments	1,746	1,672

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:

	2018	*2017*
	£'000	*£'000*
Emoluments	362	350

8. Investment return

	2018	*2017*
	£'000	*£'000*
Income from other financial investments	3,999	2,824
Net losses on realisation of investments		
– designated at fair value through profit or loss	(1,162)	(374)
Total investment income	2,837	2,450
Net unrealised gains on investments		
– designated at fair value through profit and loss	72	714
Investment expenses and charges	(173)	(87)
Total investment return	2,736	3,077

9. Financial investments

	31 December 2018		
	Carrying value £'000	*Purchase price £'000*	*Listed £'000*
Shares and other variable yield securities and units in unit trusts			
– designated at fair value through profit or loss	17,892	17,892	9,959
Debt securities and other fixed income securities			
– designated at fair value through profit or loss	188,450	188,363	–
Participation in investment pools	13,809	13,584	–
Deposits with credit institutions held at fair value	3,351	3,351	–
Loans secured by mortgages held at fair value	3,276	3,291	–
	226,778	226,481	9,959

	31 December 2017		
	Carrying value £'000	*Purchase price £'000*	*Listed £'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

The shares and other variable yield securities and units in unit trusts relate to holdings in highly diversified collective investment schemes, which in 2017 included 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 2018	*Level 1* *£'000*	*Level 2* *£'000*	*Level 3* *£'000*	*Total* *£'000*
Shares and other variable yield securities and units in unit trusts	17,892	–	–	17,892
Debt securities and other fixed income securities	–	188,450	–	188,450
Participation in investment pools	87	13,722	–	13,809
Loans, deposits with credit institutions and derivatives	3,350	3,277	–	6,627
Overseas deposits	7,760	16,693	–	24,453
	29,089	222,142	–	251,231

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

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.

9. Financial investments *continued*

The level 3 category would include 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 based on available market data. Therefore, unobservable inputs would 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 would be developed based on the best information available, which might include the syndicate's own data.

10. Technical provisions

Claims outstanding

	2018		
	Gross	*Reinsurers' share*	*Net*
	£'000	*£'000*	*£'000*
At 1 January	327,578	(131,771)	195,807
Claims incurred in current underwriting year	122,471	(40,878)	81,593
Claims incurred in prior underwriting years	114,197	(1,740)	112,457
Claims paid during the year	(171,684)	34,000	(137,684)
Foreign exchange	18,901	(7,643)	11,258
At 31 December	411,463	(148,032)	263,431

	2017		
	Gross	*Reinsurers' 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

10. Technical provisions *continued*

Provision for unearned premiums

	2018 Gross £'000	2018 Reinsurers' share £'000	2018 Net £'000
At 1 January	170,230	(21,229)	149,001
Premiums written in the year	397,918	(113,414)	284,504
Premiums earned in the year	(360,620)	88,346	(272,274)
Foreign exchange	8,881	(1,977)	6,904
At 31 December	216,409	(48,274)	168,135

	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

Deferred acquisition costs

	2018 £'000	2017 £'000
At 1 January	48,002	42,664
Change in deferred acquisition costs	12,075	8,004
Foreign exchange	2,188	(2,666)
At 31 December	62,265	48,002

11. Debtors arising out of direct insurance operations

	2018 £'000	2017 £'000
Amounts falling due within one year – intermediaries	97,744	80,153
Amounts falling due after one year – intermediaries	67	455
	97,811	80,608

Notes to the Accounts

continued

12. Debtors arising out of reinsurance operations

	2018	*2017*
	£'000	*£'000*
Amounts falling due within one year	46,556	30,934
Amounts falling due after one year	2	1,474
	46,558	32,408

13. Other assets

	2018	*2017*
	£'000	*£'000*
Overseas deposits		
Amounts advanced in the following locations as a condition of carrying on business there:		
Illinois, USA	508	851
Australia	11,232	6,909
Canada	3,802	3,187
Switzerland and other countries	8,911	5,418
	24,453	16,365

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 £11,542,000 in respect of the 2015 year of account. (2017: transfers to members' personal reserve funds of £25,031,000 in respect of the 2014 year of account).

15. Creditors arising out of direct insurance operations

	2018	*2017*
	£'000	*£'000*
Amounts falling due within one year	12,618	11,670
Amounts falling due after one year	3	17
	12,621	11,687

16. Creditors arising out of reinsurance operations

	2018	2017
	£'000	£'000
Amounts falling due within one year	50,452	40,287
Amounts falling due after one year	20,137	10
	70,589	40,297

17. Accruals and deferred income

Accruals and deferred income includes £8.8 million (2017: £Nil) in respect of deferred reinsurance commissions.

18. Cash and cash equivalents

	2018	2017
	£'000	£'000
Cash at bank and in hand	20,768	13,481
Short-term deposits with financial institutions	6,258	4,824
	27,026	18,305

19. 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.

20. 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 2017, less than £1,000.

20. 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 £80,000 (2017: £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 were £7.9 million (2017: £6.7 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 granted approval for ASML to establish a Special Purpose Arrangement, Syndicate 6134, with effect from the start of 2018 underwriting year to operate alongside Syndicate 2121 as the host syndicate. Syndicate 6134 is sponsored and capitalised by the Hannover Re group through its corporate member Inter Hannover (No.1) Ltd. Syndicate 6134 writes quota share reinsurances across specific classes of business within the underwriting capability of the host syndicate. In 2018 these include elements of the property, terrorism, specialty, cyber and political risks accounts. The gross net written premium of Syndicate 6134 for 2018 is £19.5 million and for the 2019 year of account the expectation is that premium will be £29.8 million.

Syndicate 2121 charges Syndicate 6134 an overriding commission in relation to this arrangement. Other than in respect of political risks business, this commission is charged at a rate of between 5% and 10% of gross net written premium. In respect of political risks the overrider is charged at a rate of 30% of gross written premium although Syndicate 6134 is not charged its share of original acquisition costs for this class. The commission charged is in line with similar facilities currently operating in the Lloyd's market.

At 31 December 2018 creditors included an amount of £20.1 million owed to Syndicate 6134.

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.

20. Related parties *continued*

ASML Directors

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

Mr Paul Hunt is a director of Britannia Steam Ship Insurance Association Limited.

Mr Alan Grant is a director of Thomas Miller Holdings Limited and a director of Thomas Miller Specialty Underwriting Agency Limited (formerly Osprey Underwriting Agency Limited), a Lloyd's coverholder.

Mr Sven Althoff is a member of the Executive Board of Hannover Re. He was also a director of Apollo Syndicate Management Limited, a Lloyd's Managing Agent, until his resignation on 7 March 2019; and a director of Integra Insurance Solutions Ltd, a UK managing general agent, until his resignation on 15 March 2018.

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

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 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 £2.6 million (2017: £2.2 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 2018, profit commission of £2.7 million (2017: £7.3 million) was due to ASML. There were no creditors at the year-end in respect of profit commission due to ASML (2017: £3.8 million).

In addition to this, £14.9 million (2017: £14.8 million) was recharged by ASML for expenses paid on behalf of the syndicate. Creditors at the year-end include amounts due to ASML of £0.6 million (2017: £0.7 million).

Capital support for Syndicate 2121

Hannover Re has supported Syndicate 2121 for the 2016 to 2019 years of account by way of a pro-rata participation agreement with a corporate member in respect of 100% of the member's participation.

Hannover Re also provides capital support to Argenta Underwriting No. 3 Ltd for the 2018 and 2019 years of account by way of excess participation agreements.

Inter Hannover (No.1) Ltd, a wholly owned subsidiary of the Hannover Re group, participates on Syndicate 2121 for the 2018 and 2019 years of account.

20. Related parties *continued*

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. APCL allocates capacity to Syndicate 2121 for the 2016 to 2019 years of account.

Mr Annandale is or was a director of the following corporate members that are or were subsidiaries of AHL:

Argenta Underwriting No. 2 Limited (AU2)
Argenta Underwriting No. 3 Limited (AU3)
Argenta Underwriting No. 8 Limited (AU8) (resigned 28 February 2019)
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 and AU8 were sold to third parties in December 2016 and February 2019 respectively. Whilst he was a director of these members AU2, AU3, AU8, AU9 and AU10 participated on Syndicate 2121 for the 2016 to 2019 years of account. AU11 participated on Syndicate 2121 for the 2016 and 2017 years of account and AU12 participated on the 2016 year 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 2016 and 2017 years of account on an excess basis through Funds at Lloyd's Provider's Agreements.

Each corporate member in turn provides capital to Syndicate 2121 for each of the 2016 and 2017 years of account. Mr Locke derives no personal benefit from these arrangements other than a fee to which he is contractually entitled through his Glenrinnes Farms Ltd participation.

For the 2018 and prior years of account 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.

21. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. FAL is not hypothecated to any specific syndicate participation by a member 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.

22. 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's objectives, 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.

22. 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 2018 was 35% (2017: 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 24, 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.

22. 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.

22. 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 2019 Syndicate Business Forecast.

RDS event	*Industry loss £m*	*Estimated gross loss £m*	*Estimated final net loss £m*
Political risks – China scenario	n/a	104	39
Gulf of Mexico windstorm	89,470	140	40
Los Angeles earthquake	59,091	99	33
Florida windstorm (Pinellas)	101,515	129	35
San Francisco earthquake	60,606	98	33

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

	31 December 2018		*31 December 2017*	
	Gross liabilities £'000	*Net liabilities £'000*	*Gross liabilities £'000*	*Net liabilities £'000*
Direct insurance:				
Accident and health	7,133	6,449	5,890	4,135
Motor (other classes)	8,938	8,890	10,028	10,023
Marine, aviation and transport	79,030	65,577	52,628	47,908
Energy	55,562	39,130	40,277	32,640
Fire and other damage to property	164,137	111,886	162,266	95,600
Third party liability	146,935	89,452	80,967	56,448
Pecuniary loss	30,582	13,642	21,677	12,709
	492,317	335,026	373,733	259,463
Reinsurance acceptances:				
Fire and other damage to property	65,303	37,166	58,588	34,122
Marine, aviation and transport	50,369	41,040	47,420	34,967
Energy	13,795	12,722	13,818	12,374
Casualty	6,088	5,612	4,249	3,882
	135,555	96,540	124,075	85,345
	627,872	431,566	497,808	344,808

22. 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 2018		*31 December 2017*	
	Gross liabilities £'000	*Net liabilities £'000*	*Gross liabilities £'000*	*Net liabilities £'000*
United Kingdom	239,531	154,412	153,680	110,391
EU	24,722	19,576	20,541	16,253
USA	172,749	123,201	139,362	94,314
Canada	15,877	11,899	12,139	7,997
Other	174,993	122,478	172,086	115,853
	627,872	431,566	497,808	344,808

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, the result 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.

Notes to the Accounts
continued

22. Risk management *continued*

31 December 2018	*Change in assumptions*	*Impact on gross liabilities £'000*	*Impact on net liabilities £'000*	*Impact on result £'000*	*Impact on members' balance £'000*
'A priori' loss ratios	+5%	10,476	7,927	(8,470)	(8,470)
Incurred claims development patterns	Recede development by 1 month	13,248	10,974	(11,361)	(11,361)

31 December 2017	*Change in assumptions*	*Impact on gross liabilities £'000*	*Impact on net liabilities £'000*	*Impact on result £'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)

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 2018.

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.

22. Risk management *continued*

Gross insurance contract outstanding claims provision as at 31 December 2018:

Underwriting year	*Before 2011*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Estimate of cumulative claims incurred:										
At end of underwriting year		64,084	97,908	60,799	48,288	64,844	69,697	121,848	127,549	
12 months later		183,251	157,519	119,783	107,761	139,632	171,268	220,838		
24 months later		193,494	159,380	121,972	107,886	151,398	194,769			
36 months later		204,683	157,263	118,201	102,188	156,725				
48 months later		206,605	153,181	117,547	107,910					
60 months later		205,312	148,679	114,153						
72 months later		203,252	147,073							
84 months later		201,291								
Current estimate of cumulative claims incurred		201,291	147,073	114,153	107,910	156,725	194,769	220,838	127,549	
Cumulative payments to date		194,155	142,010	101,529	90,094	121,152	119,833	92,642	18,492	
Gross outstanding claims provision at 31 December 2018 per the statement of financial position	21,062	7,136	5,063	12,624	17,816	35,573	74,936	128,196	109,057	411,463

Notes to the Accounts

continued

22. Risk management *continued*

Net insurance contract outstanding claims provision as at 31 December 2018:

Underwriting year	*Before 2011*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Estimate of cumulative claims incurred:										
At end of underwriting year		57,580	61,721	56,016	44,739	49,283	57,427	66,478	84,828	
12 months later		135,226	121,571	112,235	99,564	116,731	125,035	169,437		
24 months later		138,354	121,904	113,694	100,461	122,474	141,600			
36 months later		140,152	119,896	110,168	95,102	123,714				
48 months later		141,694	116,896	107,399	97,488					
60 months later		139,501	113,908	107,226						
72 months later		137,617	112,486							
84 months later		137,366								
Current estimate of cumulative claims incurred		137,366	112,486	107,226	97,488	123,714	141,600	169,437	84,828	
Cumulative payments to date		134,854	108,573	96,150	84,956	101,424	99,071	82,920	15,768	
Net outstanding claims provision at 31 December 2018 per the statement of financial position	13,002	2,512	3,913	11,076	12,532	22,290	42,529	86,517	69,060	263,431

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.

22. 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 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.

22. Risk management *continued*

31 December 2018	*Neither past due nor impaired £'000*	*Past due £'000*	*Impaired £'000*	*Total £'000*
Financial investments				
– Debt securities and other fixed income securities	188,450	–	–	188,450
– Shares and other variable yield securities and units in unit trusts	17,892	–	–	17,892
– Participation in investment pools	13,809	–	–	13,809
– Loans secured by mortgages	3,276	–	–	3,276
– Derivative assets	–	–	–	–
– Deposits with credit institutions	3,351	–	–	3,351
Deposits with ceding undertakings	22	–	–	22
Reinsurers' share of claims outstanding	148,032	–	–	148,032
Debtors arising out of insurance operations	69,605	74,764	–	144,369
Other debtors	2,267	–	–	2,267
Cash at bank and in hand	20,768	–	–	20,768
Overseas deposits	24,453	–	–	24,453
	491,925	74,764	–	566,689

22. 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

Assets which are past due but not impaired include amounts relating to binding authority business as at 31 December 2018. The past due amounts have principally been in arrears for less than 3 months from the reporting date.

22. Risk management *continued*

The table below provides information regarding the credit risk exposure of the syndicate at 31 December 2018 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 2018	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Shares and other variable yield securities and units in unit trusts	15,410	–	–	–	–	2,482	17,892
Debt securities and other fixed income securities	18,667	110,451	46,376	12,956	–	–	188,450
Participation in investment pools	9,484	1,595	1,675	968	–	87	13,809
Loans secured by mortgages	3,276	–	–	–	–	–	3,276
Deposits with credit institutions	–	–	3,351	–	–	–	3,351
Overseas deposits	12,062	3,217	1,726	1,203	241	6,004	24,453
Derivative assets	–	–	–	–	–	–	–
Deposits with ceding undertakings	–	–	–	–	–	22	22
Reinsurers' share of claims outstanding	398	10,895	131,865	–	–	4,874	148,032
Cash at bank and in hand	–	–	20,768	–	–	–	20,768
Total credit risk	59,297	126,158	205,761	15,127	241	13,469	420,053

22. Risk management *continued*

31 December 2017	*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	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

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.

22. 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 2018					
Outstanding claim liabilities	174,782	146,832	50,340	39,509	411,463
Other	63,739	20,141	–	–	83,880

	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

22. 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, Australian dollars, 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.

22. 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 $*	*AUS $*	*EUR €*	*OTH*	*Total*
31 December 2018							
Total assets	66,318	504,676	24,174	41,387	30,024	12,206	678,785
Total liabilities	(89,490)	(532,290)	(16,106)	(38,527)	(34,675)	(12,434)	(723,522)
Net assets	(23,172)	(27,614)	8,068	2,860	(4,651)	(228)	(44,737)

Converted £'000	*UK £*	*US $*	*CAD $*	*AUS $*	*EUR €*	*OTH*	*Total*
31 December 2017							
Total assets	57,298	427,759	21,606	32,370	21,848	2,335	563,216
Total liabilities	(62,944)	(429,444)	(14,667)	(26,891)	(20,738)	(2,576)	(557,260)
Net assets	(5,646)	(1,685)	6,939	5,479	1,110	(241)	5,956

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.

22. Risk management *continued*

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on the result 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 2018.

	Impact on result	
	2018	*2017*
	£'000	*£'000*
Sterling weakens:		
10% against other currencies	(2,301)	1,396
20% against other currencies	(5,177)	3,141
Sterling strengthens:		
10% against other currencies	1,882	(1,142)
20% against other currencies	3,451	(2,094)

(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 the result of the effects of changes in interest rates on financial assets and liabilities for items recorded at fair value through profit and loss.

22. 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.

	Impact on result	
	2018	*2017*
	£'000	*£'000*
Changes in variables:		
+50 basis points	(986)	(618)
-50 basis points	917	630

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.

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 the result 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.

	Impact on result	
	2018	*2017*
	£'000	*£'000*
Changes in variables – market indices:		
S&P 500/FTSE 100 +5%	–	38
S&P 500/FTSE 100 -5%	–	(36)

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 2018

2016 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 – 2016 closed year of account

Opinion

We have audited the syndicate underwriting year accounts for the 2016 year of account of syndicate 2121 ('the syndicate') for the three years ended 31 December 2018 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 loss for the 2016 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.

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 67, 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.

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.

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

20 March 2019

Income Statement for the 2016 year of account

closed at the end of the third year at 31 December 2018

Technical account – general business

	Notes	£'000	*Cumulative balance at 31 December 2018* £'000
Syndicate allocated capacity			269,927
Earned premiums, net of reinsurance			
Gross premiums written	2		290,523
Outward reinsurance premiums			(54,487)
			236,036
Reinsurance to close premiums received, net of reinsurance	2		100,861
			336,897
Allocated investment return transferred from the non-technical account	8		2,731
Claims incurred, net of reinsurance			
Gross claims paid		(153,041)	
Reinsurers' share		28,076	
		(124,965)	
Reinsurance to close premiums payable, net of reinsurance	4	(115,357)	
			(240,322)
Net operating expenses	5		(103,377)
Balance on the technical account for general business			(4,071)

Non-technical account

	Notes	*Cumulative balance at 31 December 2018 £'000*
Balance on the general business technical account		(4,071)
Investment income	8	2,781
Net unrealised gains on investments	8	97
Investment expenses and charges	8	(147)
Allocated investment return transferred to the general business technical account		(2,731)
Exchange gains		3,110
Result for the closed year of account		(961)

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 2018

	2016 year of account £'000
At 1 January 2016	–
Loss for the 2016 closed year of account	(961)
Members' agents' fees	(1,343)
At 31 December 2018	(2,304)

Statement of Financial Position

as at 31 December 2018

	Notes	2018 £'000	£'000
ASSETS			
Investments	9		112,191
Deposits with ceding undertakings			10
Debtors			
Debtors arising out of direct insurance operations	10	558	
Debtors arising out of reinsurance operations	11	9,836	
Other debtors		735	
			11,129
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the year of account			66,355
Cash and other assets			
Cash at bank and in hand		7,711	
Other assets	12	14,421	
			22,132
Prepayments and accrued income			194
TOTAL ASSETS			212,011
LIABILITIES			
Amounts due from members			(2,304)
Reinsurance to close premiums payable to close the year of account – gross amount			174,209
Creditors			
Creditors arising out of direct insurance operations		5,035	
Creditors arising out of reinsurance operations		13,321	
Other creditors		20,884	
			39,240
Accruals and deferred income			866
TOTAL LIABILITIES			212,011

The syndicate underwriting year accounts on pages 70 to 99 were approved by the Board of Argenta Syndicate Management Limited on 19 March 2019 and were signed on its behalf by

Andrew J Annandale
Managing Director

Statement of Cash Flows

for the 36 months ended 31 December 2018

	Notes	*2018* *£'000*
Loss on ordinary activities		(961)
Increase in outstanding claims		174,209
Increase in reinsurers' share of outstanding claims		(66,355)
Increase in debtors		(11,323)
Increase in creditors		40,106
Investment return		(2,731)
Net cash inflow from operating activities		132,945
Investing activities		
Investment income received		2,818
Purchase of debt and equity instruments		(215,097)
Sale of debt and equity instruments		103,852
Purchase of derivatives		(604)
Sale of derivatives		603
Increase in overseas deposits		(14,335)
Increase in deposits with ceding undertakings		(10)
Net cash outflow from investing activities		(122,773)
Financing activities		
Members' agents' fee advances		(1,343)
Net cash outflow from financing activities		(1,343)
Increase in cash and cash equivalents		8,829
Effect of exchange rates on cash and cash equivalents		(174)
Cash and cash equivalents at 1 January		–
Cash and cash equivalents at 31 December	13	8,655

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 2016 year of account has closed and all assets and liabilities have been transferred to the 2017 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 collection of the closed year loss 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 2018. 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 2016 year of account which has been closed by reinsurance to close at 31 December 2018; consequently the statement of financial position represents the assets and liabilities of the 2016 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 2018 were approved for issue by the board of directors on 19 March 2019.

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 22.

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.

Overseas deposits are allocated to the year of account as notified by Lloyd's. The returns on other assets arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of 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 2016 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 at a rate of 15% of profit 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. No profit commission was chargeable in respect of the 2016 year of account. 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

2016 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	40,267	(29,051)	(16,236)	(3,338)	(8,358)
Fire and other damage to property	123,470	(75,233)	(43,688)	(7,850)	(3,301)
Third party liability	16,094	(33,676)	(11,764)	11,170	(18,176)
Other	16,610	(12,442)	(5,876)	467	(1,241)
	196,441	(150,402)	(77,564)	449	(31,076)
Reinsurance accepted	194,943	(171,096)	(25,813)	26,240	24,274
	391,384	(321,498)	(103,377)	26,689	(6,802)

Reinsurance acceptances include the reinsurance to close premium of £100,861,000 (net) received from the 2015 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	124,293
EU	23,814
Other	243,277
	391,384

3. Analysis of underwriting result

	2015 and prior years of account £'000	*2016 pure year of account £'000*	*Total 2016 year of account £'000*
Technical account balance before allocated investment return and net operating expenses	(184)	96,759	96,575
Acquisition costs	920	(89,683)	(88,763)
	736	7,076	7,812

4. Reinsurance to close premiums payable net of reinsurance

	Reported *£'000*	*IBNR* *£'000*	*Total* *£'000*
Gross outstandings	102,236	66,221	168,457
Reinsurance recoveries anticipated	(37,234)	(15,866)	(53,100)
	65,002	50,355	115,357

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

5. Net operating expenses

	2018 *£'000*
Acquisition costs	88,763
Administrative expenses	14,614
Net operating expenses	103,377

Members' standard personal expenses amounting to £4.3 million are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contributions and managing agent's fees.

6. Staff numbers and costs

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

	2018 *£'000*
Wages and salaries	8,770
Social security costs	1,306
Other pension costs	638
	10,714

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

	2018 *Number*
Underwriting	22
Underwriting support	24
Claims	8
Administration and finance	21
	75

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 £1.8 million. This includes £326,000 that relates to the active underwriter.

7. Auditor's remuneration

	2018 £'000
Audit services	219
Other services pursuant to regulations and Lloyd's byelaws	134
	353

8. Investment return

	2018 £'000
Income from other investments	3,548
Net losses on realisation of investments	(767)
Total investment income	2,781
Net unrealised gains on investments	97
Investment expenses and charges	(147)
Total investment return	2,731

9. Financial investments

	Market value 2018 £'000
Shares and other variable yield securities and units in unit trusts	
– designated at fair value through profit or loss	9,539
Debt securities and other fixed income securities	
– designated at fair value through profit or loss	93,810
Deposits with credit institutions held at fair value	944
Loans secured by mortgages	1,632
Participation in investment pools	6,266
	112,191

The shares and other variable yield securities and units in unit trusts relate to holdings in highly diversified collective investment schemes.

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 56% 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	9,539	–	–	9,539
Debt securities and other fixed income securities	–	93,810	–	93,810
Participation in investment pools	39	6,227	–	6,266
Loans and deposits with credit institutions	944	1,632	–	2,576
Overseas deposits	4,576	9,845	–	14,421
	15,098	111,514	–	126,612

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.

The level 3 category would include 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 based on available market data. Therefore, unobservable inputs would 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 would be developed based on the best information available, which might include the syndicate's own data.

10. Debtors arising out of direct operations

	2018
	£'000
Amounts falling due within one year – intermediaries	550
Amounts falling due after one year – intermediaries	8
	558

11. Debtors arising out of reinsurance operations

	2018
	£'000
Amounts falling due within one year	9,834
Amounts falling due after one year	2
	9,836

12. Other assets

	2018
	£'000
Overseas deposits	
Amounts advanced in the following locations as a condition of carrying on business there:	
Illinois, USA	416
Australia	8,001
Canada	1,939
Switzerland and other countries	4,065
	14,421

13. Cash and cash equivalents

	2018
	£'000
Cash at bank and in hand	7,711
Short-term deposits with financial institutions	944
	8,655

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 2016 year of account is less than £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 for the 2016 year of account were £3.8 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 death on 10 February 2017.

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

Mr Paul Hunt is a director of Britannia Steam Ship Insurance Association Limited.

Mr Alan Grant is a director of Thomas Miller Holdings Limited and a director of Thomas Miller Specialty Underwriting Agency Limited (formerly Osprey Underwriting Agency Limited), a Lloyd's coverholder.

Mr Sven Althoff is a member of the Executive Board of Hannover Re. He was also a director of Apollo Syndicate Management Limited, a Lloyd's Managing Agent, until his resignation on 7 March 2019; and a director of Integra Insurance Solutions Ltd, a UK managing general agent, until his resignation on 15 March 2018.

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

Mr Trevor Newbery was a director of ASML until his resignation on 25 June 2016. Mr Newbery was 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.

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.

15. Related parties *continued*

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.

ASML

Total fees payable to ASML in respect of services provided to the syndicate in respect of its role as managing agent for the 2016 year of account amounted to £2.0 million. No profit commission was payable. There were £0.1 million of creditors at the period-end due to ASML in respect of expenses paid on behalf of the 2016 year of account.

Capital support for Syndicate 2121

Hannover Re has supported Syndicate 2121 for the 2016 to 2019 years of account by way of a pro-rata participation agreement with a corporate member in respect of 100% of the member's participation.

Hannover Re also provides capital support to Argenta Underwriting No. 3 Ltd for the 2018 and 2019 years of account by way of excess participation agreements.

Inter Hannover (No.1) Ltd, a wholly owned subsidiary of the Hannover Re group, participates on Syndicate 2121 for the 2018 and 2019 years 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. APCL allocates capacity to Syndicate 2121 for the 2016 to 2019 years of account.

15. Related parties *continued*

Mr Annandale is or was a director of the following corporate members that are or were subsidiaries of AHL:

Argenta Underwriting No. 2 Limited (AU2)
Argenta Underwriting No. 3 Limited (AU3)
Argenta Underwriting No. 8 Limited (AU8) (resigned 28 February 2019)
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 and AU8 were sold to third parties in December 2016 and February 2019 respectively. Whilst he was a director of these members AU2, AU3, AU8, AU9 and AU10 participated on Syndicate 2121 for the 2016 to 2019 years of account. AU11 participated on Syndicate 2121 for the 2016 and 2017 years of account and AU12 participated on the 2016 year 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 2016 to 2017 years of account on an excess basis through Funds at Lloyd's Provider's Agreements.

Each corporate member in turn provides capital to Syndicate 2121 for each of the 2016 and 2017 years of account. Mr Locke derives no personal benefit from these arrangements other than a fee to which he is contractually entitled through his Glenrinnes Farms Ltd participation.

For the 2016 year of account all capital providers who underwrite on Syndicate 2121 are charged managing agency fees and profit commission on a standard basis, apart from one where the charges are less advantageous to that entity, 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's objectives, 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 2016 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 24 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 2016 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 22 of the syndicate annual accounts.

16. Risk management *continued*

Note 22 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 2016 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 22 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 2018.

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 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 2018 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, Australian dollars, US dollars and Canadian dollars. The syndicate seeks to mitigate the risk by matching to the fullest extent possible the estimated foreign currency denominated liabilities with assets denominated in the same currency.

The 2016 year of account has closed and the result is fixed in sterling. Only the years of account that remain open at 31 December 2018 attract a 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 syndicate annual accounts give an indication of the impact on the result of a percentage change in the relative strength of sterling against the value of the main settlement currencies simultaneously based on the information as at 31 December 2018.

(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.

Analysis in note 22 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 the result 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 22 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 the result 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.

Produced by Stephen Duke Ltd +44 (0)20 7422 0040 (15818)

Argenta Syndicate Management Limited
70 Gracechurch Street
London EC3V 0XL
Tel: +44 (0)20 7825 7200

Argenta Syndicate 2121
Lloyd's Box 163A
Tel: +44 (0)20 7327 3163

Lloyd's Box 163B
Tel: +44 (0)20 7327 3164

Lloyd's Box 171
Tel: +44 (0)20 7327 3113
Tel: +44 (0)20 7327 3114

Lloyd's Box 171A
Tel: +44 (0)20 7327 3826
Tel: +44 (0)20 7327 3895

Lloyd's Box 109
Tel: +44 (0)20 7825 7103
Tel: +44 (0)20 7825 7114

Lloyd's Box 322
Tel: +44 (0)20 7825 7232
Tel: +44 (0)20 7825 7276

www.argentagroup.com

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is a subsidiary of Argenta Holdings Limited

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