

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The Syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The Syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the Syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any Syndicate of Lloyd's, and no offer to join Lloyd's or any Syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a Syndicate in any Syndicate year is not predictive of the related Syndicate's performance in any subsequent Syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the Syndicate reports and accounts. You also agree that you will not provide any person with a copy of any Syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.



Verto Syndicate 2689

Syndicate Annual Report and Accounts
31 December 2018

Contents

| | |
|--|----|
| Directors and Administration | 3 |
| Active Underwriter's report..... | 4 |
| Managing Agent's report | 7 |
| Statement of Managing Agent's responsibilities | 12 |
| Independent auditors' report to the members of Syndicate 2689..... | 13 |
| Income statement | 16 |
| Statement of comprehensive income | 17 |
| Statement of changes in Members' balances | 17 |
| Statement of financial position | 18 |
| Statement of cash flows | 20 |
| Notes to the financial statements | 21 |
| 1. Basis of preparation | 21 |
| 2. Accounting policies | 21 |
| 3. Segmental analysis | 29 |
| 4. Technical provisions..... | 30 |
| 5. Net operating expenses | 31 |
| 6. Staff costs | 31 |
| 7. Auditors' remuneration | 31 |
| 8. Emoluments of the Directors of Asta Managing Agency Ltd | 32 |
| 9. Investment return | 32 |
| 10. Financial Investments | 32 |
| 11. Debtors arising out of reinsurance operations | 34 |
| 12. Cash And cash equivalents..... | 34 |
| 13. Other assets..... | 34 |
| 14. Creditors arising out of reinsurance operations | 34 |
| 15. Related parties | 34 |
| 16. Disclosure of interests..... | 35 |
| 17. Funds at Lloyd's | 35 |
| 18. Off-balance sheet items | 35 |
| 19. Risk management | 35 |
| 20. Post balance sheet events | 43 |

Directors and Administration

Managing Agent

Asta Managing Agency Ltd

Directors

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

Non Executive Directors*

Company Secretary

N J Burdett

Managing Agent's Registered Office

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

Managing Agent's Registered Number

1918744

Active Underwriter

P G Mills

Bankers

Barclays Bank
Citibank NA
RBC Dexia

Registered Auditors

PricewaterhouseCoopers LLP

Active Underwriter's report

Verto Syndicate 2689's first year of underwriting following Lloyd's approval was the 2017 year of account. The key objective of establishing Syndicate 2689 was to provide improved access to underwriting opportunities for private and institutional clients of Hampden Agencies Limited who supplied 100% of the capital for the Syndicate in 2017. Additional capital providers joined the Syndicate for 2018 and will do again for the 2019 year.

Verto's vision is to be a pure play Treaty Reinsurer and Lloyd's lowest expense ratio Syndicate. The Executive Management team is led by Peter Mills as CEO & Active Underwriter. The Syndicate brings together a core group of four individuals with a long-standing track record of success in start-up and established re/insurance businesses. The combined experience of this team is over 140 years.

2017 Year of account

The Syndicate wrote a single, whole account, quota share treaty of AxaXL Group. This account had previously been available as SPA 6111, which had commenced underwriting for the 2012 Account with AxaXL as Managing Agent. Due to strategic changes in the reinsurance strategy of AxaXL Group, which wanted to purchase group wide reinsurance, AxaXL had given notice that SPA 6111 would not be renewed for 2017 (however, it was subsequently renewed in 2017 and 2018 but not 2019). The cession written for 2017 by Syndicate 2689 was of 80% of the Lloyd's operations of the business (Syndicate 2003) and 20% of their worldwide non-Lloyd's book.

The Atlantic hurricane season delivered three large Hurricanes, Harvey, Irma and Maria. The year also saw earthquakes in Mexico and extensive wildfires in California. Swiss Re's latest estimate for 2017 is that the Insurance and Reinsurance Industry suffered record insured catastrophe and man-made losses of US\$ 150bn.

The Verto supported whole account quota share benefitted from the inuring reinsurance protections of both Syndicate 2003 and AxaXL's non-Lloyd's business. The estimated loss for the 2017 Account at Q8 is in a range of 30% to 40% of capacity. This represents a deterioration from our previous estimates in May. In May, we estimated the loss was 23.8% to 33.7% of capacity. Most of the additional deterioration came from the insurance business exposed to catastrophe losses in the final quarter of 2018.

2018 Year of account

Lloyd's approved the addition of a diversified portfolio of quota share treaties in line with the Verto underwriting team's multi-class transactional experience of building profitable reinsurance portfolios. The Syndicate wrote a further five classes of business including property, casualty, marine and energy, offshore energy exposed to Gulf of Mexico wind and specialty.

In all, an additional 44 quota share treaties were underwritten from a diverse mix of cedants. Most treaties were USD denominated and North America exposed. Across all classes there were encouraging signs on terms and conditions from the global insurance and reinsurance markets, and certainly no signs of deterioration.

The AxaXL cession was also renewed but with a reduced line applied evenly across the AxaXL group. It therefore represented a much lower share (36%) of the Syndicate's premium than the 100% the year before.

Active Underwriter's report continued

The 2018 results will undoubtedly be challenging for the worldwide insurance and reinsurance industry. Whilst 2018 did not have the severity of the 2017 events, it did have an increased frequency. Major losses included Hurricanes Michael and Florence, Typhoons Jebi, Trami and Mangkhut as well as significant Californian wildfires for the second year in succession. Swiss Re's preliminary estimate of insured major losses totalling \$79bn makes 2018 the fourth highest catastrophe loss year on record.

The whole account quota share treaty cession with AxaXL was again heavily influenced by the 2018 catastrophe losses as well as many large risk event losses and consequently is underperforming the additional diversified portfolio. Currently, the only significant loss event to the diversified portfolio is Hurricane Michael, which has triggered the purchased reinsurance group protection. The Syndicate's exposure to Hurricane Michael is, however, within expectation and is capped in terms of the loss size with an event limit.

The remainder of the Property portfolio outside of Hurricane Michael has performed within underwriting expectations. This portfolio contains US Southwest and Southeast business that has not been impacted by Michael, Florence or California Wildfires.

The casualty and specialty portfolios are typically on a risk attaching basis there is still some way to go before the results on these lines can be projected with certainty however, the initial signs are encouraging. Verto gauges its optimism on the basis that neither portfolio has been impacted with any known market loss event.

2019 Year of account

Due to the late withdrawal of a corporate capital provider with just over \$25.4m of our capacity the Syndicate Business Plan was revised with reduced capacity of \$88.3m matching gross net written premium of the same amount. The business plan net combined ratio was however maintained at 93.49% and target return on capacity is 9.28% from 8.35%.

To manage the change required, the number of classes of business written was reduced from six to five with the underperforming whole account quota share treaty cession from AxaXL not being renewed. From 2019, the Syndicate is also benefitting from the development of a small portfolio of non-proportional treaty business, which complements the proportional product and provides access to quota share business that would otherwise be unavailable.

The Syndicate has a more positive outlook for the 2019 year of account with encouraging signs of rate increases of mid-single digit numbers across the five classes of business written. Pressure is also apparent in relation to terms and conditions, resulting in a reduction of cede commissions and brokerage.

Future

Verto will continue to underwrite for gross profitability and make judicious use of portfolio exposure caps and outwards reinsurance to ensure the risk/return profile of each contract or relationship contributes to the Syndicate's targeted returns. The market has embraced Verto for its basic principles and easy to interpret risk appetite with the result that execution and take-up of our target business has, in many ways, exceeded expectations.

Active Underwriter's report continued

I would like to thank capital providers for their support and patience given the difficult start the Syndicate has had with the underperforming AxaXL contract. The Syndicate has highly experienced and committed staff in the key underwriting and support areas and continues to benefit from the governance and oversight role of Asta as our Managing Agent. We are encouraged by positive signs of improvement in underlying terms and conditions as well as rate.

P G Mills
Active Underwriter
22 March 2019

Managing Agent's report

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

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

Results

The total recognised result for calendar year 2018 is a loss of \$16.6m (2017: loss of \$20.8m).

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

Principal activity and review of the business

This is the second year of the Syndicate's operations. The Syndicate's principal activity is the underwriting of treaty reinsurance business.

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

| | 2018 \$'000 | 2017 \$'000 | Change % |
|------------------------------------|-----------------|-----------------|--------------|
| Gross written premiums | 134,727 | 77,420 | 74% |
| Loss for the financial year | (16,638) | (20,806) | (20%) |
| Combined ratio* | 116.1% | 152.1% | 24% |

**The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned. Lower ratios represent better performance.*

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

| | 2018 YOA Open | 2017 YOA Open |
|---------------------------------|---------------------|---------------------|
| Capacity (\$'000) | 124,930 | 63,445 |
| Forecasted result (\$'000) | (6,879) | (24,116) |
| Forecast return on capacity (%) | (5.5)% | (38.0)% |

Managing Agent's report continued

Principal risks and uncertainties

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

Insurance risk

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

Credit risk

The key aspect of credit risk is reinsurance counterparty risk which is the risk of default by one or more of the Syndicate's reinsurers and intermediaries. The Syndicate Board's policy is that the Syndicate will only reinsure with approved reinsurers, supported by collateralisation, where required. The Agency Reinsurance Security Committee monitors reinsurer ratings and is required to approve all new reinsurers before business is placed with them. For the 2017 YOA no outward reinsurance was in place. For the 2018 YOA a comprehensive group outward reinsurance protection was purchased.

Market risk

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

The Syndicate has minimal exposure to changes to interest rates as funds are held in cash and cash equivalents.

Managing Agent's report continued

Liquidity risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash or can only meet obligations at excessive cost. To mitigate this risk the Syndicate Board reviews cash flow projections regularly and ensures that, where needed, the Syndicate has liquidity facilities in place or has utilised the option of a cash call from capital providers. The Syndicate has in place an overdraft facility (£15m limit) as well as a shock loss facility (£15m limit) with Barclays Bank Plc. It also has financial support pledged from Hampden Capital Plc, and has called on members participating on the 2017 years of account (see note 20).

Operational risk

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

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

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

Group / strategic risk

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

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

Future developments

The Syndicate will continue to underwrite treaty reinsurance business across a variety of regions via proportional and non-proportional agreements. If opportunities arise to write new classes of business, these will be investigated at the appropriate time.

The capacity for the 2019 year of account is \$88.1m (2018 year of account is \$124.9m).

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

Managing Agent's report continued

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

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

Directors

Details of the Directors of the Managing Agent that were serving at the year end and up to the date of signing of the financial statements are provided on page 3. Changes to Directors were as follows:

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

* Company Secretary

Disclosure of information to the auditors

So far as each person who was a Director of the Managing Agent at the date of approving the report is aware, there is no relevant audit information, being information needed by the Syndicate auditors in connection with the auditors' report, of which the auditors are unaware. Having made enquiries of fellow Directors of the Agency and the Syndicate's Auditors, each Director has taken all the steps that he or she ought to have taken as a Director to become aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Auditors

The Managing Agent intends to re-appoint PricewaterhouseCoopers LLP as the Syndicate's auditors.

Syndicate Annual General Meeting

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

On behalf of the Board

N J Burdett
Company Secretary
22 March 2019

Statement of Managing Agent's responsibilities

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare financial statements at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland. The Financial statements are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the financial statements, the managing agent is required to:

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

The Managing Agent is responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditors' report to the members of Syndicate 2689

Report on the Syndicate annual accounts

Opinion

In our opinion, Syndicate 2689's Syndicate annual accounts (the "Syndicate annual accounts"):

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

We have audited the Syndicate annual accounts included within the Syndicate Annual Report and Accounts (the "Annual Report"), which comprise: the statement of financial position at 31 December 2018, the income statement for the year then ended, the statement of changes in members' balances, the statement of cash flows, and the notes to the Syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Conclusions relating to going concern

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

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

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

Independent auditors' report continued

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

Reporting on other information

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

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

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

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

Active Underwriter's Report and Managing Agent's Report

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

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

Responsibilities for the Syndicate annual accounts and the audit

Responsibilities of the managing agent for the Syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 12, the managing agent is responsible for the preparation of the Syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of Syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

Independent auditors' report continued

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

Auditors' responsibilities for the audit of the Syndicate annual accounts

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

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

Use of this report

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

Other required reporting

Other matters on which we are required to report by exception

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

- we have not received all the information and explanations we require for our audit; or
- the Managing Agent in respect of the Syndicate has not kept adequate accounting records; or
- certain disclosures of managing agent remuneration specified by law are not made; or
- the Syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Robert Cordock (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 March 2019

Income statement

Technical account - General business

For the year ended 31 December 2018

| | Notes | 2018 \$'000 | 2017 \$'000 |
|---|-------|-----------------|-----------------|
| Gross premiums written | 3 | 134,727 | 77,420 |
| Outward reinsurance premiums | | (3,860) | - |
| Net written premiums | | 130,867 | 77,420 |
| Change in the provision for unearned premiums | | | |
| Gross amount | | (22,848) | (37,166) |
| Reinsurers' share | | - | - |
| Change in the net provision for unearned premiums | 4 | (22,848) | (37,166) |
| Earned premiums, net of reinsurance | | 108,019 | 40,254 |
| Allocated investment return transferred from the non-technical account | | (123) | 359 |
| Claims paid | | | |
| Gross amount | | (37,744) | (9,286) |
| Reinsurers' share | | - | - |
| Net claims paid | | (37,744) | (9,286) |
| Changes in claims outstanding | | | |
| Gross amount | | (42,257) | (33,985) |
| Reinsurers' share | | 3,649 | - |
| Change in the net provision for claims | 4 | (38,608) | (33,985) |
| Claims incurred, net of reinsurance | | (76,352) | (43,271) |
| Net operating expenses | 5 | (49,046) | (17,967) |
| Balance on technical account – general business | | (17,502) | (20,625) |

Income statement continued

Non-technical account - General business

For the year ended 31 December 2018

| | | 2018 | 2017 |
|---|--------------|-----------------|-----------------|
| | Notes | \$'000 | \$'000 |
| Balance on technical account – general business | | (17,502) | (20,625) |
| Investment return | 9 | (123) | 359 |
| Allocated investment return transferred to the general business technical account | | 123 | (359) |
| Exchange gains/(losses) | | 864 | (181) |
| Loss for the financial year | | (16,638) | (20,806) |

All the amounts above are in respect of continuing operations.

The notes on pages 21 to 43 form part of these financial statements.

Statement of comprehensive income

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

Statement of changes in Members' balances

For the year ended 31 December 2018

| | 2018 | 2017 |
|---|-----------------|-----------------|
| | \$'000 | \$'000 |
| At 1 January | (20,806) | - |
| Loss for the financial year | (16,638) | (20,806) |
| Members agents fees | (310) | (20,806) |
| Payments of profit to members' personal reserve funds | - | - |
| At 31 December | (37,754) | (20,806) |

Statement of financial position

As at 31 December 2018

| | Notes | 2018 \$'000 | 2017 \$'000 |
|--|-------|----------------|----------------|
| ASSETS | | | |
| <i>Investments</i> | | | |
| Financial investments | 10 | 3,749 | - |
| <i>Reinsurers' share of technical provisions</i> | | | |
| Provision for unearned premiums | 4 | - | - |
| Claims outstanding | 4 | 3,649 | - |
| | | <u>3,649</u> | - |
| <i>Debtors</i> | | | |
| Debtors arising out of reinsurance operations | 11 | 115,813 | 50,384 |
| <i>Cash and other assets</i> | | | |
| Cash at bank and in hand | 12 | 12,850 | - |
| Other assets | 13 | 16 | 50 |
| | | <u>12,866</u> | 50 |
| <i>Prepayments and accrued income</i> | | | |
| Deferred acquisition costs | 4 | 18,522 | 12,969 |
| Other prepayments and accrued income | | 2,042 | 3,044 |
| | | <u>20,564</u> | <u>16,013</u> |
| <i>Total assets</i> | | <u>156,641</u> | <u>66,447</u> |

The notes on pages 21 to 43 form part of these financial statements.

Statement of financial position continued

As at 31 December 2018

| | Notes | 2018 \$'000 | 2017 \$'000 |
|---|-------|----------------|----------------|
| MEMBERS' BALANCE AND LIABILITIES | | | |
| <i>Capital and reserves</i> | | | |
| Members' balances | | (37,754) | (20,806) |
| <i>Liabilities</i> | | | |
| <i>Technical provisions</i> | | | |
| Provision for unearned premiums | 4 | 60,014 | 37,166 |
| Claims outstanding | 4 | 76,242 | 33,985 |
| | | <u>136,256</u> | <u>71,151</u> |
| <i>Creditors</i> | | | |
| Creditors arising out of reinsurance operations | 14 | 40,878 | 9,286 |
| Bank overdraft | | 16,836 | 6,290 |
| | | <u>57,714</u> | <u>15,576</u> |
| <i>Accruals and deferred income</i> | | <u>425</u> | <u>526</u> |
| <i>Total liabilities</i> | | <u>194,395</u> | <u>87,253</u> |
| <i>Total members' balances and liabilities</i> | | <u>156,641</u> | <u>66,447</u> |

The notes on pages 21 to 43 form part of these financial statements.

The financial statements on pages 16 to 43 were approved by board of Directors on 19 March 2019 and were signed on its behalf by:

D J G Hunt
Director
22 March 2019

Statement of cash flows

For the year ended 31 December 2018

| | Notes | 2018 \$'000 | 2017 \$'000 |
|--|-------|----------------|----------------|
| Cash flows from operating activities | | | |
| <i>Loss for the financial year</i> | | (16,638) | (20,806) |
| Increase in gross technical provisions | | 65,105 | 71,151 |
| Increase in reinsurers' share of gross technical provisions | | (3,649) | - |
| (Increase) in debtors | | (65,429) | (50,384) |
| (Increase) in creditors | | 31,592 | 9,286 |
| Movement in other assets/liabilities | | (4,618) | (15,537) |
| Investment return | | 123 | (359) |
| <i>Net cash (outflow) / inflow from operating activities</i> | | 6,486 | (6,649) |
| Cash flows from investing activities | | | |
| Investment income received | | (123) | 359 |
| <i>Net cash (outflow) / inflow from investing activities</i> | | (123) | 359 |
| Cash flows from financing activities | | | |
| Payments of profit to members' personal reserve fund | | - | - |
| Members' agents fee advances | | (310) | - |
| <i>Net cash (outflow) from financing activities</i> | | (310) | - |
| Net increase in cash and cash equivalents | | 6,053 | (6,290) |
| Cash and cash equivalents at beginning of year | | (6,290) | - |
| Cash and cash equivalents at end of year | 12 | (237) | (6,290) |

Notes to the financial statements

For the year ended 31 December 2018

1. Basis of preparation

Statement of compliance

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

These financial statements are prepared on a going concern basis, under the historical cost convention as modified by the recognition of certain financial assets and liabilities measured at fair value. The Directors of the Managing Agent have prepared the accounts on the going concern basis on the basis that the Syndicate has obtained a letter of support from Hampden Capital Plc, which has pledged any financial support necessary to meet all liabilities as they fall due over the next 12 months.

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

2. Accounting policies

Use of estimates

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

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

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

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

Accounting policies continued

Case estimates for the AxaXL treaty are based on quarterly bordereau, and as such, the Syndicate is reliant on the AxaXL Group with respect to reserving information. Additionally, the AxaXL Group provides the Syndicate with IBNR figures, again in summary form, as well as reserving data for significant CAT losses – this allows the Syndicate to assess the reserves on large losses more independently, although still being reliant on the AxaXL Group for reserving information. This reliance and lack of source data adds an extra layer of uncertainty in relation to estimating claims provisions.

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

Significant accounting policies

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

Gross premiums

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

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

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

Reinsurance premiums

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

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

Claims incurred

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

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

Accounting policies continued

The amount included in respect of IBNR is based on statistical techniques of estimation applied by actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. An element of IBNR also relates to specific large losses, such as catastrophe events.

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

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

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

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

Provisions for unearned premiums

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

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

Accounting policies continued

Unexpired risks

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

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

At 31 December 2018 the Syndicate had nil gross unexpired risk provision and nil net unexpired risk provision.

Deferred acquisition costs

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio. It is not the Syndicate's policy to reallocate a portion of indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies, to acquisition costs.

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

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

Insurance and reinsurance receivables

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

Insurance receivables are not recognised when the de-recognition criteria for financial assets have been met.

Insurance and reinsurance payables

Insurance and reinsurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired. Insurance balances in relation to the AxaXL contract are on a funds withheld basis with settlement due 60 days after the reporting of the final 36 month position.

Accounting policies continued

Foreign currencies

The Syndicate's functional currency and presentational currency is US Dollars.

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

Exchange differences are recorded in the non-technical account.

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

| | 2018 | 2017 |
|---------|-----------------|-----------------|
| | Year End | Year End |
| USD:GBP | 0.79 | 0.74 |

Financial assets and liabilities

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

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

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

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

Accounting policies continued

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

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

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

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

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

Cash and cash equivalents

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

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

Accounting policies continued

Fair value measurement of investments

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

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

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

1. Bonds have been valued at fair value using quoted prices in an active market.
2. Deposits with credit institutions are included at cost plus accrued income.
3. Money Market Funds are valued on a stable net asset value (NAV) basis. Money Market Funds are readily convertible into cash, are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Level 2 financial instruments are less regularly traded government and agency bonds, supranational bonds, corporate bonds, currency derivatives, bond futures, and fund investments.

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

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

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, all UK basic rate income tax (currently at 20%) deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any other overseas tax payable by members on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

Pension costs

Hampden Syndicate Services Ltd operate a defined contribution scheme for the benefit of Syndicate staff. Pension contributions to Syndicate staff are charged to the Syndicate and included within net operating expenses.

Syndicate operating expenses

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

3. Segmental analysis

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

| 2018 | Gross written premiums | Gross premium earned | Gross claims incurred | Gross operating expenses | Ceded Reinsurance balance | Total |
|----------------------|-------------------------------|-----------------------------|------------------------------|---------------------------------|----------------------------------|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Reinsurance accepted | 134,727 | 111,879 | (80,001) | (49,046) | (211) | (17,379) |
| | 134,727 | 111,879 | (80,001) | (49,046) | (211) | (17,379) |

| 2017 | Gross written premiums | Gross premium earned | Gross claims incurred | Gross operating expenses | Ceded Reinsurance balance | Total |
|----------------------|-------------------------------|-----------------------------|------------------------------|---------------------------------|----------------------------------|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Reinsurance accepted | 77,420 | 40,254 | (43,271) | (17,967) | - | (20,984) |
| | 77,420 | 40,254 | (43,271) | (17,967) | - | (20,984) |

All premiums were concluded in the UK.

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

4. Technical provisions

| | Gross provisions \$'000 | 2018 Reinsurance assets \$'000 | Net \$'000 |
|---------------------------------------|-------------------------------|---|---------------|
| Claims outstanding | | | |
| Balance at 1 January | 33,985 | - | 33,985 |
| Change in claims outstanding | 42,257 | (3,649) | 38,608 |
| Effect of movements in exchange rates | - | - | - |
| Balance at 31 December | 76,242 | (3,649) | 72,593 |
| Claims notified | 25,379 | - | 25,379 |
| Claims incurred but not reported | 50,863 | (3,649) | 47,214 |
| Balance at 31 December | 76,242 | (3,649) | 72,593 |
| Unearned premiums | | | |
| Balance at 1 January | 37,166 | - | 37,166 |
| Change in unearned premiums | 22,848 | - | 22,848 |
| Effect of movements in exchange rates | - | - | - |
| Balance at 31 December | 60,014 | - | 60,014 |
| Deferred acquisition costs | | | |
| Balance at 1 January | 12,969 | - | 12,969 |
| Change in deferred acquisition costs | 5,553 | - | 5,553 |
| Effect of movements in exchange rates | - | - | - |
| Balance at 31 December | 18,522 | - | 18,522 |
| | Gross provisions \$'000 | 2017 Reinsurance assets \$'000 | Net \$'000 |
| Claims outstanding | | | |
| Balance at 1 January | - | - | - |
| Change in claims outstanding | 33,985 | - | 33,985 |
| Effect of movements in exchange rates | - | - | - |
| Balance at 31 December | 33,985 | - | 33,985 |
| Claims notified | 14,192 | - | 14,192 |
| Claims incurred but not reported | 19,793 | - | 19,793 |
| Balance at 31 December | 33,985 | - | 33,985 |
| Unearned premiums | | | |
| Balance at 1 January | - | - | - |
| Change in unearned premiums | 37,166 | - | 37,166 |
| Effect of movements in exchange rates | - | - | - |
| Balance at 31 December | 37,166 | - | 37,166 |
| Deferred acquisition costs | | | |
| Balance at 1 January | - | - | - |
| Change in deferred acquisition costs | 12,969 | - | 12,969 |
| Effect of movements in exchange rates | - | - | - |
| Balance at 31 December | 12,969 | - | 12,969 |

5. Net operating expenses

| | 2018 | 2017 |
|--------------------------------------|-----------------|-----------------|
| | \$'000 | \$'000 |
| Acquisition costs | (43,791) | (27,037) |
| Change in deferred acquisition costs | 5,553 | 12,969 |
| RI acquisition costs | - | - |
| Administration expenses | (10,808) | (3,899) |
| Net operating expenses | <u>(49,046)</u> | <u>(17,967)</u> |

Members' standard personal expenses amounting to \$2.45m (2017: \$1.71m) are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission.

6. Staff costs

| | 2018 | 2017 |
|-----------------------|----------------|---------------|
| | \$'000 | \$'000 |
| Wages and salaries | (1,755) | (192) |
| Social security costs | (270) | (11) |
| Other pension costs | (99) | (3) |
| | <u>(2,124)</u> | <u>(206)</u> |

7. Auditors' remuneration

| | 2018 | 2017 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Audit of the Financial statements | (154) | (103) |
| Other services pursuant to Regulations and Lloyd's Byelaws | (80) | (65) |
| | <u>(234)</u> | <u>(168)</u> |

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

8. Emoluments of the Directors of Asta Managing Agency Ltd

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

No emoluments of the Directors or staff of Asta Managing Agency Ltd were directly charged to the Syndicate. The emoluments of the Active Underwriter are borne by the Syndicate and amounted to \$467,294 (2017: \$461,376) in the year.

No other compensation was payable to key management personnel.

9. Investment return

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Income from other financial investments | 15 | - |
| (Loss)/income from funds withheld balance | (138) | 359 |
| Total investment return | (123) | 359 |

10. Financial Investments

| | 2018 | | |
|---|-----------------------------|-----------------------------|---------------------------|
| | Carrying value \$'000 | Purchase price \$'000 | Listed (Par) \$'000 |
| Shares and other variable yield securities and units in unit trusts | | | |
| - Designated at fair value through profit or loss | 3,749 | 3,749 | 3,749 |
| Debt securities and other fixed income securities | | | |
| - Designated at fair value through profit or loss | - | - | - |
| Total | 3,749 | 3,749 | 3,749 |

| | 2017 | | |
|---|-----------------------------|-----------------------------|---------------------------|
| | Carrying value \$'000 | Purchase price \$'000 | Listed (Par) \$'000 |
| Shares and other variable yield securities and units in unit trusts | | | |
| - Designated at fair value through profit or loss | - | - | - |
| Debt securities and other fixed income securities | | | |
| - Designated at fair value through profit or loss | - | - | - |
| Total | - | - | - |

Financial investments continued

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

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---------|---------|---------|--------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 31 December 2018 | | | | |
| Shares and other variable yield securities and units in unit trusts | - | 3,749 | - | 3,749 |
| Debt securities and other fixed income securities | - | - | - | - |
| Total | - | 3,749 | - | 3,749 |
| | | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 31 December 2017 | | | | |
| Shares and other variable yield securities and units in unit trusts | - | - | - | - |
| Debt securities and other fixed income securities | - | - | - | - |
| Total | - | - | - | - |

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.

11. Debtors arising out of reinsurance operations

| | 2018 | 2017 |
|--|----------------|---------------|
| | \$'000 | \$'000 |
| Due from ceding insurers (within one year) | 25,945 | - |
| Due from ceding insurers (after one year) | 89,868 | 50,384 |
| Total | <u>115,813</u> | <u>50,384</u> |

12. Cash and cash equivalents

| | 2018 | 2017 |
|---|---------------|----------------|
| | \$'000 | \$'000 |
| Short-term deposits with financial institutions | 3,749 | - |
| Cash at bank and in hand | 12,850 | - |
| Bank overdraft | (16,836) | (6,290) |
| | <u>(237)</u> | <u>(6,290)</u> |

13. Other assets

Other assets comprise solely VAT receivable from HMRC of \$16,369 (\$50,276 in 2017).

14. Creditors arising out of reinsurance operations

| | 2018 | 2017 |
|--|-----------------|----------------|
| | \$'000 | \$'000 |
| Due to ceding insurers (within one year) | (1,320) | - |
| Due to ceding insurers (after one year) | (39,558) | (9,286) |
| Total | <u>(40,878)</u> | <u>(9,286)</u> |

15. Related parties

Asta provides services and support to Syndicate 2689 in its capacity as Managing Agent. During the year, managing agency fees of \$1,329,073 (2017: \$967,500) were charged to the Syndicate. Asta also recharged \$2,931,690 (2017: \$1,331,099) worth of service charges in the year and as at 31 December 2018 an amount of \$73,684 (2017: \$350,581) was owed to Asta in respect of this service.

Syndicate staff are employed by Hampden Syndicate Services Ltd, which is part of the Hampden Capital Plc Group. Another subsidiary of the Hampden Group, Hampden Agencies Ltd, acts as the Members Agent for the third party capital providers of the Syndicate. The Syndicate had no outstanding balances with these entities as at 31 December 2018.

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

16. Disclosure of interests

Managing Agent's interest

During 2018 Asta was the managing agent for ten Syndicates and three Special Purpose Arrangements. Syndicates 1729, 1897, 1980, 2357, 2525, 2689, 2786, 3268, 4242 and 5886 as well as Special Purpose Arrangements 6123, 6126 and 6131 were managed on behalf of third party capital providers.

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

The Financial Statements of the Managing Agency can be obtained by application to the Registered Office (see page 3).

17. Funds at Lloyd's

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

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

18. Off-balance sheet items

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

19. Risk management

a) Governance framework

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

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

Risk management continued

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

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

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

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

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Syndicate 2689 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA).

The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was 35% of the member's SCR 'to ultimate'.

Risk management continued

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates. Accordingly, the ending members balances reported on the statement of financial position on page 18, represent resources available or required 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.

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

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

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

The Syndicate uses both its own and commercially available risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an un-modelled event are greater than those arising from a modelled event. Additionally, the Syndicate is reliant on the accuracy of bordereau data provided by the AxaXL Group, which is another source of risk.

Key assumptions

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

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

Risk management continued

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions, such as legislative changes, uncertainty in the estimation process. This is also in relation to the reliability of the reserving information provided by AxaXL Group.

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

| | 2018 | 2017 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Gross | | |
| Five percent increase in claim liabilities | (3,812) | (1,699) |
| Five percent decrease in claim liabilities | 3,812 | 1,699 |
| Net | | |
| Five percent increase in claim liabilities | (3,630) | (1,699) |
| Five percent decrease in claim liabilities | 3,630 | 1,699 |

Claims development table

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

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

Underwriting year

| | 2017 | 2018 |
|--|-----------------|----------------------|
| | \$'000 | \$'000 |
| Estimate of cumulative gross claims incurred: | | |
| At end of first underwriting year | 43,271 | 47,989 |
| One year later | 65,452 | - |
| Less cumulative gross paid | <u>(27,785)</u> | <u>(9,414)</u> |
| Liability for gross outstanding claims | <u>37,667</u> | <u>38,575</u> |
| Total gross outstanding claims | | <u>76,242</u> |

Risk management continued

Underwriting year

| | 2017 \$'000 | 2018 \$'000 |
|--|-----------------|----------------------|
| Estimate of cumulative net claims incurred: | | |
| At end of first underwriting year | 43,271 | 44,340 |
| One year later | 65,452 | - |
| Less cumulative net paid | <u>(27,785)</u> | <u>(9,414)</u> |
| Liability for net outstanding claims | <u>37,667</u> | <u>34,926</u> |
| Total net outstanding claims | | <u>72,593</u> |

The uncertainty associated with the ultimate claims experience of an underwriting year is greatest when the underwriting year is at an early stage of development and the margin for future experience potentially being more adverse than assumed is at its highest. As claims develop, and the ultimate cost of the claims becomes more certain, the relative level of margin should decrease. Due, however, to the uncertainty inherent in the claims estimation process, initial reserves may not always be in a surplus.

d) Financial risk

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

1) Credit risk

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

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

- Investment guidelines are established setting out the quality of investments to be included within the Syndicates portfolio. The policy is monitored by the Syndicate Board, however is yet to be implemented given that the Syndicate has not yet owned any investments to date.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits. If the counterparty is downgraded or does not have a good credit rating, then collateral is sought to mitigate any risk. This is monitored by the Syndicate Board.

Risk management continued

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.

| 2018 | \$'000 | | | Total |
|---|------------------------------|----------|----------|----------------|
| | Neither past due or impaired | Past due | Impaired | |
| Debtors arising out of reinsurance operations | 115,813 | - | - | 115,813 |
| Other financial investments | 3,749 | - | - | 3,749 |
| Claims outstanding | 3,649 | - | - | 3,649 |
| Cash at bank and in hand | 12,850 | - | - | 12,850 |
| Other debtors | 20,580 | - | - | 20,850 |
| Total | 156,641 | - | - | 156,641 |

| 2017 | \$'000 | | | Total |
|---|------------------------------|----------|----------|---------------|
| | Neither past due or impaired | Past due | Impaired | |
| Debtors arising out of reinsurance operations | 50,384 | - | - | 50,384 |
| Other financial investments | - | - | - | - |
| Claims outstanding | - | - | - | - |
| Cash at bank and in hand | - | - | - | - |
| Other debtors | 16,063 | - | - | 16,063 |
| Total | 66,447 | - | - | 66,447 |

Because the Syndicate has no investments nor reinsurance recovery assets, there will be no disclosure showing credit risk exposure using independent credit ratings of counterparties.

Maximum credit exposure

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

During the year, no credit exposure limits were exceeded (2017: none).

Risk management continued

2) Liquidity risk

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

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

| | \$'000 | | | | | Total |
|-----------------------|---------------------------|-----------------|------------------|------------------|--------------------------|----------------|
| | No stated maturity | 0-1 Year | 1-3 Years | 3-5 Years | More than 5 years | |
| Claims outstanding | - | 32,694 | 28,424 | 7,711 | 7,413 | 76,242 |
| Reinsurance creditors | - | 18,340 | 39,558 | - | - | 57,898 |
| Total | - | 51,034 | 67,982 | 7,711 | 7,413 | 134,140 |

| | \$'000 | | | | | Total |
|-----------------------|---------------------------|-----------------|------------------|------------------|--------------------------|---------------|
| | No stated maturity | 0-1 Year | 1-3 Years | 3-5 Years | More than 5 years | |
| Claims outstanding | - | 14,483 | 12,662 | 4,408 | 2,432 | 33,985 |
| Reinsurance creditors | - | - | 9,286 | - | - | 9,286 |
| Total | - | 14,483 | 21,948 | 4,408 | 2,432 | 43,271 |

Risk management continued

3) Market risk

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

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

a) Currency risk

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

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

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

| 2018 | \$'000 | | | Total |
|-------------------|----------|-----|-----------|-----------|
| | GBP | EUR | USD | |
| Total Assets | 1,590 | (1) | 155,052 | 156,641 |
| Total Liabilities | (17,076) | - | (177,319) | (194,395) |
| Net Assets | (15,486) | (1) | (22,267) | (37,754) |

| 2017 | \$'000 | | | Total |
|-------------------|---------|-----|----------|----------|
| | GBP | EUR | USD | |
| Total Assets | 2,735 | - | 63,712 | 66,447 |
| Total Liabilities | (6,816) | - | (80,437) | (87,253) |
| Net Assets | (4,081) | - | (16,725) | (20,806) |

Sensitivity to changes

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

Risk management continued

| | Impact on profit and member's balance | |
|------------------------------|---------------------------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| US Dollar weakens | | |
| 10% against other currencies | (1,547) | (408) |
| 20% against other currencies | (3,094) | (816) |
| US Dollar strengthens | | |
| 10% against other currencies | 1,547 | 408 |
| 20% against other currencies | 3,094 | 816 |

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.

Sensitivity to changes

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

| | 2018 \$'000 | 2017 \$'000 |
|---|----------------|----------------|
| Interest Rate Risk | | |
| Impact of 50 basis point increase on result | 246,313 | 261,828 |
| Impact of 50 basis point decrease on result | (246,313) | (261,828) |
| Impact of 50 basis point increase on net assets | 246,313 | 261,828 |
| Impact of 50 basis point decrease on net assets | (246,313) | (261,828) |

20. Post balance sheet events

On 8th March 2019, a cash call of \$19.8m was issued on the members participating of the 2017 year of account. The funds in respect of this cash call are expected to be received on 14th June 2019.

During 2019, the following amounts are proposed to be transferred from the Personal Reserve Fund of members participating on the 2017 year of account.

| | \$'000 |
|--|-----------------|
| 2017 Year of account – Open year cash call | (19,800) |
| | <u>(19,800)</u> |