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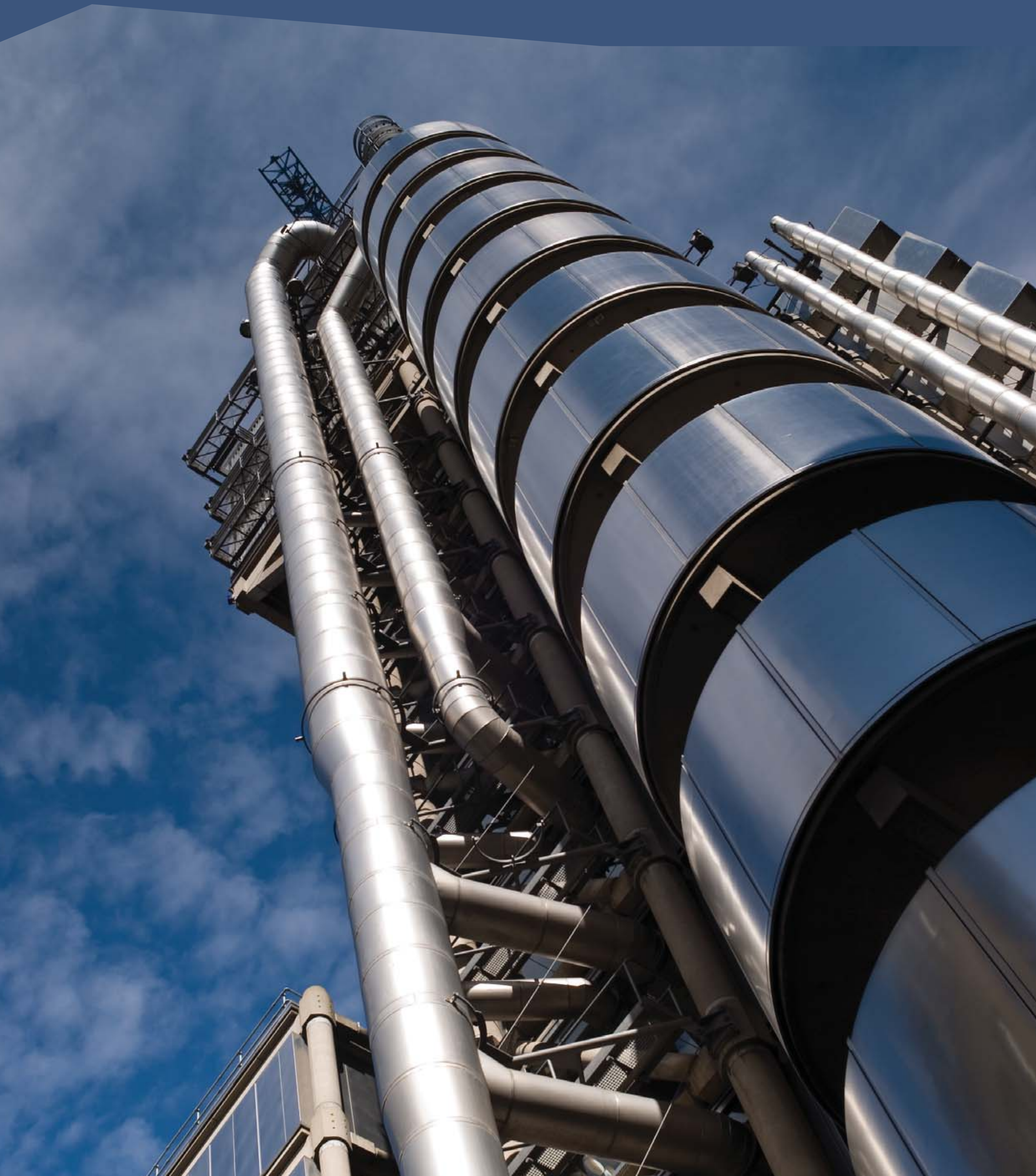
Argenta

Argenta Syndicate Management Limited
Syndicate 2121

Report, Annual Accounts and Underwriting Year Accounts

as at 31 December 2019



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

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Registered in England number 3632880

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London SE1 2RT

Syndicate bankers
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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
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Syndicate actuaries
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London SE1 2RT

Company auditors
PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Contents of Report and Accounts

Managing Agent's Report

The directors of Argenta Syndicate Management Limited ("ASML"), a company registered in England and Wales, present their report for the year ended 31 December 2019.

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 2017 year of account which has been reinsured to close with effect from 31 December 2019.

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. The portfolio is weighted towards direct and short tail accounts, however, longer tail business is also underwritten. The longer tail element will grow significantly following the introduction of a new casualty team for the 2020 year of account.

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 two branch offices in Australia; one located in the central business district of Sydney and the other located in Tuggerah, north of Sydney. The Tuggerah branch operates 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, war, liability, cargo and specie); specialty (political risks, cyber, warranty and indemnity, and accident and health); worldwide treaty; and casualty.

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 traditional classes including hull, cargo, specie, war, fine art and liability, 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.

The syndicate underwrites an accident and health account covering both sports and general personal accident business; and a cyber book predominantly through participation on a Lloyd's approved consortium, a London Market binding authority and a quota share reinsurance placement. A political risks account covering contract frustration, credit and political risks was added to the portfolio in late 2016.

Finally, a new casualty team has been recruited adding professional indemnity, financial institutions and SME specialty liability business to the existing worldwide casualty book, written via Lloyd's approved consortia, which includes a small product recall account.

For the 2018 year of account, the stamp capacity was increased to £340 million and remained at that level for 2019. It was further increased to £425 million for 2020, which remains 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 that have lead expertise.

Review of underwriting activities

On an annual accounting basis, the result of the syndicate for calendar year 2019 is a loss of £8.5 million (combined ratio 105%) with the 2017 underwriting year producing a profit of £5.4 million offset by the 2018 and 2019 underwriting years producing losses of £0.2 million and £13.7 million respectively. On the traditional Lloyd's basis of reporting, the 2017 year of account has closed with a loss of £3.7 million or 1.2% of capacity, with a pure year loss of 2.7% and a release from the 2016 and prior years of 1.5%.

The table below summarises the capacity, premium volumes and performance of Syndicate 2121 for 2019 alongside comparative numbers for 2018. 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	*2019*	*2018*
Capacity (underwriting year)	£340 million	£340 million
Premiums written gross of commission	£458 million	£398 million
Net premiums earned	£312 million	£272 million
Loss for the year	(£9 million)	(£38 million)
Claims ratio (net)	65%	71%
Combined ratio	105%	115%
Cash and investments at 31 December	£289 million	£272 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*

Rates started to strengthen following several large market losses impacting the second half of 2018 and this continued throughout 2019. The 2018 catastrophe losses following on from the record events of 2017, coupled with the corrective action taken by Lloyd's to improve market performance, were the main catalysts for this. This momentum has continued to strengthen resulting in general market discipline being at its strongest for several years.

Thankfully the 2019 calendar year witnessed a more normal level of loss experience in line with 2016 rather than the very high levels seen in 2017 and 2018. The syndicate was impacted by Typhoons Hagibis and Faxai out of Japan, extensive flooding in Townsville, Australia and Hurricane Dorian, which greatly threatened the US but veered east at the final moment massively reducing the potential damage. The market also witnessed major bushfires affecting large parts of Australia that continued into 2020 and at the time of writing have only just been extinguished.

According to Swiss Re's insurance research arm, Sigma, natural catastrophe and man-made losses in 2019 totalled US$55.5 billion. This is down on the US$92.6 billion in 2018 and US$151.6 billion in 2017 and similar to the US$58.4 billion impacting the 2016 year.

The largest natural catastrophe loss incurred by the syndicate was in respect of Typhoon Hagibis, with the largest incurred man-made loss being turbine damage from the utility class. The losses from Hurricane Dorian, Typhoon Hagibis, the Townsville flooding, and the Australian bushfires benefit from the syndicate's comprehensive reinsurance programme.

There has also been significant creep within the market in the size of the Typhoon Jebi loss that occurred in 2018, which also impacted Syndicate 2121 on a gross basis. This loss was recoverable under the reinsurance programme at year end 2018 and the net position has improved due to the structure of the reinsurance protections purchased.

The policy of cycle management has been central to the syndicate's underwriting strategy over the last few years. This not only restricts and reduces underperforming sub-classes but also identifies areas that are profitable; areas where there is an ability to grow; or areas where distribution, whether that be through brokers, coverholders or wholly owned service companies, means that the syndicate has access to profitable business.

It is pleasing to note there has been a dramatic decrease in the number of market facilities that peaked over the course of the last couple of years. These facilities have had an impact on the way certain business is transacted as they maintained underperforming terms. The decision taken by the syndicate in previous years, however, not to support these types of facilities is proving to be correct as they increasingly become eliminated by the Lloyd's business planning process.

Other than in respect of the cyber and terrorism risks classes, premium rates increased during the year to a level above that anticipated on a whole account basis. The overall rate increase on business that was renewed in 2019 was 6.6% compared to an original expected increase of 1%, that had been subsequently revised mid-year to 3.2%, for the syndicate as a whole.

During the year larger reductions in income were seen in the casualty account as the syndicate performed a thorough review of the portfolio at a sub-class level resulting in significant changes. A similar reduction was seen in the accident and health account as the very high commissions did not reduce in line with expectations and the ability to balance the book away from US sports exposures did not materialise.

A smaller reduction was seen in the political risks class as the syndicate sought to balance expected returns with market conditions.

Managing Agent's Report

continued

Review of underwriting activities *continued*

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 continues to see improvements in trading conditions for a second year running as domestic companies reduce exposures and look to correct the multi-year pricing reductions seen previously. A sure sign of a hardening market are year on year rate increases, which is exactly what is being seen.

The London property book grew as the syndicate took advantage of writing Fortune 1000 business previously avoided. This had suffered heavily in 2017 and 2018, and the syndicate was able to quickly take advantage of the significant repricing that occurred.

Smaller increases were also seen in the treaty, UK insurance, offshore energy and energy renewables classes.

Finally, increased income was also seen via the service company in Asia as a result of the introduction of a local terrorism underwriter and as the market there started to respond in a similar vein to Australia and London.

2017 year of account

As previously reported, from a catastrophe perspective the 2017 year of account was heavily impacted with losses from Hurricanes Harvey, Irma and Maria. In addition the losses in 2018 from the California wildfires, the Hawaiian volcanic eruptions, Hurricane Michael and, to a lesser extent, Hurricane Florence, also impacted the 2017 year of account.

Pleasingly there has been little movement in the syndicate's net position during the last twelve months in respect of these losses.

The 2017 year also required a strengthening of the reserves within the casualty account, in line with the market, following increased medium sized losses from the California wildfires and the MGM shooting in the US.

Reserves in respect of the 2016 and prior years of account continue to develop satisfactorily, generating a surplus of £4.4 million during the 2019 calendar year.

As a result of all of the above, the 2017 and prior years of account have produced a loss of 1.2% of stamp capacity in line with recent mid-point predictions.

2018 year of account

The 2018 year also witnessed a significant increase in losses against the long term average from a catastrophe perspective, with the syndicate's largest natural catastrophe losses arising from the California wildfires, the Hawaiian volcanic eruptions, Hurricanes Michael and Florence in the US and internationally, from Typhoon Jebi in Japan.

However, there was a reduced level of reinsurance recoveries the syndicate was able to make due to the size of gross losses on an individual basis falling within the retentions on the syndicate's reinsurance programmes.

It is worth noting that, similar to 2017, there has been little movement in the syndicate's net position on these losses compared to twelve months ago.

From a man-made loss perspective the largest losses remain as stated last year; being from fires at a Macy's warehouse in the US and in a Brazilian warehouse. Both of these losses emanated from the cargo account. Also, an increase in political risk losses was seen in respect of business incepting during the 2018 year of account.

Overall, the 2018 forecast result continues to develop behind the business plan target and it is likely to prove to be a struggle to produce a positive return.

Review of underwriting activities *continued*

2019 year of account

The largest losses to impact this year so far are the catastrophe losses referred to above. In addition, losses have also been incurred in respect of a large hail loss in California on a solar plant within the energy renewable account, a loss at a gold mine within the terrorism account and a warehouse loss within the cargo account.

The estimated premium income for the year was 101% of the business plan forecast and, as previously indicated, the actual rate increase on renewed business was 6.6% against a revised expected increase of 3.2%.

Overall, the 2019 forecast result is developing slightly behind the business plan target. A significant element of the 2019 business, however, is still exposed throughout a large part of 2020 and it is hoped that this will develop favourably over the next 24 months.

Trading conditions for 2020

The results declared over the last three years, coupled with the stronger stance taken by Lloyd's in the business planning process, has slowly but surely started to strengthen improvements in trading conditions first seen last year.

The rating environment for 2020 is predicted to continue to be positive with expectations that rates will increase by a further 4.4% in 2020 on top of the previously stated 2019 increase, at a whole account level, of 6.6%. Whilst these seem low compared to recent results, the fact that rate increases on rate increases imposed last year are now being seen hopefully demonstrates sustainable longevity in improving terms.

The 1 January 2020 renewal season was better than expected with rates increasing by 5.1% at a whole account level, helped by the challenges from Lloyd's as part of the market's business planning process 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 appointment of a new casualty team from another Lloyd's managing agency further diversifies the class of business spread with the addition of professional indemnity, financial institutions and SME specialty liability business. More importantly, the team in question has historically produced first or second quartile results in the classes of business underwritten and the necessary changes to the syndicate's 2020 SBF were readily accepted by Lloyd's.

The syndicate's appetite for catastrophe exposure has not changed from that adopted in previous years and the risk metrics for major US perils are expected to remain consistent with previous years at a whole account level. The syndicate will continue to purchase a comprehensive reinsurance programme, the 2020 structure of which has been slightly enhanced from that placed for 2019.

Further growth in the cyber account is also expected, albeit at a slower rate than before as the syndicate continues to see good results for this class.

Finally and as previously indicated, further 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.

Managing Agent's Report

continued

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. AHL is wholly owned 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 with the provision of capital.

As the managing agency of Syndicate 2121, ASML has maintained a strategy of steadily growing the syndicate with capacity increasing from £298 million in 2017 to £425 million in 2020. 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 including 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 retains at least 10% of the business introduced by the sponsor.

A strategy of continued growth has also been adopted in respect of Syndicate 6134. In 2018 the syndicate underwrote gross net written premium of £21.9 million across specific classes of business within the underwriting capability of the host syndicate. This increased to £31.1 million for 2019 and for the 2020 year of account the expectation is that Syndicate 6134 will underwrite £105.6 million of gross net premium. It is expected 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 that 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 that 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 2019 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.

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 3.5% and outperformed the target benchmark of 2.9%. Whilst this represents a good investment return for the calendar year, with an interest rate cut in the final quarter of 2019, US dollar returns will be more challenging to achieve next year. Insight report on 2019 as follows:

> "The syndicate started the period with a relatively low duration position at below 0.7 years; there was a modest increase to this during the year, finishing the period at 0.9 years. The portfolios retained a short-dated focus with the majority of bonds having a maturity of between one and three years. The duration position made a positive contribution to performance throughout the period. Credit strategy was also positive during the year. An allocation to short dated inflation-linked bonds was a key driver of returns in the fourth quarter.
>
> The majority of the portfolio's risk budget remains allocated to corporate bond exposures. However, over the period, significant exposure to sovereign bonds, such as Indonesia, Chile and Italy, was added to the portfolio. Most of the purchases made during the year were attractively priced new issues with a small amount being added from the secondary market. New additions to the portfolio were focused on high quality, shorter maturity bonds.
>
> With strong consumption and interest rate sensitive sectors responding to lower interest rates the Fed is expected to remain on hold for the next twelve months. Investors' quest for yield continues to be the biggest supportive factor for credit markets, although this is tempered by valuations that are becoming less compelling. The steady growth plus a low rate environment, however, is expected to keep defaults low. Against this backdrop, the portfolio will continue to be focused on short dated, high quality issues."

Lloyd's treasury

The Canadian dollar portfolio returned 2.5% outperforming the benchmark of 2.4% for the calendar year. Lloyd's treasury report on 2019 as follows:

> "Over the year, the fund benefitted from both its yield curve and credit position. The fund kept an overweight position in both provincial and corporate bonds and benefitted as credit spreads tightened on better risk sentiment.
>
> The Bank of Canada (BOC) held rates in 2019. The BOC deems its current accommodation appropriate, whilst monitoring developments in household spending, oil markets and the global trade environment. Real GDP is expected to slow next year to 1.6%, and with acceleration in inflation seen as temporary, this could force the BOC to cut rates in 2020.

Investment managers and policy *continued*

The duration position on the Canadian portfolios currently stands close to neutral against the benchmark, at around 2.0 years. The portfolio continues to remain overweight in agency bonds and its credit position sits slightly above neutral against the benchmark.

In 2020 credit is expected to continue to remain attractive from a carry perspective as investors maintain a reach for yield mentality but returns are likely to be more challenging to achieve. Selection will be crucial in the current environment as corporate margins are being squeezed and leverage rising in certain cyclical areas. There is also expected to be an increasing focus on environmental, social and governance ("ESG") factors. With credit valuations remaining tight, there continues to be a risk of spreads widening on the back of US elections, trade negotiations and weakening credit fundamentals, although large BBB issuers have been deleveraging."

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.

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 US dollar return for 2019 was broadly in line with the long term target of 3.3%, although it must be recognised that this is likely to be difficult to achieve in 2020 without taking significantly more investment risk.

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:

	2019	*2018*
	'000	*'000*
United States dollars	252,389	245,978
Sterling and other currencies	34,433	27,725
Canadian dollars	32,848	30,448
Euros	15,542	16,229
Combined in sterling	264,949	244,454
Net aggregate investment return for the calendar year in sterling	6,987	2,736

Net calendar year investment yield:	*2019*	*2018*
United States dollars	3.0%	1.4%
Sterling and other currencies	1.9%	1.6%
Canadian dollars	2.5%	1.8%
Euros	0.1%	(3.5%)
Combined in sterling	2.7%	1.1%

Research and development

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

Disclosure of information to the auditors

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 auditors in connection with the auditors' report, of which the auditors are unaware; and
- 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

PricewaterhouseCoopers LLP ("PwC") was appointed to replace Ernst & Young LLP as the auditors of the syndicate annual accounts and underwriting year accounts during the course of 2019. PwC has also been appointed as the auditors 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 auditors are deemed reappointed in subsequent years if there is no objection. PwC has signified its willingness to continue in office as the independent auditors to the syndicate and it is proposed that the appointment remains in force.

Managing Agent's Report

continued

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 auditors 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 4 March 2020.

SYNDICATE

2121

ANNUAL ACCOUNTS 2019

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 Auditors’ Report to the Members of Syndicate 2121

Report on the syndicate annual accounts

Opinion
In our opinion, Syndicate 2121’s annual accounts (the “syndicate annual accounts”):

- give a true and fair view of the state of the syndicate’s affairs as at 31 December 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with 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 Report, Annual Accounts and Underwriting Year Accounts as at 31 December 2019 (the “Annual Report”), which comprise:

- Statement of financial position as at 31 December 2019;
- Income statement: technical account – general business;
- Income statement: non-technical account;
- Statement of changes in members’ balances;
- Statement of cash flows;
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies.

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.

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 of the United Kingdom’s withdrawal 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 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 Managing Agent's Report, we also considered whether the disclosures required by The 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.

Managing Agent's Report

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 year ended 31 December 2019 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 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 17, 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.

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.

Independent Auditors' Report to the Members of Syndicate 2121

continued

Use of this report

This report, including the opinion, 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 this opinion, 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
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; 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.

Mark Bolton (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2020

Income Statement

for the year ended 31 December 2019

Technical account – general business

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
Earned premiums, net of reinsurance					
Gross premiums written	2	457,938		397,918	
Outward reinsurance premiums		(138,940)		(113,414)	
Net premiums written		318,998		284,504	
Change in the provision for unearned premiums					
Gross amount		(14,066)		(37,298)	
Reinsurers' share		7,383		25,068	
Change in the net provision for unearned premiums		(6,683)		(12,230)	
Earned premiums, net of reinsurance			312,315		272,274
Allocated investment return transferred from the non-technical account	8		6,987		2,736
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(253,093)		(171,684)	
Reinsurers' share		83,662		34,000	
Net claims paid		(169,431)		(137,684)	
Change in the provision for claims					
Gross amount		(95,580)		(64,984)	
Reinsurers' share		63,471		8,618	
Change in the net provisions for claims		(32,109)		(56,366)	
Claims incurred, net of reinsurance			(201,540)		(194,050)
Net operating expenses	4		(127,841)		(116,714)
Balance on the technical account for general business			(10,079)		(35,754)

All items relate only to continuing operations.

Income Statement

for the year ended 31 December 2019 continued

Non-technical account

	Notes	2019 £'000	2018 £'000
Balance on the general business technical account		(10,079)	(35,754)
Investment income	8	5,707	2,837
Net unrealised gains on investments	8	1,580	72
Investment expenses and charges	8	(300)	(173)
Allocated investment return transferred to the general business technical account		(6,987)	(2,736)
Exchange gains/(losses)		1,530	(2,107)
Loss for the financial year		(8,549)	(37,861)

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 2019

	Notes	2019 £'000	2018 £'000
At 1 January		(44,737)	5,956
Loss for the financial year		(8,549)	(37,861)
Members' agents' fees		(1,425)	(1,290)
Cash calls made from/(payments of profit to) members' personal reserve funds	14	2,305	(11,542)
At 31 December		(52,406)	(44,737)

Statement of Financial Position

as at 31 December 2019

	Notes	2019 £'000	2019 £'000	2018 £'000	2018 £'000
ASSETS					
Investments					
Financial investments	9		217,205		226,778
Deposits with ceding undertakings			38		22
Reinsurers' share of technical provisions					
Provision for unearned premiums	10	53,989		48,274	
Claims outstanding	10	205,752		148,032	
			259,741		196,306
Debtors					
Debtors arising out of direct insurance operations	11	103,729		97,811	
Debtors arising out of reinsurance operations	12	56,812		46,558	
Other debtors		1,471		2,267	
			162,012		146,636
Cash and other assets					
Cash at bank and in hand		24,569		20,768	
Other assets	13	46,888		24,453	
			71,457		45,221
Prepayments and accrued income					
Accrued interest		179		257	
Deferred acquisition costs	10	61,650		62,265	
Other prepayments and accrued income		1,555		1,300	
			63,384		63,822
TOTAL ASSETS			773,837		678,785

Statement of Financial Position

as at 31 December 2019 continued

		2019		*2018*	
	Notes	*£'000*	*£'000*	*£'000*	*£'000*
MEMBERS' BALANCES AND LIABILITIES					
Members' balances			(52,406)		(44,737)
Technical provisions					
Provision for unearned premiums	10	223,660		216,409	
Claims outstanding	10	492,277		411,463	
			715,937		627,872
Creditors					
Creditors arising out of direct insurance operations	15	7,230		12,621	
Creditors arising out of reinsurance operations	16	84,889		70,589	
Other creditors		2,548		670	
			94,667		83,880
Accruals and deferred income	17		15,639		11,770
TOTAL MEMBERS' BALANCES AND LIABILITIES			773,837		678,785

The syndicate annual accounts on pages 21 to 65 were approved by the board of Argenta Syndicate Management Limited on 4 March 2020 and were signed on its behalf by

Andrew J Annandale
Managing Director

Statement of Cash Flows

for the year ended 31 December 2019

	Notes	*2019* *£'000*	*2018* *£'000*
Loss on ordinary activities		(8,549)	(37,861)
Increase/(decrease) in unearned premiums and outstanding claims		107,237	105,718
(Increase)/decrease in reinsurers' share of unearned premiums and outstanding claims		(69,729)	(34,870)
(Increase)/decrease in debtors		(18,548)	(28,498)
Increase/(decrease) in creditors		12,850	24,554
Investment return		(6,987)	(2,736)
Movements in other assets/liabilities		1,942	411
Exchange differences		804	(3,238)
Net cash inflow/(outflow) from operating activities		19,020	23,480
Investing activities			
Investment income received		5,349	2,438
Purchases of debt and equity instruments		(140,581)	(150,219)
Sales of debt and equity instruments		141,509	152,191
Purchases of derivatives		(24,163)	(2,063)
Sales of derivatives		24,120	2,067
(Increase)/decrease in overseas deposits		(19,080)	(6,917)
(Increase)/decrease in deposits with ceding undertakings		(17)	(3)
Net cash inflow/(outflow) from investing activities		(12,863)	(2,506)
Financing activities			
Cash calls made from/(payments of profits to) members' personal reserve funds		2,305	(11,542)
Members' agents' fee advances		(1,425)	(1,290)
Net cash inflow/(outflow) from financing activities		880	(12,832)
Increase/(decrease) in cash and cash equivalents		7,037	8,142
Cash and cash equivalents at 1 January		27,026	18,305
Exchange differences on opening cash and cash equivalents		(1,048)	579
Cash and cash equivalents at 31 December	18	33,015	27,026

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 2019 were approved for issue by the board of directors on 4 March 2020.

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.

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/reinsured if a specified uncertain future event (the re/insured event) adversely affects the policyholder/reinsured. As a general guideline, the syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the re/insured event did not occur. Insurance contracts can also transfer financial risk.

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

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

Gross premiums

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

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

1. Accounting policies *continued*

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

Reinsurance premiums

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

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

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

Profit commission

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

Claims

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

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

Technical provisions

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

Claims outstanding

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

1. **Accounting policies** *continued*

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

Provisions for unearned premiums

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

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

Unexpired risks

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

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

At 31 December 2019 and 31 December 2018 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 2019 or 2018.

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

Insurance receivables

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

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

Insurance payables

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

Foreign currencies

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

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

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

Exchange differences are recorded in the non-technical account.

1. Accounting policies *continued*

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, any UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their member's agent 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

Pension contributions relating to a defined contribution scheme and charged to the syndicate are 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:

2019	*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	7,208	8,686	(4,828)	(3,668)	(1,265)	(1,075)
Motor (other classes)	6,669	7,312	(4,892)	(2,996)	(226)	(802)
Marine, aviation and transport	40,009	43,232	(25,889)	(15,438)	(1,549)	356
Energy	31,925	30,340	(43,180)	(8,986)	15,435	(6,391)
Fire and other damage to property	166,559	150,290	(100,757)	(50,807)	(13,344)	(14,618)
Third party liability	102,471	100,300	(86,132)	(33,802)	13,004	(6,630)
Pecuniary loss	23,588	22,957	(27,216)	(5,905)	6,154	(4,010)
	378,429	363,117	(292,894)	(121,602)	18,209	(33,170)
Reinsurance acceptances:						
Fire and other damage to property	46,032	44,742	(41,072)	(11,759)	20,700	12,611
Marine, aviation and transport	21,206	22,723	(11,688)	(7,990)	(4,161)	(1,116)
Energy	10,871	10,278	(2,675)	(3,033)	(1,534)	3,036
Casualty	1,400	3,012	(344)	(1,242)	147	1,573
	79,509	80,755	(55,779)	(24,024)	15,152	16,104
	457,938	443,872	(348,673)	(145,626)	33,361	(17,066)

Notes to the Accounts

continued

2. Particulars of business written *continued*

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)

All premiums were concluded in the UK.

*Net operating expenses shown in the income statement include an amount of £17.8 million (2018: £6.2 million) 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 2019 £'000	*Gross written premiums 2018 £'000*
UK	168,026	152,507
EU	20,769	24,403
Other	269,143	221,008
	457,938	397,918

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

An overall deterioration of £3.7 million on prior years' provisions was experienced during the year. Deteriorations of £11.5 million on third party liability, £4.3 million on energy and £3.4 million on pecuniary loss were largely offset by an improvement of £17.5 million on reinsurance acceptances.

(2018: 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.)

4. Net operating expenses

	2019 £'000	2018 £'000
Acquisition costs	131,139	120,368
Change in deferred acquisition costs	(1,066)	(12,075)
Administrative expenses	15,553	14,628
Gross operating expenses	145,626	122,921
Reinsurance commissions	(22,922)	(14,723)
Change in deferred reinsurance commissions	5,137	8,516
Net operating expenses	127,841	116,714

Administrative expenses include:

	2019 £'000	2018 £'000
Auditors' remuneration – audit of the syndicate accounts	233	232
– other services pursuant to regulations and Lloyd's byelaws	165	141
Operating lease rentals – office equipment	11	23
Members' standard personal expenses	5,367	4,386
Other remuneration paid to auditors:		
Audit of the managing agent's annual accounts	21	16

Total commissions for direct insurance accounted for in the year amounted to £99.5 million (2018: £91.3 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:

	2019 £'000	2018 £'000
Wages and salaries	10,111	9,247
Social security costs	1,306	1,345
Other pension costs	730	650
	12,147	11,242

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

	2019 Number	2018 Number
Administration and finance	12	12
Underwriting	27	26
Underwriting support	33	25
Claims	9	10
	81	73

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:

	2019	*2018*
	£'000	*£'000*
Emoluments	1,809	1,746

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:

	2019	*2018*
	£'000	*£'000*
Emoluments	380	362

8. Investment return

	2019	*2018*
	£'000	*£'000*
Income from other financial investments	4,873	3,999
Net gains/(losses) on realisation of investments		
– designated at fair value through profit or loss	834	(1,162)
Total investment income	5,707	2,837
Net unrealised gains on investments		
– designated at fair value through profit and loss	1,580	72
Investment expenses and charges	(300)	(173)
Total investment return	6,987	2,736

9. Financial investments

	31 December 2019		
	Carrying value	*Purchase price*	*Listed*
	£'000	*£'000*	*£'000*
Shares and other variable yield securities and units in unit trusts			
– designated at fair value through profit or loss	15,694	15,694	8,873
Debt securities and other fixed income securities			
– designated at fair value through profit or loss	183,362	181,716	–
Participation in investment pools	15,388	15,063	–
Deposits with credit institutions held at fair value	1,617	1,617	–
Loans secured by mortgages held at fair value	1,101	1,093	–
Derivative assets held at fair value	43	43	–
	217,205	215,226	8,873

	31 December 2018		
	Carrying value	*Purchase price*	*Listed*
	£'000	*£'000*	*£'000*
Shares and other variable yield securities and units in unit trusts			
– designated at fair value through profit or loss	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	–
Derivative assets held at fair value	–	–	–
	226,778	226,481	9,959

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 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 2019	*Level 1* *£'000*	*Level 2* *£'000*	*Level 3* *£'000*	*Total* *£'000*
Shares and other variable yield securities and units in unit trusts	14,382	–	1,312	15,694
Debt securities and other fixed income securities	–	183,362	–	183,362
Participation in investment pools	31	15,357	–	15,388
Loans, deposits with credit institutions and derivatives	1,660	1,101	–	2,761
Overseas deposits	14,595	32,293	–	46,888
	30,668	232,113	1,312	264,093

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

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*

Included in the level 3 category are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor 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.

The asset in the level 3 category is a syndicate loan with Lloyd's introduced in 2019 as part of Lloyd's capital structure.

10. Technical provisions

Claims outstanding

		2019	
	Gross	*Reinsurers' share*	*Net*
	£'000	*£'000*	*£'000*
At 1 January	411,463	(148,032)	263,431
Claims incurred in current underwriting year	117,616	(43,463)	74,153
Claims incurred in prior underwriting years	231,057	(103,670)	127,387
Claims paid during the year	(253,093)	83,662	(169,431)
Foreign exchange	(14,766)	5,751	(9,015)
At 31 December	492,277	(205,752)	286,525

		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

Notes to the Accounts
continued

10. Technical provisions *continued*

Provision for unearned premiums

		2019	
		Reinsurers'	
	Gross	*share*	*Net*
	£'000	*£'000*	*£'000*
At 1 January	216,409	(48,274)	168,135
Premiums written in the year	457,938	(138,940)	318,998
Premiums earned in the year	(443,872)	131,557	(312,315)
Foreign exchange	(6,815)	1,668	(5,147)
At 31 December	223,660	(53,989)	169,671

		2018	
		Reinsurers'	
	Gross	*share*	*Net*
	£'000	*£'000*	*£'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

Deferred acquisition costs

	2019	*2018*
	£'000	*£'000*
At 1 January	62,265	48,002
Change in deferred acquisition costs	1,066	12,075
Foreign exchange	(1,681)	2,188
At 31 December	61,650	62,265

11. Debtors arising out of direct insurance operations

	2019	*2018*
	£'000	*£'000*
Amounts falling due within one year – intermediaries	103,684	97,744
Amounts falling due after one year – intermediaries	45	67
	103,729	97,811

12. Debtors arising out of reinsurance operations

	2019 £'000	2018 £'000
Amounts falling due within one year	56,753	46,556
Amounts falling due after one year	59	2
	56,812	46,558

13. Other assets

	2019 £'000	2018 £'000
Overseas deposits		
Amounts advanced in the following locations as a condition of carrying on business there:		
Illinois, USA	431	508
Australia	24,474	11,232
Canada	4,174	3,802
Switzerland and other countries	17,809	8,911
	46,888	24,453

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.

Cash calls made from members' personal reserve funds relate to collections of £2,305,000 in respect of the 2016 year of account. (2018: transfers to members' personal reserve funds of £11,542,000 in respect of the 2015 year of account).

15. Creditors arising out of direct insurance operations

	2019 £'000	2018 £'000
Amounts falling due within one year	7,230	12,618
Amounts falling due after one year	–	3
	7,230	12,621

Notes to the Accounts

continued

16. Creditors arising out of reinsurance operations

	2019	*2018*
	£'000	*£'000*
Amounts falling due within one year	50,101	50,452
Amounts falling due after one year	34,788	20,137
	84,889	70,589

17. Accruals and deferred income

Accruals and deferred income includes £13.5 million (2018: £8.8 million) in respect of deferred reinsurance commissions.

18. Cash and cash equivalents

	2019	*2018*
	£'000	*£'000*
Cash at bank and in hand	24,569	20,768
Short-term deposits with financial institutions	8,446	6,258
	33,015	27,026

The syndicate holds £8.4 million (2018: £6.3 million) of fixed deposits that have a maturity date of less than three months from inception, of which £6.8 million (2018: £2.9 million) are held within overseas deposits by Lloyd's (note 13) and £1.6 million (2018: £3.4 million) are fixed deposits that cannot be utilised until maturity.

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 manages Syndicates 2121 and 6134 and 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. 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 lndustrie 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.

20. Related parties *continued*

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 2018, 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 is less than £80,000 (2018: £80,000). The commission retained by AUA for business underwritten by the Australian branch is, at most, 28.5% of gross premium, which is in line with other Australian facilities currently supported by the syndicate. The commission charged in Australia covers original acquisition costs, branch office expenses and processing costs. The total commissions payable were £12.1 million (2018: £7.9 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 any increase in capital value arising on shareholdings, none of the directors, officers or related parties concerned, derive any personal benefit from the arrangements that exist.

Business transactions

Hannover Re

Hannover Re and certain of its subsidiaries and joint ventures 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 included elements of the property, terrorism, specialty, cyber and political risks accounts. In 2019 this was extended to include elements of the marine hull and war, liability marine and energy, marine cargo and marine specie accounts. The estimated ultimate gross net written premium of Syndicate 6134 for the 2019 year of account is £31.1 million (2018: £21.9 million) and for the 2020 year of account the expectation is that the gross net written premium will be £105.6 million.

Syndicate 2121 charges Syndicate 6134 an overriding commission in relation to this arrangement. For the 2018 and 2019 years of account, 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 2019 creditors included an amount of £34.8 million (2018: £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 or related parties concerned, other than by virtue of directorship fees, salaries and related remuneration in respect of their employment or by virtue of any increase in capital value arising on shareholdings.

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20. Related parties *continued*

ASML Directors

Mr John Whiter is chairman of a Lloyd's broker, Piiq Risk Partners Ltd (formerly PSE Partners Ltd and Ed Broking (London) Ltd); he was also chairman of another Lloyd's broker, Ed Broking LLP (formerly CGNMB LLP) until November 2019; and is a director of Ed Broking Group Ltd, their 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. He was also appointed as a director of Apollo Syndicate Management Limited on 29 August 2019.

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 and any increase in capital value arising on shareholdings, 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 (2018: £2.6 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 2019, no profit commission (2018: £2.7 million) was due to ASML. There were no creditors at the year-end in respect of profit commission due to ASML (2018: £Nil).

In addition to this, £15.3 million (2018: £14.9 million) was recharged by ASML for expenses paid on behalf of the syndicate. Creditors at the year-end include amounts due to ASML of £1.7 million (2018: £0.6 million).

Capital support for Syndicate 2121

Hannover Re has supported Syndicate 2121 for the 2017 to 2020 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 to 2020 years of account by way of excess participation agreements.

20. Related parties *continued*

Inter Hannover (No.1) Ltd, a wholly owned subsidiary of the Hannover Re group, participates on Syndicate 2121 for the 2018 to 2020 years of account.

Mr Annandale is a director of Argenta Private Capital Limited (“APCL”), a subsidiary of AHL. APCL allocates capacity to Syndicate 2121 for the 2017 to 2020 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”)

On 10 April 2019 Mr Allen was appointed as a director of all the above corporate members, apart from AU8 which was sold to a third party in February 2019.

AU2, AU3, AU9 and AU10 participated on Syndicate 2121 for the 2017 to 2020 years of account. AU11 participated on Syndicate 2121 for the 2017 year of account and AU8 participated on the 2017 to 2019 years of account.

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

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 2017 year 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 the 2017 year 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 2019 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 where the charges are less advantageous, 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 that 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 2019 was 35% (2018: 35%) of the member's SCR 'to ultimate'.

Provision of capital by members

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

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

(c) Insurance risk

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

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 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 currently is 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 expected risk exposures estimated for the 2020 year.

RDS event	*Industry loss £m*	*Estimated gross loss £m*	*Estimated final net loss £m*
Political risks – China scenario	N/A	84	31
Gulf of Mexico windstorm	92,992	138	30
US North East windstorm	63,780	148	24
Florida windstorm (Pinellas)	105,512	179	42
UK flood	6,200	84	21

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

	31 December 2019		*31 December 2018*	
	Gross liabilities £'000	*Net liabilities £'000*	*Gross liabilities £'000*	*Net liabilities £'000*
Direct insurance:				
Accident and health	6,573	5,947	7,133	6,449
Motor (other classes)	8,790	8,541	8,938	8,890
Marine, aviation and transport	61,706	54,757	79,030	65,577
Energy	77,911	49,870	55,562	39,130
Fire and other damage to property	188,856	128,130	164,137	111,886
Third party liability	205,570	113,276	146,935	89,452
Pecuniary loss	34,289	13,190	30,582	13,642
	583,695	373,711	492,317	335,026
Reinsurance acceptances:				
Fire and other damage to property	72,225	31,698	65,303	37,166
Marine, aviation and transport	44,221	35,995	50,369	41,040
Energy	13,089	12,275	13,795	12,722
Casualty	2,707	2,517	6,088	5,612
	132,242	82,485	135,555	96,540
	715,937	456,196	627,872	431,566

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 2019		*31 December 2018*	
	Gross liabilities £'000	*Net liabilities £'000*	*Gross liabilities £'000*	*Net liabilities £'000*
United Kingdom	289,544	176,771	239,531	154,412
EU	25,304	19,487	24,722	19,576
USA	159,256	106,857	172,749	123,201
Canada	17,875	13,354	15,877	11,899
Other	223,958	139,727	174,993	122,478
	715,937	456,196	627,872	431,566

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 claims indemnity costs, claims 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.

22. Risk management *continued*

31 December 2019	*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%	13,240	9,305	(10,145)	(10,145)
Incurred claims development patterns	Recede development by 1 month	15,812	11,996	(12,718)	(12,718)

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)

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 2019.

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 2019:

Underwriting year	*Before 2011* *£'000*	*2011* *£'000*	*2012* *£'000*	*2013* *£'000*	*2014* *£'000*	*2015* *£'000*	*2016* *£'000*	*2017* *£'000*	*2018* *£'000*	*2019* *£'000*	*Total* *£'000*
Estimate of cumulative claims incurred:											
At end of underwriting year		62,401	94,710	58,856	46,765	62,768	67,609	117,942	123,587	114,838	
12 months later		177,699	152,624	116,013	104,619	135,512	166,121	213,939	295,948		
24 months later		187,645	154,399	118,072	104,746	146,928	188,970	254,160			
36 months later		198,472	152,348	114,368	99,238	152,061	207,888				
48 months later		200,328	148,392	113,789	104,604	153,648					
60 months later		199,088	144,044	110,519	104,154						
72 months later		197,097	142,489	109,034							
84 months later		195,205	142,160								
96 months later		193,777									
Current estimate of cumulative claims incurred		193,777	142,160	109,034	104,154	153,648	207,888	254,160	295,948	114,838	
Cumulative payments to date		189,570	138,762	100,448	97,260	123,411	142,833	147,274	141,303	17,378	
Gross outstanding claims provision at 31 December 2019 per the statement of financial position	14,909	4,207	3,398	8,586	6,894	30,237	65,055	106,886	154,645	97,460	492,277

22. Risk management *continued*

Net insurance contract outstanding claims provision as at 31 December 2019:

Underwriting year	*Before 2011 £'000*	*2011 £'000*	*2012 £'000*	*2013 £'000*	*2014 £'000*	*2015 £'000*	*2016 £'000*	*2017 £'000*	*2018 £'000*	*2019 £'000*	*Total £'000*
Estimate of cumulative claims incurred:											
At end of underwriting year		56,006	59,747	54,222	43,330	47,729	55,701	64,452	82,227	72,104	
12 months later		131,182	117,892	108,708	96,662	113,368	121,437	164,276	186,920		
24 months later		134,245	118,200	110,073	97,539	118,956	137,350	184,526			
36 months later		135,997	116,256	106,610	92,358	120,145	141,967				
48 months later		137,473	113,346	103,984	94,604	120,986					
60 months later		135,360	110,459	103,826	93,941						
72 months later		133,537	109,082	101,960							
84 months later		133,301	109,391								
96 months later		131,149									
Current estimate of cumulative claims incurred		131,149	109,391	101,960	93,941	120,986	141,967	184,526	186,920	72,104	
Cumulative payments to date		129,776	107,077	95,268	88,318	103,018	112,194	126,166	89,521	14,226	
Net outstanding claims provision at 31 December 2019 per the statement of financial position	9,145	1,373	2,314	6,692	5,623	17,968	29,773	58,360	97,399	57,878	286,525

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 following tables 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 2019	*Neither past due nor impaired £'000*	*Past due £'000*	*Impaired £'000*	*Total £'000*
Financial investments				
– Debt securities and other fixed income securities	183,362	–	–	183,362
– Shares and other variable yield securities and units in unit trusts	15,694	–	–	15,694
– Participation in investment pools	15,388	–	–	15,388
– Loans secured by mortgages	1,101	–	–	1,101
– Derivative assets	43	–	–	43
– Deposits with credit institutions	1,617	–	–	1,617
Deposits with ceding undertakings	38	–	–	38
Reinsurers' share of claims outstanding	205,752	–	–	205,752
Debtors arising out of insurance operations	111,130	49,411	–	160,541
Other debtors	1,471	–	–	1,471
Cash at bank and in hand	24,569	–	–	24,569
Overseas deposits	46,888	–	–	46,888
	607,053	49,411	–	656,464

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

Assets that are past due but not impaired include amounts relating to binding authority business as at 31 December 2019. 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 2019 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.

31 December 2019	*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	10,791	–	–	–	–	4,903	15,694
Debt securities and other fixed income securities	106,052	20,870	34,378	22,062	–	–	183,362
Participation in investment pools	9,970	2,406	1,718	1,263	–	31	15,388
Loans secured by mortgages	1,101	–	–	–	–	–	1,101
Deposits with credit institutions	–	–	1,617	–	–	–	1,617
Overseas deposits	21,373	5,314	3,021	2,014	549	14,617	46,888
Derivative assets	43	–	–	–	–	–	43
Deposits with ceding undertakings	–	–	–	–	–	38	38
Reinsurers' share of claims outstanding	–	13,829	188,098	–	–	3,825	205,752
Cash at bank and in hand	–	–	24,569	–	–	–	24,569
Total credit risk	149,330	42,419	253,401	25,339	549	23,414	494,452

22. Risk management *continued*

31 December 2018	*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	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

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 2019					
Outstanding claim liabilities	202,522	173,969	62,438	53,348	492,277
Other	59,880	34,787	–	–	94,667

	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

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 2019							
Total assets	96,335	538,154	25,809	66,828	29,602	17,109	773,837
Total liabilities	(107,536)	(583,315)	(17,402)	(60,990)	(31,027)	(25,973)	(826,243)
Net assets	(11,201)	(45,161)	8,407	5,838	(1,425)	(8,864)	(52,406)

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)

The non-sterling denominated net assets of the syndicate may lead to a reported loss or gain should exchange rates fluctuate.

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 2019.

	Impact on result	
	2019	*2018*
	£'000	*£'000*
Sterling weakens:		
10% against other currencies	(5,780)	(2,301)
20% against other currencies	(13,005)	(5,177)
Sterling strengthens:		
10% against other currencies	4,729	1,882
20% against other currencies	8,670	3,451

(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	
	2019	*2018*
	£'000	*£'000*
Changes in variables:		
+50 basis points	(1,257)	(986)
-50 basis points	1,284	917

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	
	2019	*2018*
	£'000	*£'000*
Changes in variables – market indices:		
S&P 500/FTSE 100 +5%	–	–
S&P 500/FTSE 100 -5%	–	–

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 2019

2017 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 Auditors' Report to the Members of Syndicate 2121 – 2017 closed year of account

Report on the syndicate underwriting year accounts

Opinion

In our opinion, Syndicate 2121's underwriting year accounts for the 2017 year of account for the 3 years ended 31 December 2019 (the "syndicate underwriting year accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2019 and of its loss for the 2017 closed year of account;
- have been properly prepared in accordance with 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 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the syndicate underwriting year accounts included within the Report, Annual Accounts and Underwriting Year Accounts as at 31 December 2019 (the "Annual Report"), which comprise:

- Statement of financial position as at 31 December 2019;
- Income statement for the 2017 year of account: technical account – general business;
- Income statement for the 2017 year of account: non-technical account;
- Statement of changes in members' balances;
- Statement of cash flows;
- the notes to the syndicate underwriting year accounts, which include a summary of significant accounting policies.

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 underwriting year 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 underwriting year accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation

In forming our opinion on the syndicate underwriting year accounts, which is not modified, we draw attention to note 1.2 of the syndicate underwriting year accounts, which describes the basis of preparation. In particular, as these financial statements relate to a closed underwriting year of account, matters relating to going concern are not relevant to these financial statements. The syndicate underwriting year accounts are prepared in accordance with a special purpose framework for the specific purpose as described in the Use of this report paragraph below. As a result, the syndicate underwriting year accounts may not be suitable for another purpose.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate underwriting year accounts and our auditors' 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, 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 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Managing Agent's Report, we also considered whether the disclosures required by The 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.

Managing Agent's Report

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 year ended 31 December 2019 is consistent with the syndicate underwriting year accounts and has been prepared 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).

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 Managing Agent's Report.

Responsibilities for the syndicate underwriting year accounts and the audit

Responsibilities of the managing agent for the syndicate underwriting year accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 69, the Managing Agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2017 closed year of account. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

Auditors' 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 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 underwriting year accounts.

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

Independent Auditors' Report to the Members of Syndicate 2121 – 2017 closed year of account

continued

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 Part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) 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 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), 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
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Mark Bolton (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2020

Income Statement for the 2017 year of account

closed at the end of the third year at 31 December 2019

Technical account – general business

	Notes	£'000	Cumulative balance at 31 December 2019 £'000
Syndicate allocated capacity			298,103
Earned premiums, net of reinsurance			
Gross premiums written	2		371,164
Outward reinsurance premiums			(58,515)
			312,649
Reinsurance to close premiums received, net of reinsurance	2		118,669
			431,318
Allocated investment return transferred from the non-technical account	8		5,754
Claims incurred, net of reinsurance			
Gross claims paid		(198,434)	
Reinsurers' share		39,587	
		(158,847)	
Reinsurance to close premiums payable, net of reinsurance	4	(156,495)	
			(315,342)
Net operating expenses	5		(124,021)
Balance on the technical account for general business			(2,291)

Income Statement for the 2017 year of account

closed at the end of the third year at 31 December 2019 continued

Non-technical account

	Notes	*Cumulative balance at 31 December 2019 £'000*
Balance on the general business technical account		(2,291)
Investment income	8	4,843
Net unrealised gains on investments	8	1,173
Investment expenses and charges	8	(262)
Allocated investment return transferred to the general business technical account		(5,754)
Exchange losses		(1,424)
Result for the closed year of account		(3,715)

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 2019

	2017 year of account £'000
At 1 January 2017	–
Loss for the 2017 closed year of account	(3,715)
Members' agents' fees	(1,290)
At 31 December 2019	(5,005)

Statement of Financial Position

as at 31 December 2019

	Notes	2019 £'000	£'000
ASSETS			
Investments	9		127,350
Deposits with ceding undertakings			23
Debtors			
Debtors arising out of direct insurance operations	10	8,071	
Debtors arising out of reinsurance operations	11	20,789	
Other debtors		734	
			29,594
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the year of account			108,924
Cash and other assets			
Cash at bank and in hand		8,734	
Other assets	12	15,177	
			23,911
Prepayments and accrued income			156
TOTAL ASSETS			289,958
LIABILITIES			
Amounts due from members			(5,005)
Reinsurance to close premiums payable to close the year of account – gross amount			240,173
Creditors			
Creditors arising out of direct insurance operations		931	
Creditors arising out of reinsurance operations		29,137	
Other creditors		23,808	
			53,876
Accruals and deferred income			914
TOTAL LIABILITIES			289,958

The syndicate underwriting year accounts on pages 73 to 101 were approved by the Board of Argenta Syndicate Management Limited on 4 March 2020 and were signed on its behalf by

Andrew J Annandale

Managing Director

Statement of Cash Flows

for the 36 months ended 31 December 2019

	Notes	*2019* *£'000*
Loss on ordinary activities		(3,715)
Increase in outstanding claims		240,173
Increase in reinsurers' share of outstanding claims		(108,924)
Increase in debtors		(29,750)
Increase in creditors		54,790
Investment return		(5,754)
Net cash inflow from operating activities		146,820
Investing activities		
Investment income received		5,831
Purchase of debt and equity instruments		(292,299)
Sale of debt and equity instruments		166,027
Purchase of derivatives		(16,730)
Sale of derivatives		16,705
Increase in overseas deposits		(15,254)
Increase in deposits with ceding undertakings		(23)
Net cash outflow from investing activities		(135,743)
Financing activities		
Members' agents' fee advances		(1,290)
Net cash outflow from financing activities		(1,290)
Increase in cash and cash equivalents		9,787
Cash and cash equivalents at 1 January		–
Cash and cash equivalents at 31 December	13	9,787

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 2017 year of account has closed and all assets and liabilities have been transferred to the 2018 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 2019. 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 2017 year of account which has been closed by reinsurance to close at 31 December 2019; consequently the statement of financial position represents the assets and liabilities of the 2017 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 2019 were approved for issue by the board of directors on 4 March 2020.

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/reinsured if a specified uncertain future event (the re/insured event) adversely affects the policyholder/reinsured. As a general guideline, the syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the re/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 2017 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 member's agent 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. Pension contributions relating to a defined contribution scheme and charged to the syndicate are included within net operating expenses.

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 2017 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.

Notes to the Accounts

continued

2. Particulars of business written

2017 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	50,210	(28,246)	(17,297)	(1,351)	3,316
Fire and other damage to property	144,056	(118,917)	(47,576)	8,064	(14,373)
Third party liability	63,659	(66,397)	(19,969)	17,570	(5,137)
Other	42,483	(22,244)	(13,999)	(4,654)	1,586
	300,408	(235,804)	(98,841)	19,629	(14,608)
Reinsurance accepted	189,425	(203,357)	(25,180)	45,675	6,563
	489,833	(439,161)	(124,021)	65,304	(8,045)

Reinsurance acceptances include the reinsurance to close premium of £118,669,000 (net) received from the 2016 year of account.

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.

Geographical analysis by destination

	Gross written premiums £'000
UK	162,426
EU	34,766
Other	292,641
	489,833

3. Analysis of underwriting result

	2016 and prior years of account £'000	*2017 pure year of account £'000*	*Total 2017 year of account £'000*
Technical account balance before allocated investment return and net operating expenses	3,515	112,461	115,976
Acquisition costs	923	(109,511)	(108,588)
	4,438	2,950	7,388

4. Reinsurance to close premiums payable net of reinsurance

	Reported £'000	IBNR £'000	Total £'000
Gross outstandings	145,667	95,060	240,727
Reinsurance recoveries anticipated	(71,882)	(12,350)	(84,232)
	73,785	82,710	156,495

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

5. Net operating expenses

	2019 £'000
Acquisition costs	108,588
Administrative expenses	15,433
Net operating expenses	124,021

Members' standard personal expenses amounting to £5.0 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:

	2019 £'000
Wages and salaries	9,197
Social security costs	2,042
Other pension costs	637
	11,876

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

	2019 Number
Underwriting	25
Underwriting support	24
Claims	9
Administration and finance	14
	72

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

The aggregate remuneration charged to the syndicate in respect of emoluments paid to the directors of ASML and the active underwriter was £1.7 million. This includes £355,000 that relates to the active underwriter.

Notes to the Accounts

continued

7. Auditors' remuneration

	2019
	£'000
Audit services	226
Other services pursuant to regulations and Lloyd's byelaws	147
	373

The amounts reported above include payments to the firm previously acting in the role of auditors.

8. Investment return

	2019
	£'000
Income from other investments	4,650
Net gains on realisation of investments	193
Total investment income	4,843
Net unrealised gains on investments	1,173
Investment expenses and charges	(262)
Total investment return	5,754

9. Financial investments

	Market value
	2019
	£'000
Shares and other variable yield securities and units in unit trusts	
– designated at fair value through profit or loss	10,079
Debt securities and other fixed income securities	
– designated at fair value through profit or loss	107,683
Deposits with credit institutions held at fair value	1,053
Loans secured by mortgages held at fair value	647
Participation in investment pools	7,863
Derivatives held at fair value	25
	127,350

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	10,079	–	–	10,079
Debt securities and other fixed income securities	–	107,683	–	107,683
Participation in investment pools	16	7,847	–	7,863
Loans and deposits with credit institutions	1,053	647	–	1,700
Overseas deposits	4,724	10,453	–	15,177
Derivatives	25	–	–	25
	15,897	126,630	–	142,527

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.

Notes to the Accounts

continued

10. Debtors arising out of direct operations

	2019
	£'000
Amounts falling due within one year – intermediaries	8,061
Amounts falling due after one year – intermediaries	10
	8,071

11. Debtors arising out of reinsurance operations

	2019
	£'000
Amounts falling due within one year	20,789
Amounts falling due after one year	–
	20,789

12. Other assets

	2019
	£'000
Overseas deposits	
Amounts advanced in the following locations as a condition of carrying on business there:	
Illinois, USA	246
Australia	7,848
Canada	2,371
Switzerland and other countries	4,712
	15,177

13. Cash and cash equivalents

	2019
	£'000
Cash at bank and in hand	8,734
Short-term deposits with financial institutions	1,053
	9,787

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 manages Syndicates 2121 and 6134 and 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. 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 2017 year of account is less than £90,000. The commission retained by AUA for business underwritten by the Australian branch is at most 28.5% of gross premium, which is in line with other Australian facilities currently supported by the syndicate. The commission charged in Australia covers original acquisition costs, branch office expenses and processing costs. The total commissions payable for the 2017 year of account were £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 any increase in capital value arising on shareholdings, none of the directors, officers or related parties concerned, derive any personal benefit from the arrangements that exist.

15. Related parties *continued*

Business transactions

Hannover Re

Hannover Re and certain of its subsidiaries and joint ventures 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.

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 or related parties concerned, other than by virtue of directorship fees, salaries and related remuneration in respect of their employment or by virtue of any increase in capital value arising on shareholdings.

ASML Directors

Mr John Whiter is chairman of a Lloyd's broker, Piiq Risk Partners Ltd (formerly PSE Partners Ltd and Ed Broking (London) Ltd); he was also chairman of another Lloyd's broker, Ed Broking LLP (formerly CGNMB LLP) until November 2019; and is a director of Ed Broking Group Ltd, their 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. He was also appointed as a director of Apollo Syndicate Management Limited on 29 August 2019.

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, and any increase in capital value arising on shareholdings, no personal benefit is derived by the individuals concerned from these arrangements.

15. Related parties *continued*

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 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 2017 year of account amounted to £2.2 million. No profit commission was payable. There were £0.2 million of creditors at the period-end due to ASML in respect of expenses paid on behalf of the 2017 year of account.

Capital support for Syndicate 2121

Hannover Re has supported Syndicate 2121 for the 2017 to 2020 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 to 2020 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 to 2020 years of account.

Mr Annandale is a director of Argenta Private Capital Limited ("APCL"), a subsidiary of AHL. APCL allocates capacity to Syndicate 2121 for the 2017 to 2020 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")

On 10 April 2019 Mr Allen was appointed as a director of all the above corporate members, apart from AU8 which was sold to a third party in February 2019.

AU2, AU3, AU9 and AU10 participated on Syndicate 2121 for the 2017 to 2020 years of account. AU11 participated on Syndicate 2121 for the 2017 year of account and AU8 participated on the 2017 to 2019 years of account.

15. Related parties *continued*

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

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 2017 year 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 the 2017 year 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 2017 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'.

16. Risk management *continued*

(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.

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 2017 year of account was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

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

16. Risk management *continued*

(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 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 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.

16. Risk management *continued*

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 currently is 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 2017 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.

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 claims indemnity costs, claims handling costs and claims inflation 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; 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 2017 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.

16. Risk management *continued*

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 2019.

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.

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.

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 2019 by classifying assets according to Standard & Poor's credit ratings of the counterparties.

16. Risk management *continued*

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.

(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.

16. Risk management *continued*

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.

The 2017 year of account has closed and the result is fixed in sterling. Only the years of account that remain open at 31 December 2019 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 2019.

16. Risk management *continued*

(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.

(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.

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