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2019 Annual Report

Neon Underwriting Limited Syndicate 2468

Year ended 31 December 2019

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Directors and administration

Managing Agent

Neon Underwriting Limited

Directors

J E Consolino	(Non Executive Chairman)
K D Curtis	(Independent Non Executive)
R E Heppell	(Chief Financial Officer)
D M Lednor	
O Reeves	
M J Wade	(Independent Non Executive)
M S D Washington	
T S Butt	(Chief Executive Officer)

Syndicate secretary

L A Dlaboha

Managing Agent's registered number

03584320

Managing Agent's registered office

20 Gracechurch Street
London
EC3V 0BG

Active underwriter

Darren Lednor

Auditors

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

Bankers

Barclays Bank plc
One Churchill Place
London
E14 5HP

Solicitors

Clyde & Co

Consulting actuaries

Willis Towers Watson

Managing agent's report

The directors of Neon Underwriting Limited (the Managing Agent) present their report for Syndicate 2468 (the Syndicate) for the year ended 31 December 2019 (the Financial Year).

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

Principal activity

The principal activity of the Syndicate remains the transaction of general insurance and reinsurance business. There have not been any significant changes to the Syndicate's activities during the year. The stamp capacity of the Syndicate for each of the years of account open in 2019 was as follows:

Year of Account	Capacity £000
2017	235,000
2018	305,000
2019	305,000

On 6 January 2020, the Managing Agent's ultimate parent company American Financial Group Inc, (AFG) announced that it was exiting the Lloyd's insurance market. Consequently, the Managing Agent has put the Syndicate into an orderly run-off. During this process the Managing Agent has been, and continues to be, in regular dialogue with Lloyd's of London (Lloyd's) and other relevant regulators.

The Managing Agent continues to manage the Syndicate in run-off and Neon remains fully committed to all policyholders and all policies underwritten by the Syndicate will be honoured as per their terms and conditions. The Syndicate remains fully capitalised by AFG and, as with every other syndicate at Lloyd's will continue to benefit from Lloyd's full chain of security.

Business review

The Syndicate result for the Financial Year is comprised of the movement on all underwriting years that were open during the year and is an underwriting loss of £52,942k (2018: £47,520k). The total recognised loss of £44,867k (2018: £47,536k) additionally includes investment return and foreign exchange gains and losses.

The underlying underwriting performance in 2019 was influenced by the challenging market conditions that have persisted in nearly all lines of business for the previous few years. There were signs of improvement in rates and terms in 2019 across a number of classes. However this has had limited impact on the current financial year as the premium written earns over a longer period and the effect of improved rating takes time to be reflected in loss ratios. The underwriting result in 2019 was affected by catastrophe events mainly Hurricane Dorian, Typhoon Faxai and Typhoon Hagibis, as well as deterioration on prior year catastrophe events mainly Hurricane Irma. Collectively, these represented net losses of £16,700k. There has also been significant prior year deterioration on Bloodstock and Personal Accident that were discontinued in 2018 and Financial Lines, General Casualty and Hull.

Managing agent's report (continued)

Syndicate result – all years of account

	2019	2018
	£000	£000
Gross premiums written	435,443	405,073
Net written premiums	307,095	296,489
Net earned premiums	300,683	240,313
Claims ratio	68%	67%
Commission ratio	41%	37%
Expense ratio	9%	15%
Combined ratio	118%	119%
Underwriting result before investment return	(52,942)	(47,520)
Investment return	4,597	2,065
Result after investment return	(48,345)	(45,455)
Foreign exchange gain/ (loss)	3,478	(2,081)
Loss for the financial year	(44,867)	(47,536)

The combined ratio is stated before investment return and foreign exchange differences. An analysis of the result by underwriting year is presented below.

Gross written premiums increased by £30,370k to £435,443k. The main driver of the increase was revision to prior year estimated premium on delegated authority business in Casualty and Property insurance.

Net earned premium increased by £60,370k. This reflects the increase in premiums written in the year and higher earnings from prior underwriting years as the Syndicate has grown significantly.

Net claims incurred increased by £42,734k to £204,531k and the claims ratio from 67% to 68%. This reflects the increased premiums earned but also the continued significant loss activity.

Claims liabilities are analysed by segment in note 16.

Operating expenses have increased overall. Administration expenses have decreased due to the lower cost base in 2019 following the discontinuance of some lines of business and consequent redundancies in 2018. Acquisition costs have increased in line with gross premiums, the ratio has increased due to higher reinsurance costs in 2019.

The Syndicate investment return was £4,597k in the year (2018: £2,065k), being 2.05% (2018: 1.48%) of the average annual investment portfolio. The investment portfolio was held in cash, bonds and overseas regulatory deposits managed by Lloyd's Treasury.

Managing agent's report (continued)

The underwriting loss of £52,942k (2018: £47,520k) is analysed below by year of account. A segmental analysis, showing the underwriting result by class of business, is presented in note 2 to the accounts.

<i>Underwriting result by year of account</i>	Total	2019	2018	2017
	£000	£000	£000	£000
Gross premiums written	435,443	323,448	84,100	27,895
Net written premiums	307,095	210,639	74,927	21,529
Net earned premiums	300,683	81,349	169,054	50,280
Incurred claims	(204,531)	(69,299)	(103,029)	(32,203)
Commission and expenses	(149,094)	(68,210)	(64,303)	(16,581)
<i>Underwriting result</i>	(52,942)	(56,160)	1,722	1,496

Review of financial position

Financial investments, cash and other assets have increased to £241,159k from £172,057k due to a £61,000k cash call in February 2019 on the 2018 year of account, investment return and FX gains.

The members' balance deficit has decreased to £27,405k from £43,538k as detailed in the statement of changes in members' balance on page 15 of the accounts. This reflects the current year loss offset by the cash call during the year.

Principal risks and uncertainties

The Managing Agent has in place a risk management framework to ensure that all risks associated with the Syndicate's activities are identified, assessed and managed. The Managing Agent's Board is ultimately responsible for managing the risks to which the Syndicate is exposed and delegates this responsibility to the Risk Committee (RC). The terms of reference for the RC were last approved by the Managing Agent's Board on 11 February 2020. The Board sets the risk appetite annually. This is monitored throughout the year by the Managing Agent's Board, RC and relevant sub-committees.

Own Risk and Solvency Assessment (ORSA)

The RC annually reviews and recommends the approval of the ORSA report and ORSA Policy to the Managing Agent's Board. The RC is responsible for overseeing the ORSA process.

The Managing Agent uses an Internal Model to calculate the Syndicate's Solvency Capital Requirement (SCR). The Internal Model scope is reviewed annually to ensure that it reflects the risk profile of the Syndicate.

The Managing Agent submits a Lloyd's Capital Return (LCR) to Lloyd's each year, which is used by Lloyd's to review the Syndicate SCR and for input into the Lloyd's Internal Model (LIM). The final LCR submitted to Lloyd's each year is based on the Syndicate Business Forecast (SBF).

Managing agent's report (continued)

Regulatory risk

The Managing Agent is required to comply with the requirements of the PRA, the FCA and Lloyd's. Lloyd's requirements included those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Managing Agent has a Compliance team that monitors regulatory developments and assesses the impact on the Managing Agent and Syndicate. The Compliance function reports to the Chief Risk Officer who is a member of the Managing Agent's Board and has ultimate oversight of the function.

Premium Risk

The Managing Agent defines premium risk as the risk of uncertainty around all unexpired and planned future underwriting exposure. It has to ensure that sufficient premium can be charged for the aggregate exposures taken in order to generate sufficient gross underwriting profits.

The Board manages premium risk by agreeing its appetite for these risks annually through the business plan, which sets out (*inter alia*) targets for volumes, rates, line sizes and retention by class of business. The Syndicate purchases reinsurance as part of its risks mitigation programme. The Board, supported by the Underwriting Management Committee, monitors performance and exposures against the business plan.

Reserve Risk

Reserve risk is the risk that current reserves are insufficient to cover claim liabilities as they fall due. This is influenced by the frequency of claims and severity of claims, and subsequent development of long-term claims. The quarterly reserving exercise is undertaken by the Actuarial Function with input from the underwriters, claims and finance personnel. Reserving output is presented to the Claims and Reserving Committee for review and challenge.

Credit risk

Credit risk is the risk for potential loss due to the failure of a counterparty to meet its contractual obligation to repay a debt.

Reinsurer default is the agency's most material credit risk. Coverholder, broker and TPA insolvency are also considered as a credit risk to the Syndicate, as well as financial institution default.

The Managing Agent mitigates the risk of exposure to these risks through robust selection and monitoring processes, which includes the Reinsurance Committee oversight of reinsurance exposure, and oversight by the Finance Committee.

Market risk

Market risk relates to the Syndicate's exposure to fluctuations in asset values, interest rates or exchange rates.

Loss arising from exchange rate fluctuations, due to mismatches between assets and liabilities is a material market risk. The approach to manage this risk is governed by the Investment Policy and Asset-Liability policies.

Syndicate funds are invested with Lloyd's Treasury. They provide Neon's investment management services and report the investment performance of which is monitored quarterly by the Investment Committee.

Managing agent's report (continued)

Liquidity risk

Liquidity risk is the risk that the Syndicate has insufficient financial resource available to meet obligations as they fall due. The Syndicate's main exposure relates to calls on funds resulting from large claims. The Board considers that the size and availability of funds available to meet exposure, in relation to the Syndicate's Realistic Disaster Scenario (RDS), is adequate. Routine cash management ensures that funds are available to meet daily cash requirements.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk is prevalent within all of the other risk categories and controls to mitigate these risks are contained within the Syndicate's risk register. Control performance is presented to the Operations Committee, RC and the Board via risk reporting.

Strategic and Group Risk

Strategic risk is defined as the risk of loss arising from changes in the business environment and/or from adverse strategic decisions. The Managing Agent Board is responsible for the Syndicate's strategy and is supported in discharging this duty by the CEO and Executive Management. The Syndicate Business Forecast (SBF) sets out the Syndicate's business plan for the upcoming year and performance is monitored by the Board. Material changes to the SBF will be approved by the Board and Lloyd's.

Group risk is the risk that the Syndicate is adversely impacted by a member of the group potentially leading to a financial and/or reputational impact. Group risk could emanate from the decisions/actions of American Financial Group Inc. (AFG), AFG subsidiary or entity within the Neon group. There is ongoing dialogue with AFG and non-executive representation on the Board. Similarly, there is representation by Neon senior management on each Neon Group MGA Board.

Financial instruments and risk management

Information on the use of financial instruments by the Syndicate and its management of financial risk is disclosed in note 16 to the financial statements.

Future developments and important events since the end of the financial year

As stated on page 3 the Syndicate was placed into an orderly run-off on 6 January 2020.

As part of its Brexit solution, Lloyd's is planning a Part VII transfer of 1993 -2018 EEA market liabilities to Lloyd's Brussels and the Syndicate will be a part of any arrangement approved by the Court.

Research and development

The Syndicate has not participated in any research and development activity during the period.

Managing agent's report (continued)

Directors

The current directors of the Managing Agent are shown on page 2. Changes to directors since 1 January 2019 are as follows:

Name	Date of resignation
A G Clark-Mckay	13 March 2019
S Hayes	31 October 2019
S E A Long	30 September 2019
I P Martin	31 January 2019
M Reith	20 February 2020

Name	Date of appointment
T S A Butt	10 June 2019
K D Curtis	25 October 2019

Theo Butt took over as Chief Executive Officer upon his appointment in 2019.

The Directors were appointed at Board meetings during the year subject to regulatory approval. The above appointment dates reflect the date that Companies House was notified following the regulatory approvals being received.

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 directors are aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with the auditors' report, of which the auditor is unaware; and
- Having made enquiries of fellow directors of the agency and the syndicate's auditor, each director has taken all the steps that he or she ought to have taken as director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

After making enquiries, the directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Reappointment of auditors

Ernst & Young LLP have indicated their willingness to continue in office as the Syndicate's auditors. In accordance with Section 485 of the Companies Act 2006, a resolution proposing the re-appointment of Ernst & Young LLP as auditor to the Managing Agent and the Syndicate will be put to the Board.

M.S.D.Washington
Director
4th March 2020

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 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (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 judgments 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 accounts; and
- Prepare the Syndicate accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

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

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

Independent auditors' report to the members' of Syndicate 2468

Opinion

We have audited the syndicate annual accounts of syndicate 2468 ('the syndicate') for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- ▶ give a true and fair view of the syndicate's affairs as at 31 December 2019 and of its loss for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

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

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

Conclusions relating to going concern

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

the directors of 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 directors of the managing agent have 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.

Independent auditors' report to the members' of Syndicate 2468 (continued)

Other information

The other information comprises the information included in the annual report set out on pages 3 to 9, other than the syndicate annual accounts and our auditor's report thereon. The directors of the managing agent are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified material misstatements in the managing agent's report.

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

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

Independent auditors' report to the members' of Syndicate 2468 (continued)

Responsibilities of the directors of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 9, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the syndicate annual accounts

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

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

Use of our report

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

Robert Bruce (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

5th March 2020

Income Statement

Technical account – General business

For the year ended 31 December 2019

	Notes	2019	2018
		£000	£000
Gross premiums written	2	435,443	405,073
Outward reinsurance premium		(128,348)	(108,584)
Net written premiums		307,095	296,489
Change in provision for unearned premiums			
- Gross amount		(1,114)	(70,465)
- Reinsurers' share		(5,298)	14,289
Change in the net provision for unearned premiums		(6,412)	(56,176)
<i>Earned premiums, net of reinsurance</i>		300,683	240,313
<i>Allocated investment return transferred from the non-technical account</i>	6	4,597	2,065
Claims paid			
- Gross amount		(205,847)	(105,093)
- Reinsurers' share		66,283	35,717
		(139,564)	(69,376)
Change in claims outstanding			
- Gross amount		(65,449)	(140,647)
- Reinsurers' share		482	48,226
Change in the net provision for claims		(64,967)	(92,421)
<i>Claims incurred, net of reinsurance</i>		(204,531)	(161,797)
<i>Net operating expenses</i>	3	(149,094)	(126,036)
Balance on technical account - general business		(48,345)	(45,455)

Income Statement
Non-technical account – General business
For the year ended 31 December 2019

	<i>Notes</i>	<i>2019</i>	<i>2018</i>
		<i>£000</i>	<i>£000</i>
<i>Balance on technical account - general business</i>		(48,345)	(45,455)
Investment income	6	4,314	2,241
Unrealised gains on investments		360	42
Investment expenses and charges		(4)	(45)
Unrealised losses on investments		(73)	(173)
Allocated investment return transferred to the general business technical account		(4,597)	(2,065)
Exchange gains/(losses)		3,478	(2,081)
<i>Loss for the financial year</i>		(44,867)	(47,536)

Other than items reported in the income statement the Syndicate has no other comprehensive income in any of the periods for which the financial statements are presented.

In accordance with FRS 102.3.19 the Syndicate only presents an income statement and does not present a statement of comprehensive income.

All the amounts disclosed on pages 13 & 14 are in respect of continuing business.

The notes on pages 19 to 48 form an integral part of these financial statements.

**Statement of changes in members' balances
For the year ended 31 December 2019**

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Members' balance at 1 January	(43,538)	(112,745)
Loss for the financial year	(44,867)	(47,536)
2015 & prior year of account results	-	(13,257)
2016 & prior year of account results	24,183	-
2017 year of account open year (cash distribution)/cash call	(24,183)	130,000
2018 year of account open year cash call	61,000	-
Members' balance at 31 December	<u>(27,405)</u>	<u>(43,538)</u>

During the financial year the 2016 underwriting year closed and the final amount settled by members was £24,183k. The 2017 underwriting year made an open year cash distribution of £24,183k to pay the 2016 year loss. A cash call of £61,000k was made on the 2018 open year of account to fund settlement of catastrophe losses incurred.

Statement of financial position

As at 31 December 2019

	Notes	2019	2018
		£000	£000
ASSETS			
<i>Investments</i>			
Financial investments	7	171,993	123,577
<i>Reinsurers' share of technical provisions</i>			
Provision for unearned premiums	10	33,373	39,054
Claims outstanding	10	117,901	121,686
		<u>151,274</u>	<u>160,740</u>
<i>Debtors</i>			
Debtors arising out of direct insurance operations	8	120,657	131,656
Debtors arising out of reinsurance operations	8	29,052	19,832
Other debtors	9	27,704	25,262
		<u>177,413</u>	<u>176,750</u>
<i>Cash and other assets</i>			
Cash and cash equivalents	11	45,608	31,097
Other assets	12	23,558	17,383
		<u>69,166</u>	<u>48,480</u>
<i>Prepayments and accrued income</i>			
Deferred acquisition costs	10	54,826	57,158
Other prepayments and accrued income		2,039	4,048
		<u>56,865</u>	<u>61,206</u>
Total assets		<u>626,711</u>	<u>570,753</u>

The notes on pages 19 to 48 form an integral part of these financial statements.

Statement of financial position (continued)
As at 31 December 2019

	<i>Notes</i>	<i>2019</i>	<i>2018</i>
		<i>£000</i>	<i>£000</i>
MEMBERS' BALANCE AND LIABILITIES			
Members' balances		(27,405)	(43,538)
LIABILITIES			
<i>Technical provisions</i>			
Provision for unearned premiums	10	199,496	204,352
Claims outstanding	10	389,009	337,016
		<u>588,505</u>	<u>541,368</u>
<i>Creditors</i>			
Creditors arising out of direct insurance operations	8	10,060	1,942
Creditors arising out of reinsurance operations	8	50,991	54,836
Other creditors	9	410	7,928
		<u>61,461</u>	<u>64,706</u>
<i>Accruals and deferred income</i>		4,150	8,217
<i>Total liabilities</i>		<u>654,116</u>	<u>614,291</u>
<i>Total members' balances and liabilities</i>		<u>626,711</u>	<u>570,753</u>

The notes on pages 19 to 48 form an integral part of these accounts.

The financial statements have been approved by the Board of Directors on 4th March 2020 and were signed on its behalf by:

R.E.Heppell
Chief Financial Officer

Statement of cash flows

For the year ended 31 December 2019

	<i>Notes</i>	<i>2019</i>	<i>2018</i>
		<i>£000</i>	<i>£000</i>
Loss on ordinary activities		(44,867)	(47,536)
Movement in general insurance unearned premiums and outstanding claims		47,137	(183,530)
Movement in reinsurers' share of unearned premiums and outstanding claims		9,466	2,027
Investment return		(4,597)	(2,065)
Movement in other assets/liabilities		(9,681)	(40,460)
<i>Net cash flow from operating activities</i>		<u>(2,542)</u>	<u>(271,564)</u>
<i>Investing activities</i>			
Purchase of debt and equity instruments		(1,271)	(56,126)
Sale of debt and equity instruments		6,306	248,570
Sale of derivatives		-	539
Investment income received		4,398	2,325
Foreign exchange		5,309	385
<i>Net cash flow from investing activities</i>		<u>14,742</u>	<u>195,693</u>
<i>Financing activities</i>			
Open year cash calls made/not paid		(24,183)	130,000
Other		85,183	(13,257)
<i>Net cash flow from financing activities</i>		<u>61,000</u>	<u>116,743</u>
Net increase in cash and cash equivalents		<u>73,200</u>	<u>40,872</u>
Cash and cash equivalents at 1 January		141,817	99,758
Exchange differences on opening cash		(5,276)	1,187
Cash and cash equivalents at 31 December	11	<u>209,741</u>	<u>141,817</u>

Notes to the financial statements

For the year ended 31 December 2019

1. Accounting Policies

1.1. Statement of compliance

These financial statements have been prepared on a going concern basis, under the historical cost convention except for certain financial assets which are measured at their fair value, using the annual basis of accounting in accordance with Regulation 5 the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) (the Regulations), and in compliance with United Kingdom Accounting Standards including Financial Reporting Standard 102, The Financial Reporting Standard Applicable in the UK and the Republic of Ireland (FRS 102) and Financial Reporting Standard 103, Insurance Contracts (FRS 103). FRS 102 and FRS 103 have been consistently applied to all years presented.

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 4th March 2020.

The financial statements are prepared in Sterling which is the functional and presentation 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 applied prior to this standard for its insurance contracts.

1.3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Syndicate's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities. Although these estimates are based on management's knowledge of current events and actions, actual results may ultimately differ from those estimates.

Insurance contract technical provisions

The most significant estimate made in the financial statements relates to unpaid insurance claim reserves and related loss adjustment expenses of the Syndicate. Unpaid claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the income statement.

Actuarial projection techniques are used to calculate the ultimate cost of outstanding claims. The provision for claims outstanding is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with claims incurred but not reported (IBNR) and related claims handling costs.

Notes to the financial statements

For the year ended 31 December 2019

1. Accounting Policies (continued)

1.3. Judgements and key sources of estimation uncertainty continued

Estimates of future premiums

Gross written premiums are recognised on insurance contracts incepting during the financial year and include an estimate of the total premiums expected to be received under each contract. Revenue recognised on policies written through contracts with third parties, such as binding authorities and line slips is particularly judgemental. Adjustments to estimates from previous years are included in the reported premiums.

Changes in accounting estimates during the year

There were no changes in accounting estimates during the year.

1.4. Significant accounting policies

Premiums and unearned premiums

Gross premiums written comprise amounts due for contracts commencing in the financial year, together with any differences between booked premiums for the prior years and those previously accrued, and estimates of premiums due but not yet receivable or notified to the Syndicate. All premiums are shown gross of commission payable to intermediaries and exclude any taxes or duties based on premiums. Premium is recognised as earned based on the policy contract period. The earned element is calculated as an apportionment over the period of risk. For premium written under facilities, the earned element is calculated based on the estimated inception date and coverage period of the underlying contracts. The proportion of premiums written, gross of commission payable, attributable to periods after the balance sheet date is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement in order that revenue is recognised over the period of the risk. Under FRS 103, unearned premiums are monetary liabilities. These are therefore valued at closing exchange rates at the reporting date and any foreign currency gains or losses are recognised in the income statement.

Reinsurance premiums ceded

Reinsurance premiums ceded comprise premium on purchased reinsurance arrangements incepting during the financial year, together with adjustments to premiums ceded on reinsurance purchased in previous financial years. The proportion of reinsurance premium ceded attributable to periods after the reporting date is deferred as reinsurers' share of unearned premium. Reinsurance premium ceded is earned over the policy contract period in accordance with the terms of the reinsurance contract.

Acquisition costs

Acquisition costs comprise brokerage and commissions incurred on insurance contracts commencing during the financial year. They are incurred on the same basis as the earned proportions of the premiums they relate to. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date and are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting period and are impaired where they are no longer considered to be recoverable out of future margins in the related revenues. Under FRS 103, deferred acquisition costs are monetary assets. These are therefore valued at closing exchange rate at the reporting date and any foreign currency gains or losses are recognised in the income statement.

Notes to the financial statements

For the year ended 31 December 2019

1. Accounting Policies (continued)

1.4. Significant accounting policies continued

Claims

Claims paid are defined as those claims transactions settled up to the balance sheet date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the balance sheet date, net of any provision for bad debt. Where applicable, deductions are made for salvage and other recoveries.

Claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the income statement. Unpaid claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the reporting date. Included within the provision is an allowance for the future costs of settling those claims. This is estimated based on past experience and current expectations of future cost levels. The unpaid claims reserves also include, where necessary, a reserve for unexpired risks where, at the reporting date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premiums provision.

Although the claims provision is considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections) and case by case reviews of notified losses, on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events. These adjustments are reflected in the financial statements for the period in which the related adjustments are made.

Unexpired risk provision

Provision has been made where the future cost of claims and expenses arising on contracts concluded before the end of the financial year is expected to exceed the provision for unearned premium, net of deferred acquisition costs. The need for such provision is assessed by each year of account. No provision for unexpired risks was required at 31 December 2019 (2018: £nil).

Reinsurance recoveries

The benefits to which the Syndicate is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Where there is objective evidence that a reinsurance asset is impaired, the carrying amount of the reinsurance asset is reduced to its recoverable amount and the impairment loss recognised in the income statement.

Notes to the financial statements

For the year ended 31 December 2019

1. Accounting Policies (continued)

1.4. Significant accounting policies continued

Financial investments

The Syndicate's financial assets are classified at fair value through profit or loss (FVPL). This classification requires all fair value changes to be recognised immediately within the investment return line in the income statement.

Derivative financial instruments

Financial assets at fair value through profit or loss include derivative financial instruments. The Syndicate uses derivatives in the form of forward foreign currency contracts. Such derivative financial instruments are initially recognised at fair value on the date that the derivative contract is entered into and are subsequently re-measured at fair value through profit or loss at each balance sheet date. Derivative financial instruments are carried as assets when the fair values are positive and as liabilities when the fair values are negative. The Syndicate employs a hedging strategy of purchasing currency forward contracts to protect against currency fluctuations in the members' balance. The Syndicate has used hedge accounting for the presentation of gains and losses arising from these derivatives.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position 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.

Investment return

All of the Syndicate's financial investments are measured at fair value through profit and loss, accordingly unrealised gains and losses are shown within the non-technical account. Gains and losses on financial investments are realised when the underlying investment is sold and the amount of gain or loss realised is recognised as investment income.

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 has been wholly allocated to the technical account as all investments relate to the general insurance technical provisions.

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. 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.

Notes to the financial statements

For the year ended 31 December 2019

1. Accounting Policies (continued)

1.4. Significant accounting policies continued

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

Pension costs

Neon Management Services Limited contributes to employees' individual pension plans on behalf of the Managing Agent. Pension contributions relating to Syndicate employees are charged to the Syndicate, and included within net operating expenses.

Claims Floats

Claims floats represent funds deposited with third party claims administrators by the Syndicate to allow them to settle claims below agreed thresholds. These are measured at the contractual value of the float.

Cash and cash equivalents

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

Debtors and creditors

Debtors and creditors are measured on initial recognition and subsequently at the fair value of the consideration receivable or payable. Provision is made for specific bad debts and no general provision is held.

Notes to the financial statements

For the year ended 31 December 2019

2. Segmental analysis

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

2019	Gross written premiums £000	Gross premium earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Accident and health	2,900	8,832	(8,554)	(3,274)	(1,456)	(4,452)
Motor - other	6,587	6,076	(4,025)	(1,600)	(51)	400
Marine aviation and transport	62,598	53,999	(34,756)	(20,132)	(5,025)	(5,914)
Fire and other damage to property	126,438	115,480	(83,359)	(41,836)	(20,613)	(30,328)
Third party liability	121,178	120,140	(75,826)	(43,661)	1,205	1,858
Credit and suretyship	19,986	21,015	(16,971)	(5,951)	569	(1,338)
	339,687	325,542	(223,491)	(116,454)	(25,371)	(39,774)
Reinsurance acceptances	95,756	108,787	(47,805)	(32,640)	(41,510)	(13,168)
	435,443	434,329	(271,296)	(149,094)	(66,881)	(52,942)
2018	Gross written premiums £000	Gross premium earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Accident and health	14,251	11,801	(10,763)	(5,294)	(327)	(4,583)
Motor - other	5,426	3,984	(578)	(1,365)	(102)	1,939
Marine aviation and transport	34,383	27,948	(15,544)	(11,755)	(781)	(132)
Fire and other damage to property	100,240	72,918	(38,248)	(31,875)	(8,273)	(5,478)
Third party liability	85,411	82,142	(50,654)	(29,677)	(6,186)	(4,375)
Credit and suretyship	24,853	22,436	(16,523)	(8,288)	(5,364)	(7,739)
	264,564	221,229	(132,310)	(88,254)	(21,033)	(20,368)
Reinsurance acceptances	140,509	113,379	(113,430)	(37,782)	10,681	(27,152)
	405,073	334,608	(245,740)	(126,036)	(10,352)	(47,520)

The reinsurance balance is the aggregate total of all those items included in the technical account which relate to reinsurance outwards transactions including items recorded as reinsurance commissions and profit participation. The reinsurance balance includes reinsurance commission receivable. 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 offset in arriving at the net operating expenses for 2019.

Notes to the financial statements
For the year ended 31 December 2019

2. Segmental analysis (continued) – Geographical analysis

The geographical analysis of premiums by situs of risk is as follows:

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
United Kingdom	101,435	49,270
Other EU counties	14,140	37,073
Australia	10,020	25,986
North America	235,401	211,754
Other territories	74,447	80,990
	<u>435,443</u>	<u>405,073</u>

3. Net operating expenses

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Acquisition costs	121,811	108,977
Change in deferred acquisition costs	839	(19,180)
Administrative expenses	26,444	36,239
Net operating expenses	<u>149,094</u>	<u>126,036</u>

Total written commissions for direct insurance business for the year amounted to £94,843k (2018:£60,945K)

The Syndicate receives consortium fee income where it manages consortia. These consortium fees, amounting to £3,327k (2018: £2,562k) are deducted from expenses.

Members' standard personal expenses amounting to £5,228k (2018: £4,886k) are included in administrative expenses, these include Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission.

Net operating expenses include fees payable to the Syndicates auditor for:

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Audit of the Syndicate	316	310
Tax compliance	-	2
	<u>316</u>	<u>312</u>

Notes to the financial statements
For the year ended 31 December 2019

3. Net operating expenses (continued)

An additional fee of £51,660 is charged to the parent company for the work performed in relation to the Group Audit. This fee is related to procedures performed over and above what is required for the local statutory audit of the Syndicate. This fee is settled by the parent company.

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Audit-related assurance services	51	55

4. Staff costs

All staff were employed by Neon Management Services Limited, a wholly owned subsidiary of Neon Holdings (U.K.) Limited, the immediate parent company of Neon Underwriting Limited. The following amounts were recharged to the Syndicate in respect of staff costs:

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Wages and salaries	16,402	23,725
Social security costs	2,277	2,360
Pension contributions	1,127	1,402
	<u>19,806</u>	<u>27,487</u>
Restructure provision	-	2,620
	<u>19,806</u>	<u>30,107</u>

The average number of Neon Management Services Limited employees providing services for the Syndicate during the year was as follows:

	<i>2019</i>	<i>2018</i>
Administration and finance	122	121
Underwriting	43	74
Claims	9	6
	<u>174</u>	<u>201</u>

Notes to the financial statements

For the year ended 31 December 2019

5. Directors' emoluments

The directors of the Managing Agent received the following aggregate remuneration charged and allocated to the Syndicate within administrative expenses.

	2019	2018
	£000	£000
Aggregate remuneration in respect of qualifying services	3,573	5,432
Aggregate contributions to defined contribution scheme	74	114
	<u>3,647</u>	<u>5,546</u>

£500k (2018: nil) was paid to directors in January 2019 for loss of office which was provided for at the previous year end.

The active underwriter received the following remuneration charged as a Syndicate expense.

	2019	2018
	£000	£000
Aggregate remuneration in respect of qualifying services	<u>379</u>	<u>679</u>

6. Investment return

	2019	2018
	£000	£000
Income from financial investments at fair value through profit or loss	4,306	2,280
Net gains/ (losses) on realisation of investments at fair value through profit or loss	8	(39)
<i>Total investment income</i>	<u>4,314</u>	<u>2,241</u>
Net unrealised gains/ (losses) on investments at fair value through profit or loss	287	(131)
Investment expenses and charges	(4)	(45)
<i>Total investment return</i>	<u>4,597</u>	<u>2,065</u>

Notes to the financial statements

For the year ended 31 December 2019

6. Investment return (continued)

	2019	2018
	£000	£000
Average amount of funds available for investment during the year:		
Sterling	10,114	8,378
United states dollars	194,810	120,593
Canadian dollars	36,251	22,212
Euro	23,196	12,860
Australian dollars	38,646	21,968
Combined in sterling	<u>224,748</u>	<u>139,821</u>
Gross calendar year investment yield:		
Sterling	0.18%	-3.64%
United states dollars	2.27%	1.67%
Canadian dollars	2.34%	5.68%
Euro	0.00%	0.03%
Australian dollars	2.88%	1.10%
Combined in sterling	<u>2.05%</u>	<u>1.48%</u>

Average funds are calculated as the monthly average of bank balances, overseas deposits and investments.

7. Financial investment

At 31 December 2019	<i>Valuation</i>	<i>Cost</i>
	£000	£000
Financial assets at fair value through profit or loss		
Share and other variable yield securities and units in unit trusts	165,404	165,404
Debt securities and other fixed income securities	6,434	6,375
Derivative assets at fair value through profit and loss	155	-
Total financial assets at fair value through profit or loss	<u>171,993</u>	<u>171,779</u>

Notes to the financial statements

For the year ended 31 December 2019

7. Financial investments (continued)

At 31 December 2018	<i>Valuation</i>	<i>Cost</i>
Financial assets at fair value through profit or loss	<i>£000</i>	<i>£000</i>
Share and other variable yield securities and units in unit trusts	110,720	110,720
Debt securities and other fixed income securities	12,857	12,823
Total financial assets at fair value through profit or loss	<u>123,577</u>	<u>123,543</u>

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

- Level 1: quoted (unadjusted) prices in active market for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

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

At 31 December 2019	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Shares and variable yield securities and units in unit trusts	24,453	139,680	1,271	165,404
Debt securities and other fixed income securities	1,462	4,972	-	6,434
Total Syndicate financial investments	<u>25,915</u>	<u>144,652</u>	<u>1,271</u>	<u>171,838</u>
Loans and deposits with credit institutions	3,690	19,868	-	23,558
Derivative asset	-	155	-	155
Total	<u>29,605</u>	<u>164,675</u>	<u>1,271</u>	<u>195,551</u>

Level 3 investments are made up of a central fund loan of £1,270,500. (2018: £nil). This is valued at fair value.

Notes to the financial statements
For the year ended 31 December 2019

7. Financial investments (continued)

At 31 December 2018	<i>Level 1</i> £000	<i>Level 2</i> £000	<i>Level 3</i> £000	<i>Total</i> £000
Shares and variable yield securities and units in unit trusts	45,063	65,657	-	110,720
Debt securities and other fixed income securities	6,715	6,142	-	12,857
Total Syndicate financial investments	51,778	71,799	-	123,577
Loans and deposits with credit institutions	4,034	13,349	-	17,383
Total	55,812	85,148	-	140,960

8. Debtors and creditors arising out of direct insurance and reinsurance operations

All amounts due to or receivable from the Syndicate in respect of direct insurance and reinsurance operations are in relation to intermediaries.

Of the debtors arising out of direct insurance operations, £37k (2018: £159k) are due after more than one year. Of the debtors arising out of reinsurance operations £98k (2018: £12k) are due after more than one year.

Of the creditors arising out of direct insurance operations, £9,206k (2018: £26k) are due after more than one year. Of the creditors arising out of reinsurance operations £nil (2018: £9k) are due after more than one year.

Creditors arising out of direct insurance operations due after more than one year includes £9,198k commission due to coverholders (2018:£nil). In 2018 £2,986k profit commission payable was included in other creditors due after more than one year.

9. Other debtors and creditors

<i>Other debtors</i>	<i>2019</i> £000	<i>2018</i> £000
Overseas taxation	2,877	970
VAT	-	744
Investments and cash in transit	-	7,737
Rent deposit	1,514	-
Claims Loss Funds	10,357	5,808
Consortium Fees	1,645	1,349
Other debtors	28	34
Amounts due from group undertakings	11,283	8,620
	<u>27,704</u>	<u>25,262</u>

All balances are due within one year.

Notes to the financial statements
For the year ended 31 December 2019

9. Other debtors and creditors (continued)

	2019	2018
	£000	£000
<i>Other creditors</i>		
Cash in transit	-	2,457
Profit commission due to coverholders	-	5,471
Other creditors	410	-
	<u>410</u>	<u>7,928</u>

Profit commission payable includes £nil (2018: £2,986k) are due after more than one year.

10. Technical provisions

	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>
	<i>£000</i>	<i>share</i>	<i>£000</i>
		<i>£000</i>	<i>£000</i>
Outstanding claims 2019			
At 1 January 2019	337,016	(121,686)	215,330
Claims incurred in current underwriting year	91,440	(22,141)	69,299
Claims incurred in prior underwriting years	179,857	(44,624)	135,233
Claims paid during the year	(205,847)	66,283	(139,564)
Foreign exchange	(13,457)	4,267	(9,190)
At 31 December 2019	<u>389,009</u>	<u>(117,901)</u>	<u>271,108</u>

	<i>Gross</i>	<i>Reinsurers'</i>	<i>Net</i>
	<i>£000</i>	<i>share</i>	<i>£000</i>
		<i>£000</i>	<i>£000</i>
Outstanding claims 2018			
At 1 January 2018	590,161	(137,256)	452,905
Claims incurred in current underwriting year	165,219	(71,811)	93,408
Claims incurred in prior underwriting years	80,521	(12,131)	68,390
Claims paid during the year	(105,093)	35,717	(69,376)
RITC of 2015 & prior	(405,073)	69,663	(335,410)
Foreign exchange	11,281	(5,868)	5,413
At 31 December 2018	<u>337,016</u>	<u>(121,686)</u>	<u>215,330</u>

Notes to the financial statements
For the year ended 31 December 2019

10. Technical provisions (continued)

Unearned Premium 2019	<i>Reinsurers'</i>		
	<i>Gross</i>	<i>share</i>	<i>Net</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2019	204,352	(39,054)	165,298
Premiums written in the year	435,443	(128,348)	307,095
Premiums earned in the year	(434,329)	133,646	(300,683)
Foreign exchange	(5,970)	383	(5,587)
At 31 December 2019	<u>199,496</u>	<u>(33,373)</u>	<u>166,123</u>

Unearned Premium 2018	<i>Reinsurers'</i>		
	<i>Gross</i>	<i>share</i>	<i>Net</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2018	134,736	(25,511)	109,225
Premiums written in the year	405,073	(108,584)	296,489
Premiums earned in the year	(334,609)	94,294	(240,315)
RITC of 2015 & prior	(8,258)	2,439	(5,819)
Foreign exchange	7,410	(1,692)	5,718
At 31 December 2018	<u>204,352</u>	<u>(39,054)</u>	<u>165,298</u>

Deferred Acquisition Costs	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
At 1 January	57,158	36,108
Change in deferred acquisition costs	(839)	19,180
Foreign exchange	(1,493)	1,870
At 31 December	<u>54,826</u>	<u>57,158</u>

Notes to the financial statements

For the year ended 31 December 2019

11. Cash and cash equivalents

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Cash at bank and in hand	45,608	31,097
Cash equivalents held in collective investment schemes	164,133	110,720
	<u>209,741</u>	<u>141,817</u>

Cash and cash equivalents comprises deposits not subject to time restrictions on withdrawal, with approved credit institutions and approved financial institutions and local authorities.

12. Other assets

Other assets of £23,558k (2018: £17,383k) comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

13. Related parties

Managing Agency fees of £2,288k (2018: 2,288k) were charged to the Syndicate by the Managing Agent. These fees are calculated as 0.75% of the Syndicate's approved stamp capacity for the youngest open underwriting year. There is no amount outstanding due to the Managing Agent at the balance sheet date.

Great American Insurance Co. (GAIC) is a wholly owned subsidiary of American Financial Group Inc. (AFG) and participates as a reinsurer of the Syndicate. The premiums paid to that reinsurer in 2019 amounted to £657k (2018: £2,263k) which represents 0.51% of outward reinsurance spend of the Syndicate. Of this amount the outstanding premium payable is £1,972k (2018: £1,077k). Reinsurance recoveries received from GAIC amounted to £451k (2018: £790k). At 31 December 2019 there is a receivable amount outstanding of £349k (2018: £212k). The Syndicate also has inwards reinsurance agreements with GAIC which amounted to premiums of £97k (2018: £50k). No amounts remain due at the balance sheet date.

GAI Indemnity Limited (GAI) is a wholly owned subsidiary of GAI Holdings Bermuda Ltd, the ultimate parent of both of these companies is AFG. GAI is a corporate member of the Syndicate and participates on all open years of account. Lavenham Underwriting Limited (LUL) and Sampford Underwriting Limited (SUL) are wholly owned subsidiaries of Neon Holdings (U.K.) Limited (NHL), the ultimate parent of these companies is AFG. LUL and SUL are corporate members of the Syndicate and participate on all open years of account. For more information see note 16.

Notes to the financial statements

For the year ended 31 December 2019

13. Related parties (continued)

The Syndicate writes Cyber business through Tarian Underwriting Limited (TUL), a managing general agency, which has a common director with the Managing Agent. NHL held a special share in TUL giving it 51% voting control. This share was redeemed on 3 January 2019. Therefore Tarian is no longer considered to be a subsidiary of the group. The amount of business written through TUL in 2019 was £3,675k (2018: £9,935k).

Neon group owns several managing general agents who write marine, property, reinsurance and casualty business into the Syndicate. They are all subsidiaries of Neon Holdings (U.K.) Limited who is the immediate parent of the Managing Agent.

Amounts due from/(to) these companies are as follows:

	2019	2018
	£000	£000
Neon Underwriting Bermuda Limited	5,403	6,916
Neon Sapphire Underwriting Limited	593	498
Orca Agency Limited	2,820	641
Neon Italy S.r.l	1,344	1,734

Amounts due from other group companies are as follows:

	2019	2018
	£000	£000
Neon Management Services Limited	11,271	9,255
Tarian Underwriting Limited	-	(331)
Neon Underwriting Limited	12	-
	11,283	8,924

On 29 December 2017, certain senior management and staff of Neon Management Services Limited purchased on an arm's length basis 76.65% of membership interests in Neon Employee Ownership LLC (NEO), domiciled in Delaware, USA from Helium Holdings Limited, a wholly owned subsidiary of American Financial Group Inc. NEO indirectly owns via intermediate holding companies, 30% of the operations of Neon including Syndicate 2468 and the managing agent.

There are no other transactions or arrangements to disclose.

Notes to the financial statements

For the year ended 31 December 2019

14. Funds at Lloyd's

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

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

15. Off-balance sheet items

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

Notes to the financial statements

For the year ended 31 December 2019

16. Risk management

a) Governance framework

The Board of Directors of the Managing Agent (the Board) recognises that the effective management of risk is essential for the Syndicate to achieve its objectives. The primary objective of the Syndicate's risk and financial 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. Key management recognises the critical importance of having efficient and effective risk management systems in place to identify, assess, control, monitor and report the risks posed to the achievement of the Syndicate's objectives.

The Board, with support from the Risk Committee, chaired by an independent non-executive, oversees the risk management framework and monitors the Syndicate's risk profile at risk category level (e.g. premium risk). Oversight of specific risks and appetites, set in conjunction with the risk management function, is delegated to the relevant sub-Committees of the Board and Executive Committee. In order to discharge their duties, the Board and sub-Committees receive regular risk reports measuring the Syndicate's risk appetite metrics on a quarterly basis.

There is a clear organisational structure with delegated authorities and responsibilities, underpinned by defined terms of reference for each Committee and Syndicate Risk policy.

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

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

Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, and beyond that to meet its own financial strength, licence and ratings objectives. Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at a syndicate level.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss (99.5% confidence over a one-year time frame), 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 and approval by Lloyd's.

Notes to the financial statements

For the year ended 31 December 2019

16. Risk Management (continued)

A syndicate may be comprised of one or more underwriting members of Lloyd's. Over and above the SCR, Lloyd's applies an uplift to the capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2019 was 35% of the SCR 'to ultimate'.

Provision of capital by members of Syndicate 2468

The Syndicate is comprised of a number of underwriting members of Lloyd's. Each member is only liable for its own share of underwriting liabilities on the Syndicate on which it participates. Each member's SCR is determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Each member provides capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), held within and managed within a Syndicate (Funds in Syndicate) or as the member's share of the members' balances on each syndicate on which it participates. All of the assets required by the members of the Syndicate (over and above their share of the Syndicate's Solvency II net assets), are held as Funds at Lloyds (FAL).

At 31 December 2019, the Syndicate's agreed ECA was £323.2m (2018: £328.0m), representing 96% of the agreed underwriting capacity for the 2020 year of account. The Syndicate also benefits from mutualised capital within the Lloyd's Central Funds, for which an annual levy of 0.35% of Syndicate gross premium is payable.

Participation for each underwriting year that was open during 2019, and for the 2020 underwriting year, is as follows:

Members' participations	2020	2019	2018	2017
(% of Syndicate stamp capacity)	£000	£000	£000	£000
Lavenham Underwriting Limited	35%	35%	35%	35%
Samford Underwriting Limited	36%	36%	36%	36%
GAI Indemnity Limited	29%	29%	29%	29%
Total	100%	100%	100%	100%

Members' premium limits	2020	2019	2018	2017
	£000	£000	£000	£000
Lavenham Underwriting Limited	117,950	106,750	106,750	82,250
Samford Underwriting Limited	121,320	109,800	109,800	84,600
GAI Indemnity Limited	97,730	88,450	88,450	68,150
Total	337,000	305,000	305,000	235,000

All of the corporate members providing capital to support the 2020 year of account are subsidiaries wholly owned by the Managing Agent's ultimate parent, American Financial Group, Inc.

Notes to the financial statements

For the year ended 31 December 2019

16. Risk Management (continued)

c) Insurance risk

The principal risk the Syndicate faces under insurance contracts is Insurance Risk. NUL breaks this down into Premium Risk and Reserve Risk.

Premium Risk

The risk of uncertainty around all unexpired and planned future underwriting exposure. The Board manages premium risk by agreeing its appetite for these risks annually through the business plan, which sets out (*inter alia*) targets for volumes, rates, line sizes and retention by class of business. The Syndicate also purchases reinsurance as part of its risks mitigation programme and uses catastrophe modelling software to model maximum probable losses from catastrophe-exposed business; 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. Scenarios are modelled for specific catastrophic events dependent on current market conditions.

Reserve Risk

The risk that current reserves are insufficient to cover claim liabilities as they fall due. This is influenced by the frequency of claims and severity of claims, and subsequent development of long-term claims.

Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities. The principal assumption underlying the estimated liabilities is that future claims development will follow a similar pattern to past claims development experience. Historical development data is used to calculate reserves on a class basis with reference to both the type of business as well as the length of tail of the specific class. Where possible, large losses are reserved with reference to specific case data and market information. The liabilities calculated could be significantly higher or lower than the final cost of settling the claims and this uncertainty can vary between classes depending on the type of business written and the quantity of large or catastrophe losses included within these estimates.

Notes to the financial statements

For the year ended 31 December 2019

16. Risk Management (continued)

Sensitivity analysis

The claim liabilities are sensitive to the assumptions above. The table below shows the impact on the syndicate's profit of a 5% improvement or deterioration in the net incurred claims ratio:

	Accident & Health	Motor	Marine aviation & transport	Fire and other damage to property	Third-party liability	credit & suretyship	Reinsurance acceptances	Total
Converted £000								
At 31 December 2019								
5% increase in NIC	(444)	(201)	(1,821)	(2)	(5,232)	(334)	(2,192)	(10,226)
5% decrease in NIC	444	201	1,821	2	5,232	334	2,192	10,226
Converted £000								
At 31 December 2018								
5% increase in NIC	(502)	(106)	(1,644)	(1,591)	(3,837)	(1,225)	(1,862)	(10,767)
5% decrease in NIC	502	106	1,644	1,591	3,837	1,225	1,862	10,767

Claims concentration

The table below shows the concentration of claims liabilities at the balance sheet date, by type of contract. These figures include claims outstanding and an incurred but not reported claims (IBNR), consistent with the figures reported in the statement of financial position.

	31 December 2019			31 December 2018		
	Gross Liabilities	Re-insurance of liabilities	Net Liabilities	Gross Liabilities	Re-insurance of liabilities	Net Liabilities
	£000	£000	£000	£000	£000	£000
Accident and health	10,940	(706)	10,234	11,154	(1,120)	10,034
Motor - other	1,682	-	1,682	2,121	(1)	2,120
Marine aviation and transport	43,311	(1,358)	41,953	37,887	(5,013)	32,874
Fire and other damage to property	44,968	(42,763)	2,205	60,647	(28,828)	31,819
Third-party liability	184,177	(20,790)	163,387	84,383	(7,634)	76,749
Credit and suretyship	27,221	(7,830)	19,391	31,618	(7,118)	24,500
	312,299	(73,447)	238,852	- 227,810	(49,714)	178,096
Reinsurance acceptances	76,710	(44,454)	32,256	109,206	(71,972)	37,234
Total	389,009	(117,901)	271,108	337,016	(121,686)	215,330

Notes to the financial statements

For the year ended 31 December 2019

16. Risk Management (continued)

c) Insurance risk (continued)

Claims concentration

The geographic concentration of outstanding claims liabilities is shown below, these figures are prepared on the same basis of the segmentation analysis above. Where reinsurance liabilities are held to cover all classes of business, these liabilities have been apportioned to territories based on the value of outstanding claims (excluding IBNR) at the balance sheet date, this is considered to be the most appropriate means to allocate the reinsurance element liabilities as shown below.

	31 December 2019			31 December 2018		
	Gross Liabilities	Re-insurance of liabilities	Net Liabilities	Gross Liabilities	Re-insurance of liabilities	Net Liabilities
	£000	£000		£000	£000	-
United Kingdom	89,284	(25,858)	63,426	16,407	(7,525)	8,882
Other EU countries	50,755	(15,137)	35,618	16,891	(5,401)	11,490
Australia	19,634	(5,530)	14,104	6,030	(2,871)	3,159
North America	190,833	(58,976)	131,857	200,863	(86,360)	114,503
Other territories	38,503	(12,400)	26,103	96,825	(19,529)	77,296
Total	389,009	(117,901)	271,108	337,016	(121,686)	215,330

Claims development table

The following tables show the estimate of cumulative incurred claims, including both notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. All of the amounts shown in the tables are in converted sterling

In setting claims provisions the Syndicate considers the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development and the margin necessary to provide the necessary confidence in the adequacy of the provision at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

Notes to the financial statements
For the year ended 31 December 2019

16. Risk Management (continued)

c) Insurance risk (continued)

Claims development table

Gross outstanding claims provision as at 31 December 2019

	2016	2017	2018	2019	Total
<i>Underwriting year</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Estimate of cumulative claims incurred					
At end of underwriting year	42,024	149,509	164,248	87,857	
12 months later	73,117	229,111	293,758		
24 months later	108,562	267,570			
36 months later	115,879				
Current estimate of cumulative claims incurred	115,879	267,570	293,758	87,857	-
Cumulative paid claims					
At end of underwriting year	2,904	20,417	11,945	9,663	
12 months later	17,822	113,906	129,552		
24 months later	50,436	161,897			
36 months later	74,943				
Cumulative payments to date	74,943	161,897	129,552	9,663	-
Total gross outstanding claims provision per the statement of financial position	40,936	105,673	164,206	78,194	389,009

Notes to the financial statements
For the year ended 31 December 2019

16. Risk Management (continued)

c) Insurance risk (continued)

Claims development table

Net outstanding claims provision as at 31 December 2019	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>Total</i>
<i>Underwriting year</i>	£000	£000	£000	£000	£000
Estimate of cumulative claims incurred					
At end of underwriting year	34,592	82,291	91,510	67,077	
12 months later	72,410	148,426	191,614		
24 months later	127,795	178,335			
36 months later	128,876				
Current estimate of cumulative claims incurred	128,876	178,335	191,614	67,077	
Cumulative paid claims					
At end of underwriting year	2,904	14,389	8,239	8,360	
12 months later	24,475	71,573	88,632		
24 months later	77,734	106,331			
36 months later	91,471				
Cumulative payments to date	91,471	106,331	88,632	8,360	
Total net outstanding claims provision per the statement of financial position	37,405	72,004	102,982	58,717	271,108

d) Financial risk management

The following section describes the Syndicate's investment risk management from a quantitative and qualitative perspective. The investment policy determines investment governance and the investment risk tolerances. It is reviewed regularly and reported to the Executive Committee and Board to ensure that the Board's fiduciary and regulatory responsibilities are being met. Day-to-day management of the investments is delegated to the Investment Committee.

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 tables below show the maximum exposure to credit risk for the components of the statement of financial position.

Notes to the financial statements
For the year ended 31 December 2019

16. Risk Management (continued)

d) Financial risk management -credit risk (continued)

<i>31 December 2019</i>	<i>Neither past due not impaired</i>	<i>Impaired</i>	<i>Past due</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Shares and other variable yield securities	165,404			165,404
Other financial investments				
- Debt securities	6,434			6,434
- Derivative assets/liabilities	155			155
Overseas deposits	23,558			23,558
Reinsurers' share of claims outstanding	117,901			117,901
Debtors arising out of direct insurance operations	111,760		8,897	120,657
Debtors arising out of reinsurance operations	29,052			29,052
Other debtors	27,704			27,704
Cash at bank and in hand	45,608			45,608
	<u>527,576</u>	<u>-</u>	<u>8,897</u>	<u>536,473</u>
<i>31 December 2018</i>	<i>Neither past due not impaired</i>	<i>Impaired</i>	<i>Past due</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Shares and other variable yield securities	110,720	-	-	110,720
Other financial investments				
- Debt securities	12,857	-	-	12,857
Overseas deposits	17,383	-	-	17,383
Reinsurers' share of claims outstanding	121,686	-	-	121,686
Debtors arising out of direct insurance operations	118,518	-	13,138	131,656
Debtors arising out of reinsurance operations	19,832	-	-	19,832
Other debtors	25,262	-	-	25,262
Cash at bank and in hand	31,097	-	-	31,097
	<u>457,355</u>	<u>-</u>	<u>13,138</u>	<u>470,493</u>

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2019 by classifying assets according to approved credit rating agencies' credit ratings of the counterparties. AAA is the highest possible rating. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated. This excludes any amounts that are impaired or past due.

Notes to the financial statements
For the year ended 31 December 2019

16. Risk Management (continued)

d) Financial risk management - credit risk (continued)

<i>31 December 2019</i>	<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>BBB</i>	<i>Less than BBB</i>	<i>Not rated</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Shares and other variable yield securities	-	-	-	-	-	165,404	165,404
Other financial Investments							
- Debt securities	1,165	-	5,269	-	-	-	6,434
- Derivative asset	-	-	-	-	-	155	155
Overseas deposits	13,460	2,848	2,432	1,371	655	2,792	23,558
Reinsurers' share of claims outstanding	-	21,880	75,352	-	-	20,669	117,901
Debtors arising out of reinsurance operations	-	4,459	19,830	-	-	4,763	29,052
Cash at bank and in hand	-	-	45,608	-	-	-	45,608
	<u>14,625</u>	<u>29,187</u>	<u>148,491</u>	<u>1,371</u>	<u>655</u>	<u>193,783</u>	<u>388,112</u>
<i>31 December 2018</i>	<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>BBB</i>	<i>Less than BBB</i>	<i>Not rated</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Shares and other variable yield securities	-	-	-	-	-	110,720	110,720
Other financial Investments							
- Debt securities	7,853	705	3,709	590	-	-	12,857
Overseas deposits as investments	8,978	2,282	1,344	709	512	3,558	17,383
Reinsurers' share of claims outstanding	-	17,365	53,432	-	-	50,889	121,686
Debtors arising out of reinsurance operations	-	722	12,611	-	-	6,499	19,832
Cash at bank and in hand	-	-	31,097	-	-	-	31,097
	<u>16,831</u>	<u>21,074</u>	<u>102,193</u>	<u>1,299</u>	<u>512</u>	<u>171,666</u>	<u>313,575</u>

Liquidity risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations associated with its 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 table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding cash liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities.

Notes to the financial statements
For the year ended 31 December 2019

16. Risk Management (continued)

d) Financial risk management - liquidity risk (continued)

31 December 2019	<i>Carrying amount</i>	<i>Up to one year</i>	<i>1-3 years</i>	<i>3-5 years</i>	<i>5-10 years</i>	<i>Over 10 years</i>
Outstanding claim liabilities	389,009	93,488	207,380	48,201	31,685	8,255
Creditors arising out of direct insurance	10,060	10,060	-	-	-	-
Creditors arising out of reinsurance	50,991	50,991	-	-	-	-
Other creditors	410	410	-	-	-	-
<hr/>						
31 December 2018	<i>Carrying amount</i>	<i>Up to one year</i>	<i>1-3 years</i>	<i>3-5 years</i>	<i>5-10 years</i>	<i>Over 10 years</i>
Outstanding claim liabilities	337,016	63,763	197,892	53,871	16,950	4,540
Creditors arising out of direct insurance	1,942	1,917	25	-	-	-
Creditors arising out of reinsurance	54,836	54,827	9	-	-	-
Other creditors	7,928	4,941	2,987	-	-	-

Market risk

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. Market risk comprises currency risk, interest rate risk, and equity price risk. These risks are discussed below:

(i) *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 Euro, US dollars, Australian dollars, and Canadian dollars.

Notes to the financial statements
For the year ended 31 December 2019

16. Risk Management (continued)

d) Financial risk management - currency risk (continued)

The table below summarises the exposure of the financial assets and liabilities to foreign exchange risk at the reporting date (as converted Sterling amounts), as follows:

	<i>UK £</i>	<i>US \$</i>	<i>EUR €</i>	<i>CAD \$</i>	<i>AUD \$</i>	<i>Total</i>
Converted £'000						
31 December 2019						
Total assets	93,248	435,352	35,471	30,056	32,584	626,711
Total Liabilities	(107,207)	(444,872)	(56,476)	(18,932)	(26,629)	(654,116)
Net assets	(13,959)	(9,520)	(21,005)	11,124	5,955	(27,405)
Converted £'000						
31 December 2018						
Total assets	72,393	400,964	44,841	22,022	30,533	570,753
Total Liabilities	(86,166)	(428,260)	(59,516)	(14,069)	(26,280)	(614,291)
Net assets	(13,773)	(27,296)	(14,675)	7,953	4,252	(43,538)

The table below shows the impact on the syndicate's net assets of a 5% appreciation or depreciation in each currency relative to Sterling.

Converted £'000	<i>UK £</i>	<i>US \$</i>	<i>EUR €</i>	<i>CAD \$</i>	<i>AUD \$</i>	<i>Total</i>
31 December 2019						
5% appreciation	-	(476)	(1,050)	556	298	(672)
5% depreciation	-	476	1,050	(556)	(298)	672
Converted £'000						
31 December 2018						
5% appreciation	-	(1,365)	(734)	398	213	(1,488)
5% depreciation	-	1,365	734	(398)	(213)	1,488

Notes to the financial statements
For the year ended 31 December 2019

16. Risk Management (continued)

d) Financial risk management -currency risk (continued)

The Syndicate employs a hedging strategy of purchasing currency forward contracts to protect against currency fluctuations in the members' balance.

(ii) *Interest rate risk*

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit and members' balance of the effects of changes in interest rate.

<i>Changes in variables</i>	<i>Impact on profit</i> £000	<i>Impact on members' balance</i> £000
<i>31 December 2019</i>		
+ 50 basis points	(971)	(971)
- 50 basis points	971	971
<hr/>		
<i>31 December 2018</i>		
+ 50 basis points	(704)	(704)
- 50 basis points	704	704
<hr/>		

(iii) *Equity price risk*

The analysis below is performed for reasonable possible movements in market indices on financial instruments, insurance assets and liabilities with all other variables held constant, showing the impact on profit before tax due to changes in fair value of financial assets and liabilities.

<i>Change in stock market prices</i>	<i>Impact on profit</i> £000	<i>Impact on members' balance</i> £000
<i>31 December 2019</i>		
5% increase	821	821
5% decrease	(821)	(821)
<hr/>		
<i>31 December 2018</i>		
5% increase	554	554
5% decrease	(554)	(554)
<hr/>		

Notes to the financial statements

For the year ended 31 December 2019

17. Post Balance Sheet Event

On 6 January 2020, the Syndicate capital providers' ultimate parent company American Financial Group Inc, (AFG) announced that it was exiting the Lloyd's insurance market. Consequently, the Managing Agent has put the Syndicate into an orderly run-off. During this process the Managing Agent has been, and continues to be, in regular dialogue with Lloyd's and other relevant regulators.

The Managing Agent continues to manage the Syndicate in run-off and Neon remains fully committed to all policyholders and all policies underwritten by the Syndicate will be honoured as per their terms and conditions. The Syndicate remains fully capitalised by AFG and, as with every other syndicate at Lloyd's will continue to benefit from Lloyd's full chain of security.