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Verto Syndicate 2689

Syndicate Annual Report and Accounts

31 December 2019

Contents

Directors and Administration

Managing Agent

Asta Managing Agency Ltd

Directors

P A Jardine (Chairman)*
R P Barke
C V Barley
K A Green*
C N Griffiths
L Harfitt
A J Hubbard*
D J G Hunt
P A Jardine*
M D Mohn*
S P A Norton
K Shah*
J M Tighe

Non-Executive Directors*

Company Secretary

N J Burdett

Managing Agent's Registered Office

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

Managing Agent's Registered Number

1918744

Active Underwriter

S Ashby

Bankers

Barclays Bank
Citibank NA
RBC Dexia

Registered Auditors

Ernst & Young LLP

Directors and Administration continued

Signing Actuaries

Ernst & Young LLP

Active Underwriter's report

Verto Syndicate 2689 was established by the Hampden Group for the 2017 Year of Account with the objective of providing improved access to underwriting opportunities for private and institutional clients of Hampden Agencies Limited who supplied 100% of the initial capital for the Syndicate. We have been pleased to welcome additional capital providers for the 2018, 2019 and 2020 years.

In May 2019 Hampden Group announced that from 1st January 2020 it would restructure Verto Syndicate 2689 by joining a reinsurance consortium underwritten by Chord Re based on Verto's existing underwriting portfolio with the addition of Chord Re's Property Catastrophe excess of loss and Specialty Reinsurance excess of loss treaty consortia.

Chord Re is a reinsurance focused service company of Beat Syndicate 4242 which offers lead and follow capacity as well as private placements over multiple classes of treaty reinsurance. Chord Re was established in November 2017 by Stefan Long and Tom Meyer, formerly of Aspen Re.

Verto Syndicate 2689 expects to partner with other market leading consortia in future underwriting years and seeks to be an active participant in the Lloyd's Blueprint One modernization plan, in particular the lead follow initiative. The objective remains to build efficient, flexible and enduring partnerships enabling capital to access a diverse range of insurance risks in a cost-efficient manner.

2017 Year of account

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

In 2017 the Atlantic Hurricane Season delivered three large Hurricanes, Harvey, Irma and Maria. The year also saw Earthquakes in Mexico and extensive wildfires in California. In total the Insurance and Reinsurance Industry suffered record insured catastrophe and man-made losses, estimated at $140bn in 2017 prices by Swiss Re Sigma.

The Verto supported whole account quote share benefitted from the inuring reinsurance protections of both Syndicate 2003 and XL Catlin's non-Lloyd's business but not AxaXL' s Group Stop Loss. The final result for this year of account is a combined ratio of 124.20% and a loss as a percentage of Capacity of 31.08%, which is at the better end of the estimated range of a loss of 30% to 40% of capacity at the 24-month stage. The main drivers for this loss were natural catastrophe losses suffered in second half of 2017 combined with further softening of rates across the portfolio.

Active Underwriter's report continued

2018 Year of account

Lloyd's approved the addition of a diversified portfolio of quota share treaties in line with the then Verto Underwriting team's multi class transactional experience of building profitable reinsurance portfolios and underwriting capacity increased from £50m to £98.4m. The Syndicate wrote a further five classes of business including property, casualty, marine and energy, offshore energy exposed to Gulf of Mexico Wind and Specialty.

In all an additional 44 quote share treaties were underwritten from a diverse mix of cedants that were mostly outside of Lloyd's. Most treaties were US denominated and North America exposed. Across all classes we had started to see some encouraging signs on terms and conditions from the global Insurance and Reinsurance markets, and certainly no signs of deterioration.

The 2018 year of account is proving to be extremely challenging for the worldwide Insurance and Reinsurance Industry. While 2018 did not have the severity of the 2017 Events, it did have an increased frequency. Major losses included Hurricane Michael and Florence, Typhoons Jebi, Trami and Mangkhut as well as significant Californian Wildfires for the second year in succession. Swiss Re Sigma estimated that these insured major losses made the 2018 year the fourth highest Catastrophe loss year on record at $93bn.

The AxaXL cession was also renewed but with a reduced line applied evenly across the AxaXL group so that the quota share was weighted towards Axa XL's non-Lloyd's business and at 36% represented a much smaller share of the Syndicate's premium than the 100% of the year before. Overall this Contract is approximately 94% earned at the 24-month stage.

The Whole Account Quota Share Treaty cession with AxaXL was again heavily influenced by the 2018 Catastrophe losses as well as many large risk events and consequently is still underperforming the additional diversified portfolio of 44 quota share treaties. Currently, the only significant loss event to the diversified portfolio is Hurricane Michael which has triggered our purchase of reinsurance group protection. The Syndicate's exposure to Hurricane Michael is, however, within expectation and is capped in terms of the loss size with an Event limit. This is consistent with all our other large Cat exposed accounts where we mandate the Reinsurance Contract must have an Event Limit. On the Casualty QS Portfolio, the Syndicate was exposed to the NiSource Massachusetts Gas Explosion where the there was a total limits loss of $800 Million, of which Syndicate 2689's share is $5.3 Million.

The projected net ultimate combined ratio for the 2018 year of account is 117.2% with a forecast loss on a three-year account basis at the 24-month stage in a range of 18.10% to 23.10% of capacity.

Active Underwriter's report continued

2019 Year of account

The Syndicate Business Plan was approved by Lloyd's revised with a reduced capacity of £69.5m. The number of classes written was reduced from six to five with the decision taken to non-renew the underperforming AxaXL Whole Account Quota Share. In 2019 Lloyds approved the addition of a small portfolio of non-proportional business (mostly Property Cat and Casualty and Professional Lines business) in order to provide access to quota share business that would otherwise be unavailable.

Further positive signs were evolving of changes to market conditions with double digit rate increases being seen across the five classes of business written. There was also signs of pressure in relation to the overall policy terms and conditions, resulting in some reductions in cede commissions and brokerage. Global catastrophe losses reduced to $56bn according to Swiss Re Sigma, although Japan was hit by two significant typhoons, Faxai and Hagibis, for the second year running.

The 2019 Year of Account has unfortunately suffered a material loss from Typhoon Hagibis while following pricing reviews of the casualty account ultimate loss ratios have been reassessed upwards by Asta, which has been validated by Chord Re's approach to pricing the 2020 renewals. However, the projected net ultimate combined ratio for the 2019 Account of 103.63% is a significant improvement on 2018 with the syndicate benefitting from the improved market conditions.

Future strategy

The key strategic initiatives established for the 2020 Account remain in place for Verto Syndicate 2689:

- Selectively taking advantage of market opportunities and accessing a broader product /client base;
- Rebalancing the short tail/long tail split with a 20% weighting to longer tail lines versus expiring 30%;
- Exit non-core products such as Workers Compensation and US Non-Standard Auto;
- Review and add further Consortia arrangements in conjunction with the Hampden Group.

Verto will continue to underwrite for gross profitability and make judicious use of portfolio exposure caps and outwards reinsurance across all lines of business to ensure the risk/return profile of each contract or relationships contributes to the Syndicate's targeted returns. We are delighted with the new Consortia relationship with Chord Re which provides Verto with access to their highly experienced underwriting team and allows Syndicate 2689 to more easily flex its capacity with the underwriting cycle as well as shifting capital between consortia based on market conditions.

S Ashby
Active Underwriter
05 March 2020

Managing Agent's report

The Syndicate's Managing Agent is a company registered in England and Wales. The Directors of the Managing Agent present their report for the year ended 31 December 2019.

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

Results

The total recognised result for calendar year 2019 is a loss of $15.9m (2018: loss of $16.6m).

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

Principal activity and review of the business

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

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

	2019 $’000	2018 $’000	Change %
Gross written premiums	**146,565**	**134,727**	**8.8%**
Loss for the financial year	**(15,875)**	**(16,638)**	**4.6%**
Combined ratio*	**112.1%**	**116.1%**	**4.0%**

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

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

	2019 YOA Open	2018 YOA Open	2017 YOA Closed
Capacity ($’000)	91,191	129,782	65,943
Forecasted result ($’000)	(4,137)	(23,259)	(15,511)
Forecast return on capacity (%)	(4.5)%	(17.9)%	(23.5)%

Principal risks and uncertainties

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

Insurance risk

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

Credit risk

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

Market risk

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

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

Liquidity risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash or can only meet obligations at excessive cost. To mitigate this risk the Syndicate Board reviews cash flow projections regularly and ensures that, where needed, the Syndicate has liquidity facilities in place or has utilised the option of a cash call from capital providers. The Syndicate has in place an overdraft facility (£3.5m limit) as well as a shock loss facility (£15m limit) with Barclays Bank Plc. It also has financial support pledged from Hampden Capital Plc, and has called on members participating on the 2017 years of account. A future cash call will be made on members participation on the 2018 year of account during 2020 (see note 20).

Operational risk

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

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

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

Group / strategic risk

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

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

Future developments

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

The capacity for the 2020 year of account is $89.1m (2019 year of account is $91.2m).

On 31 January 2020, the UK formally left the EU and entered a transition period lasting until 31 December 2020. During the transition period the UK and the EU will negotiate their future relationship and EU law will continue to apply in and to the UK.

Managing Agent’s report continued

Following the end of the transition period, it is anticipated that Lloyd’s members will no longer benefit from EU passporting provisions and will no longer have permission to underwrite European Economic Area (EEA) (re)insurance business. However, Lloyd's members will continue to be able to provide reinsurance to cedants in the EEA (with the exception of Germany) on a cross-border basis, provided relevant local requirements are complied with.

Lloyd’s has been working to ensure that policyholders across the EEA can continue to access the underwriting expertise and financial security of the Lloyd’s Market and their existing policies can continue to be serviced by the Lloyd’s Market, including the payment of valid claims. In this regard, Lloyd’s established a subsidiary insurance and reinsurance company incorporated in Belgium, Lloyd’s Insurance Company S.A. (Lloyd’s Brussels), to underwrite EEA-exposed business from 1 January 2019. This is fully operational and the project to implement Lloyd’s Brussels systems and processes at the Syndicate is complete. Some challenges remain with the newly implemented systems which Lloyd’s Brussels will continue to work to address, and a number of changes are planned for 2020 to enhance the procedures.

In addition, to achieve contract continuity, Lloyd’s will transfer all remaining affected policies (comprising all relevant non-life direct EEA insurance and inwards German reinsurance business that has been written by the Lloyd’s Market since 1993) to Lloyd’s Brussels. This will be undertaken via an insurance business transfer under Part VII of the UK’s Financial Services and Markets Act 2000 (the Part VII transfer) and is scheduled to take place before the end of 2020.

The syndicate is exposed to LIBOR through banks, investment holdings or reinsurance contracts and with LIBOR being replaced at the end of 2021 the Syndicate is assessing the impact this will have on them with remedial action to be put in place should it be needed.

Following the Prudential Regulation Authority’s (PRA) Supervisory Statement, AMA have ensured Board-level engagement and accountability with the PRA’s requirements, assigning clear responsibilities for managing AMA’s and its syndicate’s financial risks associated with climate change. The AMA Chief Risk Officer, who is a Board member, is responsible for identifying and managing climate related risks.

The syndicate and AMA are working together to establish a framework for assessing the impacts of physical climate change. This six-stage framework is based on work provided by the PRA in May 2019 and intends on assessing the appropriateness of models in representing climate change to date, as well as potential future climate change in the next 3-10 years.

Since the start of 2020, there has been an outbreak of the Coronavirus, Covid 19, which is a new virus that affects lungs and airways. At 1 March 2020, approximately 87,000 people across the world have been recorded as being affected, mostly in mainland China, but it has also spread to more than 30 other countries. Many countries have reacted to contain the spread of the virus by isolating whole affected areas and infected individuals.

As part of the ongoing activities of the Asta Risk Management Framework, such circumstances are considered and work is currently being undertaken to assess the insurance, operational and economic risks associated with the outbreak.

Directors

Details of the Directors of the Managing Agent that were serving at the year end and up to the date of signing of the financial statements are provided on page 1. Changes to Directors during 2019 and subsequent to the year end were a s follows:

C Chow**	Resigned 28 February 2019
N J Burdett**	Appointed 01 March 2019
J W Ramage	Resigned 31 March 2019
T A Riddell	Resigned 31 March 2019
R A Stevenson	Resigned 09 July 2019
C N Griffiths	Appointed 01 January 2020
K A Green	Appointed 01 February 2020

Company Secretary**

Disclosure of information to the auditors

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

Auditors

The Managing Agent intends to reappoint Ernst & Young LLP as the Syndicate's auditors.

Syndicate Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by Syndicate members before 09 April 2020.

On behalf of the Board

N J Burdett
Company Secretary
05 March 2020

Statement of Managing Agent's responsibilities

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

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

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

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

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

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

Independent auditors’ report to the members of Syndicate 2689

Report on the Syndicate annual accounts

Opinion

We have audited the syndicate annual accounts of syndicate 2689 (‘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 20, 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 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.

Independent auditors’ report continued

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 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 12, 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.

Jonathan Bell (Senior statutory auditor)
For and on behalf Ernst & Young LLP, Statutory Auditor
London
05 March 2020

Income statement

Technical account - General business

For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Gross premiums written	3	146,565	134,727
Outward reinsurance premiums		(5,003)	(3,860)
Net written premiums		141,562	130,867
Change in the provision for unearned premiums			
Gross amount		9,402	(22,848)
Reinsurers' share		11	-
Change in the net provision for unearned premiums	4	9,413	(22,848)
Earned premiums, net of reinsurance		**150,975**	**108,019**
Allocated investment return transferred from the non-technical account		**2,569**	**(123)**
Claims paid			
Gross amount		(44,207)	(37,744)
Reinsurers' share		-	-
Net claims paid		(44,207)	(37,744)
Changes in claims outstanding			
Gross amount		(64,434)	(42,257)
Reinsurers' share		1,211	3,649
Change in the net provision for claims	4	(63,223)	(38,608)
Claims incurred, net of reinsurance		**(107,430)**	**(76,352)**
Net operating expenses	5	**(61,780)**	**(49,046)**
Balance on technical account – general business		**(15,666)**	**(17,502)**

Income statement continued

Non-technical account - General business

For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Balance on technical account – general business		**(15,666)**	**(17,502)**
Investment return	9	2,569	(123)
Allocated investment return transferred to the general business technical account		(2,569)	123
Exchange (losses)/gains		(209)	864
Loss for the financial year		**(15,875)**	**(16,638)**

All the amounts above are in respect of continuing operations.

The notes on pages 20 to 43 form part of these financial statements.

Statement of comprehensive income

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

Statement of changes in Members' balances

For the year ended 31 December 2019

	2019 $'000	2018 $'000
At 1 January	(37,754)	(20,806)
Loss for the financial year	(15,875)	(16,638)
Members agents fees	(281)	(310)
Cash calls made to date	19,800	-
Payments of profit to members' personal reserve funds	-	-
At 31 December	(34,110)	(37,754)

Statement of financial position

As at 31 December 2019

	Notes	2019 $'000	2018 $'000
ASSETS			
Investments			
Financial investments	10	22,106	3,749
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	-	-
Claims outstanding	4	4,859	3,649
		4,859	3,649
Debtors			
Debtors arising out of reinsurance operations	11	143,004	115,813
Cash and other assets			
Cash at bank and in hand	12	34,677	12,850
Other assets	13	367	16
		35,044	12,866
Prepayments and accrued income			
Deferred acquisition costs	4	15,405	18,522
Other prepayments and accrued income		3,344	2,042
		18,749	20,564
Total assets		223,762	156,641

The notes on pages 20 to 43 form part of these financial statements.

Statement of financial position continued

As at 31 December 2019

	Notes	2019 $'000	2018 $'000
MEMBERS' BALANCE AND LIABILITIES			
Capital and reserves			
Members' balances		(34,110)	(37,754)
Liabilities			
Technical provisions			
Provision for unearned premiums	4	50,612	60,014
Claims outstanding	4	140,676	76,242
		191,288	136,256
Creditors			
Creditors arising out of reinsurance operations	12	58,892	40,878
Bank overdraft		6,361	16,836
		65,253	57,714
Accruals and deferred income		1,331	425
Total liabilities		257,872	194,395
Total members' balances and liabilities		223,762	156,641

The notes on pages 20 to 43 form part of these financial statements.

The financial statements on pages 15 to 43 were approved by board of Directors on 27 February 2020 and were signed on its behalf by:

D J G Hunt
Director
05 March 2020

Statement of cash flows

For the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Loss for the financial year		(15,875)	(16,638)
Increase in gross technical provisions		55,032	65,105
(Increase) in reinsurers' share of gross technical provisions		(1,210)	(3,649)
(Increase) in debtors		(27,542)	(65,429)
Increase in creditors		18,014	31,592
Movement in other assets/liabilities		1,914	(4,618)
Investment return		(2,569)	123
Net cash inflow from operating activities		27,764	6,486
Cash flows from investing activities			
Purchase of other financial investments		(437)	-
Investment income received		2,569	(123)
Net cash inflow / (outflow) from investing activities		2,132	(123)
Cash flows from financing activities			
Cash call		19,800	-
Members' agents fee advances		(281)	(310)
Net cash inflow / (outflow) from financing activities		19,519	(310)
Net increase in cash and cash equivalents		**49,415**	**6,053**
Cash and cash equivalents at beginning of year		**(237)**	**(6,290)**
Cash and cash equivalents at end of year	12	**49,178**	**(237)**

Notes to the financial statements

For the year ended 31 December 2019

1. Basis of preparation

Statement of compliance

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

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

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

2. Accounting policies

Use of estimates

In preparing these financial statements, the Directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses. The measurement of the provision for claims outstanding involves judgements and assumptions about the future that have the most significant effect on the amounts recognised in the annual accounts.

Actual results may differ from those estimates. Significant items subject to such estimates and assumptions include:

(i) provision for claims outstanding (refer to claims incurred accounting policy);

(ii) estimates of future premium for binder contracts (refer to gross premiums accounting policy).

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain.

In particular, judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

The ultimate cost of outstanding claims is estimated using a range of techniques including actuarial and statistical projections, benchmarking, case by case review and judgement.

Accounting policies continued

Statistical techniques assume that past claims development experience can be used as a basis to project ultimate claims costs. Judgement is used to assess the extent to which past trends may not apply in the future.

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

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

Significant accounting policies

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

Gross premiums

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

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

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

Reinsurance premiums

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

Claims incurred

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

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

Accounting policies continued

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

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

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

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

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

Provisions for unearned premiums

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

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

Accounting policies continued

Unexpired risks

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

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

At 31 December 2019 the Syndicate had nil gross unexpired risk provision and nil net unexpired risk provision (2018: Nil).

Deferred acquisition costs

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

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

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

Insurance and reinsurance receivables

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

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

Insurance and reinsurance payables

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

Accounting policies continued

Foreign currencies

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

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

Exchange differences are recorded in the non-technical account.

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

	2019	**2018**
	Year End	**Year End**
USD:GBP	0.76	0.79

Financial assets and liabilities

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

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

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

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

Accounting policies continued

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

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

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

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

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

Cash and cash equivalents

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

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

Accounting policies continued

Fair value measurement of investments

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

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

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

1. Bonds have been valued at fair value using quoted prices in an active market.

2. Deposits with credit institutions are included at cost plus accrued income.

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

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

1. Bonds are included in the balance sheet at bid price using prices supplied by the custodian or by the investment managers, who obtain market data from numerous independent pricing services. The prices used are reconciled against a common market pricing source.

2. Currency derivatives and bond futures are included at market price.

3. Investments in regulated collective investment schemes are valued on the NAVs of each of the individual funds as published publicly by the managers.

4. Investments in pooled investments in unregulated investment schemes (hedge funds) are valued based on the underlying NAVs of each of the individual funds. Hedge fund NAVs are provided by the administrators of the schemes.

5. Investments in investment pools are valued on the valuations supplied by the investment manager (Lloyd’s).

Level 3 financial instruments have a fair value derived from inputs that are not based on observable market data.

Accounting policies continued

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 20%) deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

Pension costs

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

Syndicate operating expenses

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

3. Segmental analysis

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

2019	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Ceded Reinsurance balance	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Reinsurance accepted	146,565	155,967	(108,641)	(61,780)	(3,781)	(18,235)
	146,565	155,967	(108,641)	(61,780)	(3,781)	(18,235)

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

All premiums were concluded in the UK.

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

4. Technical provisions

	Gross provisions $'000	2019 Reinsurance assets $'000	Net $'000
Claims outstanding			
Balance at 1 January	76,242	(3,649)	72,593
Change in claims outstanding	64,434	(1,211)	63,223
Effect of movements in exchange rates	-	1	1
Balance at 31 December	**140,676**	**(4,859)**	**135,817**
Claims notified	37,805	(4,253)	33,552
Claims incurred but not reported	102,871	(606)	102,265
Balance at 31 December	**140,676**	**(4,859)**	**135,817**
Unearned premiums			
Balance at 1 January	60,014	-	60,014
Change in unearned premiums	(9,402)	(11)	(9,413)
Effect of movements in exchange rates	-	11	11
Balance at 31 December	**50,612**	**-**	**50,612**
Deferred acquisition costs			
Balance at 1 January	18,522	-	18,522
Change in deferred acquisition costs	(3,117)	-	(3,117)
Effect of movements in exchange rates	-	-	-
Balance at 31 December	**15,405**	**-**	**15,405**

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

5. Net operating expenses

	2019	2018
	$’000	$’000
Acquisition costs	(48,350)	(43,791)
Change in deferred acquisition costs	(3,117)	5,553
RI acquisition costs	-	-
Administration expenses	(10,313)	(10,808)
Net operating expenses	(61,780)	(49,046)

Members' standard personal expenses amounting to $2.16m (2018: $2.45m) are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission.

6. Staff costs

	2019	2018
	$’000	$’000
Wages and salaries	(2,511)	(1,755)
Social security costs	(281)	(270)
Other pension costs	(156)	(99)
	(2,948)	(2,124)

The average number of staff employed during the year was 6 members of staff (2018: 9).

7. Auditors’ remuneration

	2019	2018
	$’000	$’000
Audit of the Financial statements	(163)	(154)
Other services pursuant to Regulations and Lloyd’s Byelaws	(79)	(80)
	(242)	(234)

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

8. Emoluments of the Directors of Asta Managing Agency Ltd

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

No emoluments of the Directors or staff of Asta Managing Agency Ltd were directly charged to the Syndicate. The emoluments of the Active Underwriter are borne by the Syndicate and amounted to $426,906 (2018: $467,294) in the year.

No other compensation was payable to key management personnel.

9. Investment return

	2019 $'000	2018 $'000
Income from other financial investments	206	15
(Loss)/income from funds withheld balance	2,363	(138)
Total investment return	2,569	(123)

10. Financial Investments

	2019		
	Carrying value $'000	Purchase price $'000	Listed (Par) $'000
Shares and other variable yield securities and units in unit trusts			
- Designated at fair value through profit or loss	21,299	21,299	21,299
- Overseas deposits as investments	807	807	807
Debt securities and other fixed income securities			
- Designated at fair value through profit or loss	-	-	-
Total	22,106	22,106	22,106

Financial investments continued

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

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

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

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
31 December 2019				
Shares and other variable yield securities and units in unit trusts	-	20,862	437	21,299
Overseas Deposits	61	746	-	807
Total	61	21,608	437	22,106

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
31 December 2018				
Shares and other variable yield securities and units in unit trusts	-	3,749	-	3,749
Overseas Deposits	-	-	-	-
Total	-	3,749	-	3,749

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.

Financial investments continued

Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Syndicate's own models whereby the significant inputs into the assumptions are market observable.

Included in the level 3 category, are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Syndicate's own data. The only asset in this category is the loan provided to the Lloyd’s Central Fund.

11. Debtors arising out of reinsurance operations

	2019	2018
	$’000	$’000
Due from ceding reinsurers (within one year)	68,617	25, 945
Due from ceding reinsurers (after one year)	74,387	89,868
Total	143,004	115,813

12. Cash and cash equivalents

	2019	2018
	$’000	$’000
Short-term deposits with financial institutions	21,299	3,749
Central fund loan	(437)	-
Cash at bank and in hand	34,677	12,850
Bank overdraft	(6,361)	(16,836)
Total	49,178	(237)

13. Other assets

Other assets comprise of VAT receivable from HMRC of $0.4m ($0.0m in 2018).

14. Creditors arising out of reinsurance operations

	2019	2018
	$’000	$’000
Due to ceding insurers (within one year)	(48,313)	(1,320)
Due to ceding insurers (after one year)	(10,579)	(39,558)
Total	(58,892)	(40,878)

15. Related parties

Asta provides services and support to Syndicate 2689 in its capacity as Managing Agent. During the year, managing agency fees of $1,273,680 (2018: $1,329,073) were charged to the Syndicate. Asta also recharged $2,547,360 (2018: $2,931,690) worth of service charges in the year and as at 31 December 2019 an amount of $660,000 (2018: $73,684) was owed to Asta in respect of this service.

All syndicate staff were employed by Hampden Syndicate Services Ltd, which is part of the Hampden Capital Plc Group until August 2019. The active underwriter is now the only member of staff employed by Hampden Syndicate Services Ltd as at 31 December 2019. As of 1 September 2019, the other members of staff are now employed by Chord Reinsurance Limited. Another subsidiary of the Hampden Group, Hampden Agencies Ltd, acts as the Members Agent for the third-party capital providers of the Syndicate. The Syndicate had no outstanding balances with these entities as at 31 December 2019.

Hampden Group recharged $2,715,554 to the syndicate in the year and Chord Reinsurance Limited recharged $232,637 in the year in respect of wages and salaries. There was $40,986 owed to Hampden Capital Plc Group as at 31 December 2019. There was also $64,065 owed to Chord Reinsurance limited as at 31 December 2019.

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

16. Disclosure of interests

Managing Agent’s interest

During 2019 Asta was the Managing Agent for ten Syndicates and four Special Purpose Arrangements. Syndicate 1729, 1897,1980, 2357, 2525, 2689, 2786, 3268, 4242 and 5886 as well as Special Purpose Arrangements 1892, 6123, 6126, and 6131 were managed on behalf of third-party capital providers.

On 01 July 2019, Asta took on management of Special Purpose Arrangement 1892.
On 11 October 2019, Syndicate 2357 migrated to Nephila Syndicate Management Ltd.
On 1 January 2020 Asta took on management of Syndicate 2288.

The agency also provides administrative services to Syndicates and Special Purpose Arrangements, also undertaking a number of ancillary roles for other clients. The Financial Statements of the Managing Agency can be obtained by application to the Registered Office (see page 1).

17. Funds at Lloyd's

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

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

18. Off-balance sheet items

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

19. Risk management

a) Governance framework

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

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

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

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

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

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 2689 is not disclosed in these financial statements.

Lloyd's capital setting process

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

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

The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2019 was 62% 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 (funds at Lloyd's), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates. Accordingly, the ending members balances reported on the statement of financial position on page 17, represent resources available or required to meet members' and Lloyd's capital requirements.

c) Insurance risk

The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

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

Risk management continued

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

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

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

Key assumptions

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

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

Sensitivities

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

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

	2019	2018
Gross	**$’000**	**$’000**
Five percent increase in claim liabilities	7,034	3,812
Five percent decrease in claim liabilities	(7,034)	(3,812)
Net		
Five percent increase in claim liabilities	6,791	3,630
Fiver percent decrease in claim liabilities	(6,791)	(3,630)

Risk management continued

Claims development table

The tables below show the Syndicate's cumulative incurred claims development, including both claims notified and IBNR for each underwriting year, together with the cumulative payments to date on a gross and net of reinsurance basis at the balance sheet date.
The Syndicate has elected to translate estimated claims and claims payments at a consistent rate of exchange as determined by the balance sheet date.

Underwriting year	**2017**	**2018**	**2019**
	£'000	**£'000**	**£'000**
Estimate of cumulative gross claims incurred:			
At end of first underwriting year	43,271	48,095	46,384
One Year Later	75,188	109,477	
Two Years Later	76,155		
Three Years Later			
Less cumulative gross paid	(47,536)	(37,674)	(6,130)
Liability for gross outstanding claims (2017 to 2019)	28,619	71,803	40,254
Total gross outstanding claims (all years)			**140,676**

Underwriting year	**2017**	**2018**	**2019**
	£'000	**£'000**	**£'000**
Estimate of cumulative net claims incurred:			
At end of first underwriting year	43,271	44,446	45,778
One Year Later	75,188	105,223	
Two Years Later	76,155		
Three Years Later			
Less cumulative gross paid	(47,536)	(37,674)	(6,129)
Liability for gross outstanding claims (2017 to 2019)	28,619	67,549	39,649
Total net outstanding claims (all years)			**135,817**

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

Risk management continued

d) Financial risk

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

1) Credit risk

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

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

- Investment guidelines are established setting out the quality of investments to be included within the Syndicates portfolio. The policy is monitored by the Syndicate Board, however is yet to be implemented given that the Syndicate has not yet owned any investments to date.

- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits. If the counterparty is downgraded or does not have a good credit rating, then collateral is sought to mitigate any risk. This is monitored by the Syndicate Board.

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements and the use of credit derivatives.

2019	**$'000**			
	Neither past due or impaired	**Past due**	**Impaired**	**Total**
Debtors arising out of reinsurance operations	143,004	-	-	143,004
Other financial investments	22,106	-	-	22,106
Reinsurance share of Claims outstanding	4,859	-	-	4,859
Cash at bank and in hand	34,677	-	-	34,677
Other debtors	19,116	-	-	19,116
Total	223,762	-	-	223,762

Risk management continued

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

Maximum credit exposure

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

During the year, no credit exposure limits were exceeded (2018: none).

2) Liquidity risk

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

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

Risk management continued

2019			$'000			
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	Total
Claims outstanding	-	54,252	50,739	19,892	15,793	140,676
Reinsurance creditors	-	54,674	10,579	-	-	65,253
Total	-	108,926	61,318	19,892	15,793	205,929

2018			$'000			
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	Total
Claims outstanding	-	32,694	28,424	7,711	7,413	76,242
Reinsurance creditors	-	18,340	39,558	-	-	57,898
Total	-	51,034	67,982	7,711	7,413	134,140

3) Market risk

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

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

a) Currency risk

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

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

Risk management continued

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

2019						**$'000**	
	GBP	**EUR**	**USD**	**CAD**	**AUD**	**JPY**	**Total**
Total Assets	(752)	(22)	223,673	(5)	868	-	223,762
Total Liabilities	(7,847)	(156)	(249,869)	-	-	-	(257,872)
Net Assets	(8,599)	(178)	(26,196)	(5)	868	-	(34,110)

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

Sensitivity to changes

The table below gives an indication of the impact on profit of a percentage change in the relative strength of the US dollar against the value of Sterling and all other currencies simultaneously. The analysis is based on the information as at 31 December 2019.

	Impact on profit and member's balance	
	2019 $'000	**2018 $'000**
US Dollar weakens		
10% against other currencies	(2,551)	(1,547)
20% against other currencies	(5,102)	(3,094)
US Dollar strengthens		
10% against other currencies	2,551	1,547
20% against other currencies	5,102	3,094

b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to fair value interest risk.

Risk management continued

The Syndicate has no significant concentration of interest rate risk.

Insurance liabilities are not discounted and therefore are not exposed to interest rate risk.

Sensitivity to changes

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

	2019	2018
	$'000	$'000
Interest Rate Risk		
Impact of 50 basis point increase on result	(14)	(0)
Impact of 50 basis point decrease on result	14	0
Impact of 50 basis point increase on net assets	(14)	(0)
Impact of 50 basis point decrease on net assets	14	0

20. Post balance sheet events

The 2017 closing year result will be called from the 2017 members in 2020, less the amount already called in 2019.

A cash call is to be issued on the members participating of the 2018 year of account during 2020. The amount is yet to be confirmed.