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Everest Syndicate 2786

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
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

P Kneafsey

Bankers

Lloyds Bank
Citibank NA
RBC Dexia

Registered Auditors

PricewaterhouseCoopers LLP

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 result for calendar year 2019 is a loss of £22,123,496 (2018: loss £11,710,412).

The Syndicate presents 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

The Syndicate's principal activity continues to be the underwriting of direct insurance and reinsurance business in the Lloyd's market.

The Syndicate writes predominately Third Party Liability insurance primarily in the United Kingdom. The 2019 year saw the introduction of a Medical Malpractice portfolio which has an 80% quota share reinsurance agreement with the Syndicate's Special Purpose Arrangement 1892 ("SPA1892").

Gross written premium income by class of business for the calendar year was as follows;

	2019	**2018**
	£'000	**£'000**
Accident and Health	3,786	3,504
Marine	39	54
Aviation	(476)	1,299
Transport	102	8
Energy – Marine	3	25
Energy – Non Marine	(69)	320
Fire and other damage of Property	10,020	11,688
Third party liability	107,795	74,089
Pecuniary Loss	5,083	6,453
Reinsurance	19,521	18,911
	145,804	116,351

Managing Agent’s report continued

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

	2019 £’000	2018 £’000	Change %
Gross written premiums	145,804	116,351	25.3%
Loss for the financial year	(22,123)	(11,710)	88.9%
Combined ratio*	120.7%	108.4%	12.3%

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

	2019 YOA Open	2018 YOA Open	2017 YOA Closed
Capacity (£’000)	120,000	130,000	93,000
Forecast profit (£’000)	(3,362)	(12,441)	(22,525)
Forecast result on capacity (%)	(2.8%)	(9.6%)	(24.2%)

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 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 risk and uncertainties facing the Syndicate are as follows:

Insurance risk

Insurance risk includes the risks that a policy 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, pricing, line sizes and retention 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. It is also reviewed by an independent firm of actuaries.

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, a sub-committee of the Agency Board.

The Syndicate has minimal exposure to changes to interest rate 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.

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 procedures 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).

Managing Agent's report continued

Future developments

The Syndicate will continue to transact the current classes of general direct insurance and reinsurance business. 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 £150.0m (2019 year of account £120.0m).

On 31 January 2020, the UK formally left the EU and entered into 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. 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 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 were as follows:

T A Riddell	Resigned 31 March 2019
J W Ramage	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
C Chow*	Resigned 28 February 2019
N J Burdett*	Appointed 01 March 2019

Company Secretary*

Disclosure of information to the auditors

So far as each person who was a director of the Managing Agent at the date of approving the report is aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with the auditor's report, of which the auditor is 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 auditor is aware of that information.

Auditors

The Managing Agent intends to reappoint PricewaterhouseCoopers LLP as the Syndicate's auditor.

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

Independent auditors' report to the member of Syndicate 2786

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 2786's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2019 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the 'Annual Report and Accounts' (the "Annual Report"), which comprise: the statement of financial position at 31 December 2019, the income statement: technical account- general business, the income statement: non-technical- general business, the statement of cash flows, the statement of changes in members' balances for the year then ended, and the notes to the syndicate annual accounts, which include a description of the significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Conclusions relating to going concern

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

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

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

Independent auditors' report continued

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

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

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

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

Managing Agent's Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2019 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the managing agent for the syndicate annual accounts
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 7, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

Independent auditors' report continued

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

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

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

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

Other required reporting

Other matters on which we are required to report by exception

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

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

We have no exceptions to report arising from this responsibility.

Deepti Vohra (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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	145,804	116,351
Outward reinsurance premiums		(17,121)	(13,148)
Net written premiums		128,683	103,203
Change in the provision for unearned premiums			
Gross amount		(6,497)	(1,201)
Reinsurers' share		(1,581)	(6,148)
	4	(8,078)	(7,349)
Earned premiums, net of reinsurance		120,605	95,854
Allocated investment return transferred from the non-technical account		870	426
Claims paid			
Gross amount		(50,144)	(34,449)
Reinsurers' share		14,812	8,408
		(35,332)	(26,041)
Changes in the provision for claims outstanding			
Gross amount		(69,422)	(43,823)
Reinsurers' share		12,718	5,953
	4	(56,704)	(37,870)
Claims incurred, net of reinsurance		(92,036)	(63,911)
Net operating expenses	5	(53,589)	(39,990)
Balance on technical account – general business		(24,150)	(7,621)

All the amounts above are in respect of continuing operations.

The notes on pages 17 to 43 form part of these financial statements.

Income statement continued

Non-technical account - General business

For the year ended 31 December 2019

	2019	2018
	£'000	**£'000**
Balance on technical account – general business	(24,150)	(7,621)
Investment income	870	426
Allocated investment return transferred to the general business technical account	(870)	(426)
Exchange gains and (losses)	2,027	(4,089)
Loss for the financial year	(22,123)	(11,710)

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.

All the amounts above are in respect of continuing operations.

The notes on pages 17 to 43 form part of these financial statements.

Statement of changes in members' balances

For the year ended 31 December 2019

	2019	2018
	£'000	£'000
Members' balances brought forward at 1 January	(37,336)	(25,626)
Loss for the financial year	(22,123)	(11,710)
Loss collection	10,260	-
Members' balances carried forward at 31 December	(49,199)	(37,336)

The notes on pages 17 to 43 form part of these financial statements.

Statement of financial position

As at 31 December 2019

	Notes	2019 £'000	2018 £'000
Assets			
Investments			
Other financial investments	9	28,620	13,061
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	5,685	7,266
Claims outstanding	4	40,978	28,002
		46,663	35,268
Debtors			
Debtors arising out of direct insurance operations	10	53,128	46,922
Debtors arising out of reinsurance operations	11	54,077	39,549
Other debtors		5,006	3,244
		112,211	89,715
Cash and other assets			
Cash at bank and in hand	14	36,156	21,482
Other assets	15	17,869	13,372
		54,025	34,854
Prepayments and accrued income			
Prepayments		9	215
Deferred acquisition costs	4	17,161	17,054
		17,170	17,269
Total assets		258,689	190,167

The notes on pages 17 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		(49,199)	(37,336)
Liabilities			
Technical provisions			
Provision for unearned premiums	4	65,080	60,902
Claims outstanding	4	189,719	123,693
		254,799	184,595
Creditors			
Creditors arising out of direct insurance operations	12	10,234	8,017
Creditors arising out of reinsurance operations	13	41,348	31,206
Other creditors		-	-
		51,582	39,223
Accruals and deferred income		1,507	3,685
Total liabilities		307,888	227,503
Total members' balances and liabilities		258,689	190,167

The notes on pages 17 to 43 form part of these financial statements.

The financial statements on pages 11 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

	2019 £'000	2018 £'000
Cash flows from operating activities		
Loss for the financial year	(22,123)	(11,710)
Increase in gross technical provisions	70,204	46,924
Increase in reinsurers' share of gross technical provisions	(11,395)	(274)
Increase in debtors	(22,496)	(11,802)
Increase in creditors	12,359	4,294
Movement in other asset/liabilities	(6,576)	(10,326)
Changes to market value and currency	(1,242)	143
Investment Return	(870)	(426)
Net cash inflow from operating activities	17,861	16,823
Cash flows from investing activities		
Purchase of other financial investments	(446)	-
Sale of other financial investments	-	-
Investment income received	870	426
Net cash inflow from investing activities	424	426
Cash flows from financing activities		
Loss collections from members' personal reserve fund	10,260	-
Members' agents fee advances	-	-
Net cash inflow from financing activities	10,260	-
Net increase in cash and cash equivalents	28,545	17,249
Cash and cash equivalents at beginning of year	34,543	17,437
Changes to market value and currency	1,242	(143)
Cash and cash equivalents at end of year	64,330	34,543

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.

The financial statements are prepared on a going concern basis, under the historical cost convention except for certain financial instruments which are measured at fair value. The financial statements are prepared in GBP which is the functional and presentational currency of the Syndicate and rounded to the nearest £'000.

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

2. Accounting policies

Critical Accounting Estimates and Judgements

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 financial statements.

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

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

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.

Accounting policies continued

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 incepts. Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

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

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

Reinsurance premiums

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

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

Claims incurred

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

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

The IBNR provision also includes an explicit margin, a liability for a reasonable and prudent level of conservatism to cover adverse claim deviation.

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.

Accounting policies continued

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.

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

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

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

Provisions for unearned premiums

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

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

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 the 31 December 2019 the Syndicate had £154,593 of net unexpired risk provision (2018: £20,897).

Accounting policies continued

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, and indirect costs, such as the administrative expenses connected with the processing of proposals and the issuing of policies.

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.

Reinsurance assets

The Syndicate cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2019.

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

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the 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.

Accounting policies continued

Insurance payables

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

Foreign currencies

The Syndicate's functional currency and presentational currency is GBP.

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	1.32	1.27
CAD	1.72	1.74
EUR	1.18	1.11
AUD	1.88	1.81
HKD	10.32	9.97
JPY	143.93	139.82
SGD	1.78	1.74

Financial assets and liabilities

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

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

Accounting policies continued

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.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date the Syndicate commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

A financial asset or financial liability is measured initially at fair value plus, for a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets at fair value through the profit and loss are measured at fair value with fair value changes recognised immediately in the profit and loss. 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.

Accounting policies continued

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.

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.

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

- 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.
- Investments in regulated collective investment schemes are valued based on the valuations of each of the individual funds as published publicly by the managers.
- 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.
- Investments in investment pools are valued based 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

The Managing Agent operates a defined contribution scheme. 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	Net operating expenses	Reinsurance balance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Direct insurance:						
Accident and Health	3,786	3,938	(4,161)	(1,742)	213	(1,752)
Marine	39	52	(25)	(33)	-	(6)
Aviation	(476)	170	332	(42)	-	460
Transport	102	109	(295)	(43)	-	(229)
Energy – Marine	3	9	(4)	(3)	-	2
Energy – Non Marine	(69)	52	(25)	(20)	-	7
Fire and other damage of property	10,020	11,686	(11,378)	(4,777)	(1,183)	(5,652)
Third-party liability	107,795	101,871	(76,055)	(39,738)	2,276	(11,646)
Pecuniary Loss	5,083	5,500	(3,218)	(1,887)	(17)	378
	126,283	123,387	(94,829)	(48,285)	1,289	(18,438)
Reinsurance:	19,521	15,920	(24,737)	(5,304)	7,539	(6,582)
Total	145,804	139,307	(119,566)	(53,589)	8,828	(25,020)

Segmental Analysis continued

2018	Gross written premiums	Gross premium earned	Gross claims incurred	Net operating expenses	Reinsurance balance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Direct insurance:						
Accident and Health	3,504	5,009	(1,755)	(2,070)	(85)	1,099
Marine	54	39	(5)	(24)	-	10
Aviation	1,299	653	(988)	(313)	-	(648)
Transport	8	1	(62)	(1)	-	(62)
Energy – Marine	25	7	(3)	(5)	-	(1)
Energy – Non Marine	320	56	(26)	(37)	-	(7)
Fire and other damage of property	11,688	11,405	(16,238)	(4,709)	(1,015)	(10,557)
Third-party liability	74,089	63,181	(25,287)	(29,170)	206	8,930
Pecuniary Loss	6,453	5,904	(7,779)	(2,414)	(949)	(5,238)
	97,440	86,255	(52,143)	(38,743)	(1,843)	(6,474)
Reinsurance:	18,911	28,895	(26,129)	(1,247)	(3,092)	(1,573)
Total	116,351	115,150	(78,272)	(39,990)	(4,935)	(8,047)

Premiums were predominately concluded in the UK during 2019.

Commissions on direct insurance gross premiums written during 2019 were £31,876,577 (2018: £26,635,707).

4. Technical provisions

	Gross provisions £'000	2019 Reinsurance assets £'000	Net £'000
Claims outstanding			
Balance at 1 January	**123,693**	**(28,002)**	**95,691**
Change in claims outstanding	69,422	(12,718)	56,704
Effect of movements in exchange rates	(3,396)	(258)	(3,654)
Balance at 31 December	189,719	(40,978)	148,741
Claims notified	44,535	(10,979)	33,556
Claims incurred but not reported	145,184	(29,999)	115,185
Balance at 31 December	189,719	(40,978)	148,741
Unearned premiums			
Balance at 1 January	**60,902**	**(7,266)**	**53,636**
Change in unearned premiums	6,497	1,581	8,078
Effect of movements in exchange rates	(2,319)	-	(2,319)
Balance at 31 December	65,080	(5,685)	59,395
Deferred acquisition costs			
Balance at 1 January	**17,054**	**(1,585)**	**15,469**
Change in deferred acquisition costs	731	1,571	2,302
Effect of movements in exchange rates	(624)	-	(624)
Balance at 31 December	17,161	(14)	17,147

	Gross provisions £'000	2018 Reinsurance assets £'000	Net £'000
Claims outstanding			
Balance at 1 January	**79,102**	**(21,580)**	**57,522**
Change in claims outstanding	43,823	(5,953)	37,870
Effect of movements in exchange rates	768	(469)	299
Balance at 31 December	123,693	(28,002)	95,691
Claims notified	42,730	(17,231)	25,499
Claims incurred but not reported	80,963	(10,771)	70,192
Balance at 31 December	123,693	(28,002)	95,691
Unearned premiums			
Balance at 1 January	**58,569**	**(13,414)**	**45,155**
Change in unearned premiums	1,201	6,148	7,349
Effect of movements in exchange rates	1,132	-	1,132
Balance at 31 December	60,902	(7,266)	53,636
Deferred acquisition costs			
Balance at 1 January	**16,955**	**(4,845)**	**12,110**
Change in deferred acquisition costs	(190)	3,260	3,070
Effect of movements in exchange rates	289	-	289
Balance at 31 December	17,054	(1,585)	15,469

5. Net operating expenses

	2019	2018
	£'000	£'000
Acquisition costs	(34,680)	(28,906)
Change in deferred acquisition costs	731	(190)
RI Acquisition costs	(1,518)	2,990
Change in RI deferred acquisition costs	1,571	3,260
Administration expenses	(19,693)	(17,144)
Net operating expenses	(53,589)	(39,990)

Members' standard personal expenses amounting to £1,981,713 (2018: £2,735,027) are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, new Central Fund contributions and Managing Agent's fees.

6. Staff costs

	2019	2018
	£'000	£'000
Wages and salaries	(8,453)	(6,470)
Social security costs	(943)	(606)
Other pension costs	(254)	(229)
	(9,650)	(7,305)

Staff that support the Syndicate are employed by Everest Service Company Ltd and Asta Managing Agency. The associated costs are recharged to Syndicate 2786.

7. Auditors' remuneration

	2019	2018
	£'000	£'000
Audit of the financial statements	(75)	(72)
Other services pursuant to Regulations and Lloyd's Byelaws	(30)	(26)
Other services relating to actuarial review	(85)	(75)
	(190)	(173)

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, 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.

No other compensation was payable to key management personnel.

The Active Underwriter received the following aggregate remuneration, charged as a Syndicate expense:

	2019 **£'000**	**2018** **£'000**
Active Underwriter's emoluments	737	618
	737	618

9. Financial investments

	2019	
	Carrying value	Purchase price
	£'000	£'000
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	28,620	28,620
Debt securities and other fixed income securities		
- Designated at fair value through profit or loss	-	-
	28,620	28,620

	2018	
	Carrying value	Purchase price
	£'000	£'000
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	13,061	13,061
Debt securities and other fixed income securities		
- Designated at fair value through profit or loss	-	-
	13,061	13,061

Amounts included within Shares and other variable securities include CIS (Collective Investment Scheme) where funds are invested in a single vehicle which invests in investments.

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.

Financial investments continued

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	11,406	16,768	446	28,620
Debt securities and other fixed income securities	-	-	-	-
Total	11,406	16,768	446	28,620

	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	2,427	10,634	-	13,061
Debt securities and other fixed income securities	-	-	-	-
Total	2,427	10,634	-	13,061

Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Syndicate, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes 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.

10. Debtors arising out of direct insurance operations

	2019	2018
	£'000	£'000
Due from intermediaries (within one year)	53,128	46,922
	53,128	46,922

11. Debtors arising out of reinsurance operations

	2019	2018
	£'000	£'000
Due from ceding insurers (within one year)	42,588	39,476
Due from ceding insurers (after one year)	11,489	73
	54,077	39,549

12. Creditors arising out of direct insurance operations

	2019	2018
	£'000	£'000
Direct Business - Intermediaries (within one year)	10,234	8,017
	10,234	8,017

13. Creditors arising out of reinsurance operations

	2019	2018
	£'000	£'000
Reinsurance ceded (within one year)	41,310	31,206
Reinsurance ceded (after one year)	38	-
	41,348	31,206

14. Cash and cash equivalents

	2019	2018
	£'000	£'000
Cash at bank and in hand	36,156	21,482
Shares and other variable yield securities and units in unit trusts (excluding Syndicate Loan to Central Fund)	28,174	13,061
	64,330	34,543

15. Other assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

16. Related parties

Asta provides services and support to Syndicate 2786 in its capacity as Managing Agent. During the year, managing agency fees of £1,241,250 (2018: £1,560,686) were charged to the Syndicate. Asta also recharged £1,956,334 (2018: £2,169,520) worth of service charges in the year and as at 31 December 2019 an amount of £545,290 (2018: £581,250) was owed to Asta in respect of this service.

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 Bylaw provisions. All transactions are entered into on an arms length basis.

Everest Re Group Ltd provides 100% of the Syndicate's insurance capacity. The Group has recharged expenses to the Syndicate during 2019 of £11,716,647 from Everest Service Company, Everest Global Services, Everest Reinsurance Company and Everest National Insurance.

There is an 80% quota share agreement between Syndicate 2786 and SPA 1892.

17. Disclosure of interests

Managing Agent's interest

During 2019 Asta was the Managing Agent for ten Syndicates and four Special Purpose Arrangements. Syndicates 1729, 1897, 1980, 2357, 2525, 2689, 2786, 3268, 4242 and 5886 and 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 provides administrative services to Syndicates and Special Purpose Arrangements, also undertaking a number of ancillary roles for clients.

The Financial Statements of the Managing Agency can be obtained by application to the Registered Office (see page 1).

18. 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.

19. Off-balance sheet items

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

20. 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.

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.

Risk management continued

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 2786 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 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 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (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 15, represent future cash calls required from members at the reporting date.

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

The Syndicate purchases reinsurance as part of its risk mitigation programme. The Syndicate's reinsurance program is predominantly covered by a whole account, non-proportional losses occurring during policy which covers the calendar year. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

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.

As a further guide to the level of catastrophe exposure written by the Syndicate, the following table shows hypothetical claims arising out of the RDS on the Syndicate's in-force exposure at 31 December 2019.

	Estimated Gross Loss	**Estimated Net Loss**
	£'000	**£'000**
Alternative RDS B	30,769	3,077
Cyber – Major Data Security Breach	29,900	20,000
AEP Loss 30 Year Return Period – Whole World	21,500	13,250
Liability – Internal Scenario 2	20,500	7,500
Liability – Internal Scenario 1	11,200	5,000

The figures above are sought from the Syndicate Business Forecast (SBF) which is unaudited.

Key assumptions

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

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

Risk management continued

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on 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	9,486	6,185
Five percent decrease in claim liabilities	(9,486)	(6,185)
Net		
Five percent increase in claim liabilities	7,437	4,785
Five percent decrease in claim liabilities	(7,437)	(4,785)

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

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	**2016**	**2017**	**2018**	**2019**
	£'000	**£'000**	**£'000**	**£'000**
Estimate of cumulative gross claims incurred:				
At end of first underwriting year	20,448	39,377	35,585	36,498
One Year Later	48,312	78,629	89,919	
Two Years Later	49,731	90,305		
Three Years Later	65,774			
Less cumulative gross paid	(33,829)	(37,399)	(20,960)	(589)
Liability for gross outstanding claims (2016 to 2019)	31,945	52,906	68,959	35,909
Total gross outstanding claims (all years)				189,719

Risk management continued

Underwriting year	2016	2017	2018	2019
	£'000	**£'000**	**£'000**	**£'000**
Estimate of cumulative net claims incurred:				
At end of first underwriting year	16.028	27,462	28,510	28,411
One Year Later	36,394	57,657	74,898	
Two Years Later	39,428	67,934		
Three Years Later	44,926			
Less cumulative net paid	(24,867)	(26,391)	(15,643)	(527)
Liability for net outstanding claims (2016 to 2019)	20,059	41,543	59,255	27,884
Total net outstanding claims (all years)				148,741

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

d) Financial risk

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

1) Credit risk

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

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

- Investment guidelines are established setting out the quality of investments to be included within the Syndicates portfolio. The policy is monitored by the Investment Committee and/or Syndicate Board.

- 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 Reinsurance Security Committee, a sub-committee of the Syndicate Board.

Risk management continued

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross.

2019	**£'000**			
	Neither past due or impaired	**Past due**	**Impaired**	**Total**
Shares and other variable yield securities	28,620	-	-	28,620
Debt Securities	-	-	-	-
Overseas Deposits	17,869	-	-	17,869
Reinsurers share of claims outstanding	40,978	-	-	40,978
Debtors arising out of direct insurance operations	53,128	-	-	53,128
Reinsurance Debtors	20,936	-	-	20,936
Other debtors	61,002	-	-	61,002
Cash and cash equivalents	36,156	-	-	36,156
Total	258,689	-	-	258,689

2018	**£'000**			
	Neither past due or impaired	**Past due**	**Impaired**	**Total**
Shares and other variable yield securities	13,061	-	-	13,061
Debt Securities	-	-	-	-
Overseas Deposits	13,372	-	-	13,372
Reinsurers share of claims outstanding	28,002	-	-	28,002
Debtors arising out of direct insurance operations	46,922	-	-	46,922
Reinsurance Debtors	7,972	-	-	7,972
Other debtors	59,356	-	-	59,356
Cash and cash equivalents	21,482	-	-	21,482
Total	190,167	-	-	190,167

Risk management continued

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2019 by classifying assets according to independent credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

2019				**£'000**			
	AAA	**AA**	**A**	**BBB**	**BBB or less**	**Not Rated**	**Total**
Shares and other variable yield securities	-	-	28,620	-	-	-	28,620
Debt Securities	-	-	-	-	-	-	-
Overseas Deposits	10,917	2,469	1,749	713	398	1,623	17,869
Reinsurers share of claims outstanding	-	-	40,978	-	-	-	40,978
Reinsurance Debtors	-	-	20,936	-	-	-	20,936
Cash and cash equivalents	-	-	36,156	-	-	-	36,156
Total	10,917	2,469	128,439	713	398	1,623	144,559

2018				**£'000**			
	AAA	**AA**	**A**	**BBB**	**BBB or less**	**Not Rated**	**Total**
Shares and other variable yield securities	-	-	13,061	-	-	-	13,061
Debt Securities	-	-	-	-	-	-	-
Overseas Deposits	7,731	2,293	881	662	239	1,566	13,372
Reinsurers share of claims outstanding	-	-	28,002	-	-	-	28,002
Reinsurance Debtors	-	-	7,972	-	-	-	7,972
Cash and cash equivalents	-	-	21,482	-	-	-	21,482
Total	7,731	2,293	71,398	662	239	1,566	83,889

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.

Risk management continued

During the year, no credit exposure limits were exceeded.

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.

2019			**£'000**			
	No stated maturity	**0-1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 years**	**Total**
Creditors	-	51,544	38	-	-	51,582
Claims Outstanding	-	43,842	66,928	37,640	41,309	189,719
Total	-	95,386	66,966	37,640	41,309	241,301

2018			**£'000**			
	No stated maturity	**0-1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 years**	**Total**
Creditors	-	39,223	-	-	-	39,223
Claims Outstanding	-	38,868	33,701	20,433	30,691	123,693
Total	-	78,091	33,701	20,433	30,691	162,916

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.

Risk management continued

a) Currency risk

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

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

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

2019				**£'000**			
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**OTH**	**Total**
Total Assets	128,047	47,075	20,527	11,377	49,276	2,387	258,689
Total Liabilities	(138,827)	(62,413)	(35,345)	(8,298)	(62,295)	(710)	(307,888)
Net Assets	(10,780)	(15,338)	(14,818)	3,079	(13,019)	1,677	(49,199)

2018				**£'000**			
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**OTH**	**Total**
Total Assets	101,498	31,346	23,143	8,556	24,059	1,565	190,167
Total Liabilities	(116,188)	(43,982)	(33,565)	(7,056)	(26,544)	(168)	(227,503)
Net Assets	(14,690)	(12,636)	(10,422)	1,500	(2,485)	1,397	(37,336)

Risk management continued

The Syndicate takes into consideration the underlying currency of the Syndicate's required capital and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates.

Sensitivity to changes

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

	Impact on profit and members' balance	
	2019	**2018**
	£'000	**£'000**
Sterling weakens		
10% against other currencies	(4,010)	(2,404)
20% against other currencies	(8,019)	(4,809)
Sterling strengthens		
10% against other currencies	4,010	2,404
20% against other currencies	8,019	4,809

b) Interest rate risk

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

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

The Syndicate has no significant concentration of interest rate risk.

21. Post balance sheet events

The Syndicate will collect £22.5m from members of the 2017 YoA.