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Syndicate 5886

Syndicate Annual Report and Accounts

31 December 2019

Contents

Underwriter’s Report 1
Directors and Administration 4
Managing Agent's Report 5
Syndicate Annual Accounts 12
- Statement of Managing Agent's Responsibilities 13
- Independent Auditor’s Report 14
- Income Statement 17
- Statement of Comprehensive Income 18
- Statement of Changes in Members' Balances 18
- Statement of Financial Position 19
- Statement of Cash Flows 21
- Notes to the Syndicate Annual Accounts 22

Syndicate Underwriting Year Accounts 46
- Statement of Managing Agent's Responsibilities 47
- Independent Auditor’s Report 48
- Income Statement 51
- Statement of Comprehensive Income 52
- Statement of Financial Position 53
- Statement of Members’ Balances 54
- Statement of Cash Flows 55
- Notes to the Syndicate Underwriting Year Accounts 56
- Summary of Closed Year Results (Unaudited) 66

Underwriter's Report

Introduction

2019 was the third trading year of Blenheim Syndicate 5886. We have seen continuing development in our core books during the year, with some lines that are reaching maturity.

The year also saw a continuing frequency of catastrophe losses to the property markets, albeit to a lesser degree than in 2017 and 2018, and without a major US catastrophe this time.

We have increased our capacity for the 2020 year of account to capitalise on a trading environment which continued to improve throughout 2019 and across the year end into 2020.

2017 Account

As you will be aware, Syndicate 5886 was given Lloyd's approval to begin underwriting for the 2017 year of account on 16th October 2016, with an underwriting capacity of £150 million.

The makeup of the account was discussed in previous reports as was the need to make an early cash call as a result of the 2017 catastrophe losses given that it was our first year and we needed the funds to maintain liquidity and meet our US funding requirements.

We are closing the 2017 Account with a loss of £39.2 million being 26.2% of stamp. Of this loss, £23.8 million has already been called.

2018 Account

We increased our stamp capacity to £180 million for the 2018 year of account.

The makeup of the account was discussed in last year's report, as was the 2018 calendar year loss experience which continued in terms of frequency where 2017 had left off. Indeed, the 2017 and 2018 years combined saw the highest two–year accumulation of insured catastrophe losses ever.

We are forecasting a loss for the 2018 account of between 0% and 10% of stamp.

2019 Account

We increased our stamp capacity to £215 million for the 2019 year of account.

2019 saw a continuation of catastrophe loss frequency during the year, although to a lesser extent than was the case in 2017 and 2018. Hurricane Dorian coupled with two significant Japanese typhoons were the most significant of these but, in the United States, major losses were mercifully absent.

With our Property Treaty account having largely reached maturity during 2018, our principal focus during 2019 turned to developing our Specialty Treaty account, which had started in 2018, and continuing to build our Direct Property account where, for the first time in a few years, pricing and increased business flow to London had improved quite sharply. We had also added an Accident and Health account during 2018 which, although currently small, has begun encouragingly.

Underwriter’s Report continued

We mentioned in our last report that, with direct property rates beginning to rise quite quickly at the time, we would be looking at how best to increase or augment the premium capacity of the Direct Property team to meet the opportunity, and have the capability to accommodate, the rate rises we were seeing. The plan that Lloyd’s had approved, though up on the previous year, was not going to be sufficient to do this. Happily, the Lloyd’s Franchise Performance Department subsequently agreed an increase to our business plan and we were successful in achieving a figure which was very close to the one we had sought in the first place.

What had begun with pockets of hardening rates in certain lines of direct property business in Australia, South Africa and parts of the United States developed though the year to a more widespread and pronounced picture of rising rates across direct property classes more generally, notably so in the US. This was driven by a number of major non-Lloyd’s markets finally tiring of losing money and either cutting back their writings, or simply exiting the classes of business concerned. This upward trend has continued into 2020 with there being some parts of the direct property market which can now be considered genuinely “hard”.

We also saw rates begin to rise across all our other lines of business to a greater or lesser extent, albeit more modestly with hardening terms, conditions and premiums across our Specialty Treaty and Contingency accounts in particular. As we had expected, Property Treaty whilst generally up was only modestly so, other than for loss affected accounts. This remains the case, but it too is at last showing every sign that its turn is about to come.

2020 Account

We have increased our stamp capacity to £250 million for the 2020 year of account.

As things stand, we expect an improving landscape to a greater or lesser extent across all the classes we write and, given the outlook, we have not entered new lines of business this year as we can grow quite comfortably in our current lines. The Specialty Treaty and Direct Property accounts are where we currently see the greatest opportunity and we have added a new senior property underwriter who is to join us later in the year to strengthen and expand our Direct Property team during the summer.

Like last year, the growth agreed as a result of the most recent Lloyd’s planning process will not be enough to accommodate the rate rises and opportunities we continue to see in Direct Property and are increasingly seeing in Specialty Treaty. Accordingly we will again be looking to increase or augment the premium capacity available to the relevant teams and the Syndicate as a whole. This means that we will be re-applying to Lloyd’s for another midterm increase in the 2020 plan in due course, if only in order to accept the rate rises and to take advantage of opportunities in those areas of the market which are currently dislocated.

Calendar Year Result

On an annual accounting basis, the result of the Syndicate for the 2019 calendar year is a total comprehensive loss of £10.1 million after currency translation differences. This loss reflects the catastrophes that occurred in the year as well as the fact that reinsurance premiums and administrative expenses will earn quicker than the gross premium as the Syndicate grows in its early years. Some £62.2 million of gross premium predominantly attributable to the 2019 Account is unearned at the balance sheet date. This will essentially become fully earned over the next twelve months.

Underwriter's Report continued

Concluding Comments

With conditions continuing to improve in nearly all the lines in which we operate, there is reason to be optimistic. We need to be on our guard though, as capital can still be raised and deployed very quickly, to both fuel competition and dampen the upturn. In the meantime, conditions continue to improve with many competitors still cutting back their books. If Lloyd's syndicates are to take advantage of the growing opportunities presenting themselves then Lloyd's centrally need to be able to move as quickly as the market does. If not, then opportunities will be missed and will go elsewhere as unfortunately they are beginning to do.

As you will know, my role at Blenheim has been that of Director of Underwriting and Active Underwriter for Syndicate 5886. I have now stepped down from the latter role with effect from the 2020 year of account and Nick Destro replaces me as Active Underwriter for Syndicate 5886. We have literally worked side-by-side for almost twenty years and you could not be in better hands.

The business is staffed by a highly experienced group of individuals of the highest calibre, most of whom have worked together very successfully for many years. Our heartfelt thanks go to all our staff for their professionalism and for the long hours they put in on the Syndicate's behalf.

J. C. Hamblin
Active Underwriter
05 March 2020

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

J C Hamblin (Resigned 31 December 2019)
N J Destro (Appointed 1 January 2020)

Bankers

Barclays Bank
Citibank N.A.
RBC Dexia

Registered Auditors

Moore Stephens LLP (Resigned 01 February 2019)
BDO LLP (Appointed 13 February 2019)

Managing Agent's Report

The Syndicate's Managing Agent is Asta Managing Agency Limited ("Asta") a company registered in England and Wales.

Blenheim Underwriting Limited ("Blenheim") provides many of the underwriting, claims and administrative services in respect of Syndicate 5886 to Asta as its Appointed Representative.

The Directors of the Managing Agent present their report for the year ended 31 December 2019.

This Syndicate Annual Report includes both the Syndicate Annual Accounts for the year ended 31 December 2019 and the Underwriting Year Accounts for the closed 2017 Year of Account.

Results

The result for the 2019 calendar year is a loss of £11.9 million (2018: loss of £16.6 million) before a gain on currency translation of £1.8 million (2018: loss on currency translation of £1.8 million) which equates to a total comprehensive loss of £10.1 million (2018: total comprehensive loss of £18.4 million).

The Syndicate has presented its results under FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. In accordance with FRS 102, the Syndicate has identified its insurance contracts and accounted for them in accordance with FRS 103.

Principal activity and review of the business

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

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

	2019 **£'000**	2018 £'000
Property Treaty	**90,074**	88,414
Direct and Facultative Property	**72,470**	44,260
Contingency	**7,254**	7,925
Accident & Health	**7,017**	2,303
Specialty Treaty	**27,727**	5,096
	204,542	147,998

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

	2019 **£'000**	2018 £'000
Gross written premiums	**204,542**	147,998
Loss for the financial year (before currency translation gains)	**(11,916)**	(16,640)
Total comprehensive loss	**(10,088)**	(18,437)
Combined ratio	**109.7%**	118.2%

The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned.

Managing Agent's Report continued

Underwriting year of account summary

The table below shows the Syndicate's actual results for the closed 2017 year of account and the forecast result for the 2018 open year based on the traditional three year Lloyd's basis after charging standard managing agent's fees and profit commission but before charging members' agents fees.

	2018 YOA Forecast	**2017 YOA Actual**
Capacity (£'000)	179,796	149,904
Loss (£'000)	(14,049)	(39,207)*
Loss on capacity (%)	(7.81)	(26.16)*

* of which £23,841,502 (15.90% of capacity) was received as a cash call during 2018.

2017 underwriting year result

The result for the 2017 year of account closed on 31 December 2019 with a comprehensive loss of £39.2 million of gross written premiums of £103.5 million.

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

	2017 £'000
Property Treaty	78,402
Direct and Facultative Property	20,814
Contingency	4,328
	103,544

The key financial performance indicators for the year of account were as follows;

	2017 £'000
Gross written premiums	103,544
Loss for the financial year (before currency translation gains)	(40,322)
Total comprehensive loss	(39,207)
Combined ratio	158.5%

The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned.

The 2017 underwriting year accounts are set out on pages 46 to 65.

2018 underwriting year forecast

The 2018 forecast has been based on the following assumptions:

- Future claims development will follow an expected pattern. In particular, the incidence or development of major or attritional losses or the ability of the Syndicate's reinsurers to respond to potential recoveries will not diverge materially from expectations based on developments to date;

- No material changes occur in estimates as to ultimate premium levels and future reinsurance costs;

- There will be no material reinsurance failure;

- There will be no material surplus or deficiency arising from the reinsurance to close of the 2017 year of account;

- Interest, inflation and exchange rates at 31 December 2020 will not differ significantly from those taken into account in the forecast; and

- There will be no significant changes in regulatory or legislative policies which will affect the activities of the Syndicate.

Further details regarding the performance of the Syndicate for the 2018 and 2019 years of account are set out in the Underwriter's report on pages 1 to 3.

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.

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.

Exposure to changes in interest rates comes from the Syndicate's investment portfolio. The Agency seeks to minimise this risk through investing in highly liquid financial instruments.

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 also mitigates its liquidity risk by ensuring it retains adequate assets in liquid instruments.

Blenheim has also arranged various overdraft and other facilities to help manage the Syndicate's cashflow. Further details are set out in Note 20 of the Syndicate Annual Accounts.

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 programmes 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

Brexit

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. 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.

LIBOR

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.

Climate Change

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.

Coronavirus

Since the start of 2020, there has been an outbreak of the Coronavirus, Covid 19. 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.

Managing Agent's Report continued

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 4. Changes to directors since the last report 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 Managing Agent, 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 BDO 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

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Syndicate Annual Accounts

31 December 2019

Statement of Managing Agent's Responsibilities

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare financial statements at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and FRS 103 “Insurance Contracts”. 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 Auditor’s Report

Independent Auditor's report to the Members of Syndicate 5886

Opinion

We have audited the financial statements of Syndicate 5886 (the ‘syndicate’) for the year ended 31 December 2019 which comprise the Income Statement, Statement of Comprehensive Income, the Statement of Changes in Members’ Balances, the Statement of Financial Position, the Statement of Cash Flows and notes to the financial statements, 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 Financial Reporting Standard 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and Financial Reporting Standard 103 “Insurance Contracts” (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the syndicate’s affairs as at 31 December 2019 and of its loss for the 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 Syndicates 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 financial statements section of our report. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our 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 Managing Agents use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the Managing Agent has not disclosed in the financial statements 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 financial statements are authorised for issue.

Other information

The Managing Agent is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 financial statements 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 in this regard.

Opinion 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 for which the financial statements are prepared is consistent with the financial statements; and
- the Managing Agent's Report has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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 Agents 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:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records;
- certain disclosure of Managing Agent emoluments and other benefits 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 Managing Agent

As explained more fully in the Statement of Managing Agent's responsibilities out on page 13, the Managing Agent is responsible for the preparation of the financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 the Managing Agent either intends to cease the underwriting business of the syndicate, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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 Syndicates 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.

Alexander Barnes *Senior Statutory Auditor*
For and on behalf of BDO LLP, Statutory Auditor
London, UK
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	**204,542**	147,998
Outward reinsurance premiums		**(47,822)**	(36,988)
Net written premiums		**156,720**	111,010
Change in the provision for unearned premiums			
Gross amount		**(21,177)**	(16,626)
Reinsurers' share		**1,055**	(1,099)
	4	**(20,122)**	(17,725)
Earned premiums, net of reinsurance		**136,598**	93,285
Allocated investment return transferred from the non-technical account		**1,058**	516
Claims paid			
Gross amount		**(99,407)**	(81,215)
Reinsurers' share		**34,528**	34,840
		(64,879)	(46,375)
Changes in the provision for claims outstanding			
Gross amount		**(31,965)**	(35,201)
Reinsurers' share		**(6,843)**	4,419
	4	**(38,808)**	(30,782)
Claims incurred, net of reinsurance		**(103,687)**	(77,157)
Net operating expenses	5	**(46,179)**	(33,144)
Balance on technical account – general business		**(12,210)**	(16,500)

All the amounts above are in respect of continuing operations. The notes on pages 22 to 45 form part of these financial statements.

Income Statement continued

Non-technical account - General business

For the year ended 31 December 2019

	2019 £'000	2018 £'000
Balance on technical account – general business	**(12,210)**	(16,500)
Investment income	**1,058**	516
Allocated investment return transferred to the general business technical account	**(1,058)**	(516)
Exchange gain/(loss)	**294**	(140)
Loss for the financial year	**(11,916)**	(16,640)

Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 £'000	2018 £'000
Loss for the financial year	**(11,916)**	(16,640)
Currency translation differences	**1,828**	(1,797)
Total comprehensive loss for the year	**(10,088)**	(18,437)

Statement of Changes in Members' Balances

For the year ended 31 December 2019

	2019 £'000	2018 £'000
At 1 January	**(31,726)**	(37,130)
Total comprehensive loss for the year	**(10,088)**	(18,437)
Collection from members	**-**	23,841
At 31 December	**(41,814)**	(31,726)

All the amounts above are in respect of continuing operations. The notes on pages 22 to 45 form part of these financial statements.

Statement of Financial Position

As at 31 December 2019

	Notes	2019 £'000	2018 £'000
ASSETS			
Investments			
Financial investments	9	**56,180**	35,295
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	**2,437**	1,263
Claims outstanding	4	**45,781**	54,385
		48,218	55,648
Debtors			
Debtors arising out of direct insurance operations	10	**14,279**	6,907
Debtors arising out of reinsurance operations	11	**42,386**	35,536
Other debtors		**5,261**	1,867
		61,926	44,310
Cash and other assets			
Cash at bank and in hand		**5,789**	6,423
Other assets	16	**5,549**	2,530
		11,338	8,953
Prepayments and accrued income			
Deferred acquisition costs	4	**12,566**	8,434
Other prepayments and accrued income		**1,091**	1,424
		13,657	9,858
Total assets		**191,319**	154,064

The notes on pages 22 to 45 form part of these financial statements.

Statement of Financial Position continued

As at 31 December 2019

	Notes	2019 £'000	2018 £'000
MEMBERS' BALANCES AND LIABILITIES			
Capital and reserves			
Members' balances		**(41,814)**	(31,726)
Liabilities			
Technical provisions			
Provision for unearned premiums	4	**62,192**	42,669
Claims outstanding	4	**151,557**	126,111
		213,749	168,780
Creditors			
Creditors arising out of direct insurance operations	12	**245**	263
Creditors arising out of reinsurance operations	13	**11,377**	9,600
Other creditors	14	**5,613**	6,003
		17,235	15,866
Accruals and deferred income		**2,149**	1,144
Total liabilities		**233,133**	185,790
Total members' balances and liabilities		**191,319**	154,064

The notes on pages 22 to 45 form part of these financial statements.

The financial statements on pages 17 to 45 were approved by the 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) on ordinary activities		**(11,916)**	(16,640)
Increase in gross technical provisions		**44,969**	58,710
Decrease/(increase) in reinsurers' share of gross technical provisions		**7,430**	(5,619)
(Increase) in debtors		**(17,616)**	(15,845)
Increase/(decrease) in creditors		**1,369**	(5,567)
Movement in other asset/liabilities/foreign exchange		**(2,617)**	(9,417)
Investment return		**(1,058)**	(516)
Net cash inflow from operating activities		**20,561**	5,106
Cash flows from investing activities			
Purchase of other financial investments		**(627)**	-
Sale of other financial investments		**-**	-
Investment income received		**1,058**	516
Net cash inflow from investing activities		**431**	516
Cash flows from financing activities			
Collection of losses		**-**	23,841
Profit distribution		**-**	-
(Repayment)–Bank catastrophe cash facility		**-**	(14,810)
Net cash inflow from financing activities		**-**	9,031
Net increase in cash and cash equivalents		**20,992**	14,653
Cash and cash equivalents at beginning of year		**41,718**	25,841
Foreign exchange on opening cash and cash equivalents		**(1,368)**	1,224
Cash and cash equivalents at end of year	15	**61,342**	41,718

The notes on pages 22 to 45 form part of these financial statements.

Notes to the Syndicate Annual Accounts

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 under the historical cost convention except for certain financial instruments which are measured at fair value. The Syndicate's functional currency is US Dollars, being the primary economic environment in which it operates. The accounts have been presented in Sterling (GBP), which is the Syndicate's presentation currency and rounded to the nearest £'000. The presentation currency is consistent with the Syndicate's Quarterly Monitoring Return.

2. Accounting policies

Use of estimates

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

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

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

The ultimate cost of outstanding claims is estimated using a range of techniques including actuarial and statistical projections, benchmarking, case by case review and judgement. Statistical techniques assume that past claims development experience can be used as a basis to project ultimate claims costs. Judgement is used to assess the extent to which past trends may not apply in the future. 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 commences. Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

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

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

Reinsurance premiums

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

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.

The amount included in respect of IBNR is based on a combination of statistical techniques of estimation applied by the in-house actuaries and a detailed review of losses by management, further reviewed by external consulting actuaries. The statistical techniques generally involve projecting from past experience of the development of claims over time (using market data where syndicate data is unavailable) 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, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

Provision for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. 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 outwards reinsurance policy based on the underlying direct or inwards reinsurance business being reinsured.

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 and 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.

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 advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

Deferred acquisition costs are costs arising from the conclusion of insurance 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.

Accounting policies continued

Reinsurance assets

The Syndicate cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies and Lloyd’s syndicates. 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 derecognition criteria for financial assets have been met.

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the 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 is US Dollars being the primary economic environment in which it operates. The Syndicate’s presentation currency is Sterling (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 or appropriate average rate. Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Exchange differences are recorded in the non-technical account.

Accounting policies continued

In translating its results and financial position into the presentational currency, the Syndicate translates all assets and liabilities at the closing rates of exchange and translates all income and expense items at average rates, with all resulting exchange gains and losses recognised in other comprehensive income.

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

	2019 Year End	2018 Year End
AUD	**1.89**	1.81
CAD	**1.72**	1.74
EUR	**1.18**	1.11
JPY	**144.81**	139.62
USD	**1.33**	1.27

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.

Regular way purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Syndicate commits itself to purchase or sell the asset.

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 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.

Accounting policies continued

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. They also comprise collective investment schemes which are invested on a short-term basis.

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

Accounting policies continued

changes in fair value and are used by the Syndicate in the management of its short-term commitments.

The Syndicate does not currently hold any level 1 financial instruments.

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.

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

- Investments in regulated collective investment schemes are valued on the NAVs 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 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.

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. Analysis of underwriting result

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**	**Reinsurance balance**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Direct Insurance;						
Accident & Health	**3,267**	**2,615**	**(1,915)**	**(1,099)**	**(339)**	**(738)**
Energy – Non Marine	**84**	**49**	**(118)**	**(16)**	**152**	**67**
Fire and other damage to Property	**57,540**	**46,744**	**(30,547)**	**(14,897)**	**(5,714)**	**(4,414)**
Aviation	**2,857**	**1,932**	**(1,798)**	**(439)**	**140**	**(165)**
Motor (other classes)	**793**	**324**	**(119)**	**(132)**	**(153)**	**(80)**
Third party liability	**315**	**305**	**(79)**	**(114)**	**(37)**	**75**
Transport	**390**	**132**	**(38)**	**(57)**	**(70)**	**(33)**
Pecuniary Loss	**7,288**	**6,819**	**(702)**	**(2,104)**	**(2,159)**	**1,854**
	72,534	**58,920**	**(35,316)**	**(18,858)**	**(8,180)**	**(3,434)**
Reinsurance	**132,008**	**124,445**	**(96,056)**	**(27,321)**	**(10,902)**	**(9,834)**
Total	**204,542**	**183,365**	**(131,372)**	**(46,179)**	**(19,082)**	**(13,268)**

	2018					
	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Direct Insurance;						
Accident & Health	1,601	775	(623)	(329)	(125)	(302)
Energy – Non Marine	1	9	(8)	(2)	41	40
Fire and other damage to Property	32,220	22,394	(20,888)	(7,639)	200	(5,933)
Aviation	877	311	(212)	(106)	(165)	(172)
Motor (other classes)	38	40	(4)	(12)	(11)	13
Third party liability	305	191	(58)	(78)	(90)	(35)
Transport	9	6	-	(3)	(2)	1
Pecuniary Loss	7,791	6,990	(5,414)	(2,198)	260	(362)
	42,842	30,716	(27,207)	(10,367)	108	(6,750)
Reinsurance	105,156	100,656	(89,209)	(22,777)	1,064	(10,266)
Total	147,998	131,372	(116,416)	(33,144)	1,172	(17,016)

Commissions on direct insurance gross premiums written during 2019 were £16.7 million (2018: £9.7 million).

All premiums were concluded in the UK.

4. Technical provisions

	Gross provisions £'000	2019 Reinsurance assets £'000	Net provisions £'000
Claims outstanding			
Balance at 1 January	**126,111**	**(54,385)**	**71,726**
Change in claims outstanding	**31,965**	**6,843**	**38,808**
Effect of movements in exchange rates	**(6,519)**	**1,761**	**(4,758)**
Balance at 31 December	**151,557**	**(45,781)**	**105,776**
Claims notified	**79,837**	**(21,876)**	**57,961**
Claims incurred but not reported	**71,720**	**(23,905)**	**47,815**
Balance at 31 December	**151,557**	**(45,781)**	**105,776**
Unearned premiums			
Balance at 1 January	**42,669**	**(1,263)**	**41,406**
Change in unearned premiums	**21,177**	**(1,055)**	**20,122**
Effect of movements in exchange rates	**(1,654)**	**(119)**	**(1,773)**
Balance at 31 December	**62,192**	**(2,437)**	**59,755**
Deferred acquisition costs			
Balance at 1 January	**8,434**	**-**	**8,434**
Change in deferred acquisition costs	**4,466**	**-**	**4,466**
Effect of movements in exchange rates	**(334)**	**-**	**(334)**
Balance at 31 December	**12,566**	**-**	**12,566**

	Gross provisions £'000	2018 Reinsurance assets £'000	Net provisions £'000
Claims outstanding			
Balance at 1 January	86,626	(47,922)	38,704
Change in claims outstanding	35,201	(4,419)	30,782
Effect of movements in exchange rates	4,284	(2,044)	2,240
Balance at 31 December	126,111	(54,385)	71,726
Claims notified	71,869	(23,631)	48,238
Claims incurred but not reported	54,242	(30,754)	23,488
Balance at 31 December	126,111	(54,385)	71,726
Unearned premiums			
Balance at 1 January	23,444	(2,107)	21,337
Change in unearned premiums	16,626	1,099	17,725
Effect of movements in exchange rates	2,599	(255)	2,344
Balance at 31 December	42,669	(1,263)	41,406
Deferred acquisition costs			
Balance at 1 January	3,965	-	3,965
Change in deferred acquisition costs	4,042	-	4,042
Effect of movements in exchange rates	427	-	427
Balance at 31 December	8,434	-	8,434

5. Net operating expenses

	2019	2018
	£'000	£'000
Acquisition costs	35,616	24,163
Change in deferred acquisition costs	(4,466)	(4,042)
Administrative expenses	15,029	13,023
Net operating expenses	46,179	33,144

Members' standard personal expenses amounting to £3,077,000 (2018: £2,553,000) 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 and staff numbers

	2019	2018
	£'000	£'000
Wages and salaries	5,352	4,717
Social security costs	693	609
Pension costs	492	426
Other staff costs	370	321
	6,907	6,073

The average number of staff working for the Syndicate during the year is as follows:

	2019	2018
Underwriting and claims	20	18
Operations, finance and administration	26	22
	46	40

7. Auditor's remuneration

	2019	2018
	£'000	£'000
Audit of the Financial statements	85	75
Other services pursuant to Regulations and Lloyd's Byelaws	34	23
	119	98

Auditor's 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 and the Active Underwriter

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 Blenheim and are separately recharged by Blenheim to the Syndicate as set out below:

	2019	2018
	£'000	£'000
Remuneration	**270**	285
Medical insurance	**9**	9
	279	294

9. Financial investments

	2019		2018	
	Carrying value	**Purchase price**	Carrying value	Purchase price
	£'000	**£'000**	£'000	£'000
Shares and other variable yield securities and units in unit trusts				
- Designated at fair value through profit or loss	**56,180**	**56,180**	35,295	35,295
Debt securities and other fixed income securities				
- Designated at fair value through profit or loss	**-**	**-**	-	-
	56,180	**56,180**	35,295	35,295

Amounts included within Shares and other variable securities include Collective Investment Schemes 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 attributable to own credit risk in the current 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	**-**	**55,553**	**627**	**56,180**
Debt securities and other fixed income securities	**-**	**-**	**-**	**-**
Total	**-**	**55,553**	**627**	**56,180**

	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	-	35,295	-	35,295
Debt securities and other fixed income securities	-	-	-	-
Total	-	35,295	-	35,295

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

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

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.

Financial investments continued

The main asset classes in the level 3 category are unlisted equities, structured bond-type debt products and interest rate swaps.

- For unlisted equities, the non-observable inputs relate to assumptions regarding the price/equity ratio of the investee compared to those of comparable listed entities together with an illiquidity adjustment which typically ranges between 10-20%.

- For structured bond-type debt products, these are valued using an internally developed cash flow model using a discount rate with a non-observable illiquidity adjustment of between 5-10%.

- For interest rate swaps, these are valued from broker quotes which include non-observable discount rates based on the credit rating of the counterparty.

The Syndicate's level 3 financial investment is in respect of a loan to the Lloyd's Central Fund. Lloyd's considers the loans to meet the criteria to be recognised as a basic financial instrument under FRS 102 and be classified as level 3 in the fair value hierarchy.

10. Debtors arising out of direct insurance operations

	2019	2018
	£'000	£'000
Due from intermediaries (within one year)	**13,748**	6,907
Due from intermediaries (after one year)	**531**	-
	14,279	6,907

11. Debtors arising out of reinsurance operations

	2019	2018
	£'000	£'000
Due from intermediaries (within one year)	**42,170**	35,507
Due from intermediaries (after one year)	**216**	29
	42,386	35,536

12. Creditors arising out of direct insurance operations

	2019	2018
	£'000	£'000
Direct Business - intermediaries (within one year)	**245**	263
	245	263

13. Creditors arising out of reinsurance operations

	2019	2018
	£'000	£'000
Reinsurance accepted (within one year)	**423**	821
Reinsurance ceded (within one year)	**10,954**	8,779
	11,377	9,600

14. Other creditors

	2019	2018
	£'000	£'000
Expenses due to Blenheim Underwriting Ltd (within one year)	**5,613**	5,584
Other (within one year)	**-**	419
	5,613	6,003

15. Cash and cash equivalents

	2019	2018
	£'000	£'000
Cash at bank and in hand	**5,789**	6,423
Holdings in collective investment schemes	**55,553**	35,295
	61,342	41,718

The holdings in collective investment schemes excludes the £0.6m loan to the Lloyd's Central Fund which is classified as a basic financial instrument under FRS 102.

16. Other assets

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

17. Related parties

Asta provides services and support to Syndicate 5886 in its capacity as Managing Agent. During the year, managing agency fees of £1,612,497 (2018: £1,350,000) were charged to the Syndicate. Asta also recharged £1,066,071 (2018: £1,608,994) worth of service charges in the year, of which as at 31 December 2019 an amount of £89,000 (2018: £413,100) was accrued to Asta in respect of this service.

From time to time, Syndicates managed by Asta enter into (re)insurance contracts with one another and/or with Companies within a group with a Lloyd's Corporate Member that participates on an Asta managed Syndicate with an allocated Syndicate capacity greater than 10%. 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.

Related parties continued

Blenheim's parent company – White Bear Capital Limited – acquired Nameco (No 1036) Limited, a Lloyd's corporate member on 21 November 2019. Nameco (No 1036) Limited participated on Syndicate 5886 with the following participations – 2017 Year of Account (£4,184), 2018 Year of Account (£4,605) and 2019 Year of Account (£5,501). Since acquisition, Nameco (No 1036) has been renamed White Bear Corporate Capital Limited.

18. 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 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 01 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 4).

19. 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 Prudential Regulatory Authority ("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.

20. Bank facilities

At the start of the year, the Syndicate had the benefit of a $25 million letter of credit facility and a working capital overdraft facility of £7.5 million. On 22 January 2019, a $45 million catastrophe cash facility with Barclays Bank Plc was renewed for the period to 31 December 2019 and was subsequently renewed for the 12 months to 31 December 2020.

The Syndicate utilised the $25 million letter of credit facility for the whole year. In addition, it utilised US$7.5m of the catastrophe cash facility on 14 February 2019 and this was fully repaid by 18 December 2019.

21. Off-balance sheet items

As noted in Note 20, during the year, the Syndicate had the benefit of a $25 million letter of credit facility with Barclays Bank of which it utilised $25 million for the purposes of US gross funding at 31 December 2019. This arrangement is considered to be off-balance sheet as neither the asset or the liability are owned by the Syndicate.

22. 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 PRA under the Financial Services and Markets Act 2000.

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

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly, the capital requirement in respect of Syndicate 5886 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. The SCR for the 2019 and 2020 year of account was calculated using the Syndicate's internal model.

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. 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% (2018: 35%) of the member's SCR 'to ultimate'. An additional 20% loading is also applied to new Syndicates for their first three years of underwriting. This additional loading no longer applies for the 2020 year of account.

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 20, represent resources available to meet members' and Lloyd's capital requirements.

c) Insurance risk

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

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

The Syndicate purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed largely on a non-proportional basis. Non-proportional reinsurance is excess-of-loss reinsurance designed to mitigate the Syndicate's net exposure to large losses. 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.

Risk management continued

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.

The Syndicate model's various loss scenarios and runs specific realistic disaster scenarios ("RDS") in accordance with Lloyd's franchise guidelines to enable it to monitor its exposures. Given the nature of the risks underwritten, the loss estimates may be materially different from those that arise depending on the size and nature of the event.

Based on the July 2019 Lloyd's RDS submission, the largest RDS was a North-East USA windstorm event with an industry loss estimate of $81 billion. This equates to a loss to the Syndicate of $206.7 million gross and $26.6 million net of reinsurance recoveries and reinstatement costs (2018: $179.0 million gross and $25.3 million net of reinsurance recoveries and reinstatement costs).

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: one-off occurrence; changes in market factors such as public attitude to claiming and 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 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 can be non-linear.

Gross	**2019 £'000**	2018 £'000
Five percent increase in claim liabilities	**(7,578)**	(6,306)
Five percent decrease in claim liabilities	**7,578**	6,306
Net		
Five percent increase in claim liabilities	**(5,289)**	(3,586)
Five percent decrease in claim liabilities	**5,289**	3,586

Risk management continued

Claims development table

The table below and on the following page 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**
Estimate of cumulative GAAP gross claims incurred:	**£'000**	**£'000**	**£'000**
At end of first underwriting year	116,486	88,548	81,593
One year later	141,998	126,105	-
Two years later	148,483	-	-
Less cumulative gross paid	(119,846)	(73,334)	(11,444)
Liability for gross outstanding claims	28,637	52,771	70,149
Total gross outstanding claims (all years)			**151,557**

	Underwriting Year		
	2017	**2018**	**2019**
Estimate of cumulative GAAP net claims incurred:	**£'000**	**£'000**	**£'000**
At end of first underwriting year	63,895	60,726	64,535
One year later	78,587	92,857	-
Two years later	80,808	-	-
Less cumulative net paid	(65,898)	(55,129)	(11,397)
Liability for net outstanding claims	14,910	37,728	53,138
Total net outstanding claims (all years)			**105,776**

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. Currently, the financial assets of the Syndicate are only held in cash and cash equivalents. In due course, 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.

Risk management continued

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:

- 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 has no credit rating, then collateral is sought to mitigate any risk. This is monitored by the Reinsurance Security Committee, a subcommittee of the Syndicate Board.

The table below shows 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.

31 December 2019	**£'000**			
	Neither past due or impaired	**Past due but not impaired**	**Impaired**	**Total**
Shares and other variable yield securities	**56,180**	**-**	**-**	**56,180**
Overseas Deposits	**5,549**	**-**	**-**	**5,549**
Reinsurers share of claims outstanding	**45,781**	**-**	**-**	**45,781**
Debtors arising out of direct insurance operations	**8,326**	**5,953**	**-**	**14,279**
Debtors arising out of reinsurance operations	**-**	**3,106**	**-**	**3,106**
Other assets	**60,635**	**-**	**-**	**60,635**
Cash at bank and in hand	**5,789**	**-**	**-**	**5,789**
Total	**182,260**	**9,059**	**-**	**191,319**

31 December 2018	£'000			
	Neither past due or impaired	Past due but not impaired	Impaired	Total
Shares and other variable yield securities	35,295	-	-	35,295
Overseas Deposits	2,530	-	-	2,530
Reinsurers share of claims outstanding	54,385	-	-	54,385
Debtors arising out of direct insurance operations	2,880	4,027	-	6,907
Debtors arising out of reinsurance operations	-	3,636	-	3,636
Other assets	44,888	-	-	44,888
Cash at bank and in hand	6,423	-	-	6,423
Total	146,401	7,663	-	154,064

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 arising from reinsurance contracts ceded, have been excluded from the table as these are not rated.

31 December 2019				**£'000**			
	AAA	**AA**	**A**	**BBB**	**BB or less**	**Not Rated**	**Total**
Shares and other variable yield securities	**-**	**-**	**56,180**	**-**	**-**	**-**	**56,180**
Overseas Deposits	**3,200**	**672**	**592**	**387**	**465**	**233**	**5,549**
Reinsurers share of claims outstanding	**-**	**7,529**	**32,565**	**-**	**-**	**5,687**	**45,781**
Cash at bank and in hand	**-**	**-**	**5,789**	**-**	**-**	**-**	**5,789**
Total	**3,200**	**8,201**	**95,126**	**387**	**465**	**5,920**	**113,299**

31 December 2018				£'000			
	AAA	AA	A	BBB	BB or less	Not Rated	Total
Shares and other variable yield securities	-	-	35,295	-	-	-	35,295
Overseas Deposits	1,311	291	226	227	214	261	2,530
Reinsurers share of claims outstanding	-	8,097	22,478	-	-	23,810	54,385
Cash at bank and in hand	-	-	6,423	-	-	-	6,423
Total	1,311	8,388	64,422	227	214	24,071	98,633

Of the £5.9 million currently not rated at 31 December 2019, £4.7 million is fully collateralised, £0.2 million relates to overseas deposits with the remainder relating to general reinsurance IBNR that has not been allocated to any specific loss. (2018: of the £24.1 million not rated, £17.8 million was fully collateralised, £0.3 million related to overseas deposits with the remainder relating to general reinsurance IBNR).

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.

Risk management continued

2) Liquidity risk

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

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	**-**	**17,235**	**-**	**-**	**-**	**17,235**
Claims outstanding	**-**	**73,748**	**52,654**	**15,558**	**9,597**	**151,557**
Total	**-**	**90,983**	**52,654**	**15,558**	**9,597**	**168,792**

2018			£'000			
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	Total
Creditors	-	15,866	-	-	-	15,866
Claims outstanding	-	59,226	49,693	12,084	5,108	126,111
Total	-	75,092	49,693	12,084	5,108	141,977

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 risks.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

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 Dollars and its exposure to foreign exchange risk arises primarily with respect to transactions in Sterling, Euro, Japanese Yen, Canadian Dollars and Australian Dollars.

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	**CNV £'000**						
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**JPY**	**Total**
Total Assets	**11,516**	**148,999**	**5,478**	**13,431**	**8,767**	**3,128**	**191,319**
Total Liabilities	**(23,098)**	**(151,625)**	**(11,642)**	**(10,732)**	**(7,367)**	**(28,669)**	**(233,133)**
Net Assets/(Liabilities)	**(11,582)**	**(2,626)**	**(6,164)**	**2,699**	**1,400**	**(25,541)**	**(41,814)**

2018	CNV £'000						
	GBP	USD	EUR	CAD	AUD	JPY	Total
Total Assets	9,469	123,346	4,221	8,020	4,370	4,638	154,064
Total Liabilities	(17,101)	(135,556)	(6,733)	(4,191)	(3,774)	(18,435)	(185,790)
Net Assets/(Liabilities)	(7,632)	(12,210)	(2,512)	3,829	596	(13,797)	(31,726)

The Syndicate holds assets and liabilities in these six main currencies. The Syndicate for the most part aims to ensure its assets and liabilities match in currency as closely as possible to mitigate the currency risk. The large currency shortfall in Japanese Yen is partly driven by the gross claims for Typhoons Hagibis, Faxai and Jebi being mainly in Japanese Yen but any recoveries being in US Dollars. However, it should be noted that there is a degree of currency mitigation because the reinsurance collections made on this loss are based on the gross loss in Japanese Yen being converted to sterling at the prevailing exchange rate to mitigate the currency risk.

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, Japanese Yen 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	**(3,023)**	(2,409)
20% against other currencies	**(6,046)**	(4,819)
Sterling strengthens		
10% against other currencies	**3,023**	2,409
20% against other currencies	**6,046**	4,819

Risk management continued

b) Interest rate risk

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

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

The Syndicate has no significant concentration of interest rate risk. Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

23. Post balance sheet events

The Syndicate has released $5 million of the $25 million letter of credit facility with Barclays Bank since year end. As detailed in Note 21, this arrangement is classed as off-balance sheet.

The Syndicate will collect the 2017 underwriting year loss of £15.6 million in US Dollars from members in June 2020.

Syndicate Underwriting Year Accounts

For the 2017 Year of Account

Closed at 31 December 2019

Statement of Managing Agent's Responsibilities

The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd’s Syndicate Accounting Byelaw (No 8 of 2005).

In preparing the Syndicate underwriting year accounts, the Managing Agent is required to:-

- select suitable accounting policies and apply them consistently throughout each underwriting year and from one underwriting year to the next. Where items affect more than one underwriting year, the Managing Agent must ensure that the Syndicate treats the affected member equitably. In particular, the premium charged for reinsurance to close should be equitable between the reinsured and reinsuring members of the Syndicate;

- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;

- make judgements and estimates that are reasonable and prudent; and

- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate underwriting year accounts comply with the Lloyd’s Regulations 2008 and Syndicate Accounting Byelaw. 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 UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent Auditor’s Report

Independent Auditor's report to the Members of Syndicate 5886

2017 Closed Year of Account

Opinion

We have audited the syndicate underwriting year accounts of Syndicate 5886 (the ‘syndicate’) for the three years ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Changes in Members’ Balances, the Statement of Financial Position, the Statement of Cash Flows and notes to the financial statements, 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 Financial Reporting Standard 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and Financial Reporting Standard 103 “Insurance Contracts” (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate underwriting year accounts:

- give a true and fair view of the loss for the 2017 closed year of account;
- 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 Syndicates and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd’s Syndicate Accounting Byelaw (no. 8 of 2005).

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 underwriting year accounts section of our report.

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our 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 audit opinion.

Other information

The Managing Agent is responsible for the other information. The other information comprises the information included in the annual report, other than the syndicate underwriting year accounts and our auditor’s report thereon. Our opinion on the syndicate underwriting year accounts does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we are required to report by exception

Under the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) we are required to report in respect of the following matters if, in our opinion:

- The Managing Agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

We have nothing to report in this regard.

Responsibilities of the Managing Agent

As explained more fully in the Statement of Managing Agent's responsibilities out on page 47, the Managing Agent is responsible for the preparation of the syndicate underwriting year accounts and for being satisfied that they give a true and fair view of the results for the 2017 closed year of account, and for such internal control as the Managing Agent determines is necessary to enable the preparation of syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate underwriting year accounts, the Managing Agent is responsible for assessing the syndicate's ability to realise its assets and discharge its liabilities in the normal course of business, disclosing, as applicable, any matters that impact its ability to do so.

Auditor's responsibilities for the audit of the syndicate underwriting year accounts

Our objectives are to obtain reasonable assurance about whether the syndicate underwriting year accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 underwriting year accounts.

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

Independent Auditors Report continued

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 Syndicates 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.

Alexander Barnes *Senior Statutory Auditor*
For and on behalf of BDO LLP, Statutory Auditor
London, UK
05 March 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Income Statement

Technical account – General business

2017 Closed Year of Account

For the 36 months ended 31 December 2019

	Notes	£'000	£'000
Earned premiums, net of reinsurance			
Gross premiums written	4	103,544	
Outward reinsurance premiums		(32,130)	
			71,414
Change in the provision for unearned premiums			
Gross amount		(2,419)	
Reinsurers' share		579	
			(1,840)
			69,574
Allocated investment return transferred from the non-technical account			518
Claims incurred, net of reinsurance			
Claims paid - Gross amount		(121,221)	
- Reinsurers' share		52,682	
Net claims paid		(68,539)	
Reinsurance to close premium payable net of reinsurance	6	(14,305)	
			(82,844)
Net operating expenses	7		(27,460)
Balance on the technical account – general business			(40,212)

The 2017 underwriting year closed and therefore all items relate to discontinued operations.

The notes on pages 56 to 65 form part of these financial statements.

Income Statement continued

Non-technical account – General business

2017 Closed Year of Account

For the 36 months ended 31 December 2019

	Notes	£'000
Balance on the technical account – general business	5	(40,212)
Investment Income	8	491
Net realised gains on investments	8	27
		518
Allocated investment return transferred to general business technical account		(518)
Exchange loss		(110)
Loss for the closed year of account		(40,322)

Statement of Comprehensive Income

2017 Closed Year of Account

For the 36 months ended 31 December 2019

	£'000
Loss for the closed year of account	(40,322)
Currency translation differences	1,115
Total comprehensive loss for the closed year of account	(39,207)

The 2017 underwriting year closed and therefore all items relate to discontinued operations.

The notes on pages 56 to 65 form part of these financial statements.

Statement of Financial Position

2017 Closed Year of Account

As at 31 December 2019

	Notes	£'000	£'000
ASSETS			
Financial investments	9		2,772
Debtors			
Debtors arising out of direct insurance operations	10	15	
Debtors arising out of reinsurance operations	11	2,957	
Other debtors, prepayments and accrued income		787	
			3,759
Reinsurance recoveries anticipated on gross reinsurance premiums payable to close the account			11,790
Other Assets			
Cash at bank and in hand		730	
Overseas deposits		780	
			1,510
Total assets			19,831
LIABILITIES			
Amounts due from members			(15,602)
Reinsurance to close premiums payable to close the Account – gross amount			26,095
Creditors			
Creditors arising out of direct insurance operations	12	104	
Creditors arising out of reinsurance operations	13	894	
Inter-year loans		7,596	
Other creditors, accruals and deferred income		744	
			9,338
Total liabilities			19,831

The notes on pages 56 to 65 form part of these financial statements.

The Syndicate underwriting year accounts were approved by the Board of Asta Managing Agency Ltd on 27 February 2020 and were signed on its behalf by

D J G Hunt
Director
05 March 2020

Statement of Members' Balances

2017 Closed Year of Account

For the 36 months ended 31 December 2019

	£'000
Total comprehensive loss for the closed year of account	(39,207)
Collection from members	23,841
Members' agents' fees paid on behalf of members	(236)
Members' balances carried forward at 31 December 2019	(15,602)

The notes on pages 56 to 65 form part of these financial statements.

Statement of Cash Flows

2017 Closed Year of Account

For the 36 months ended 31 December 2019

	Notes	£'000
Cash flows from operating activities		
Loss for the closed year of account		(40,322)
(Increase) in debtors		(2,972)
Increase in creditors		8,594
Movement in other asset/liabilities/foreign exchange		1,072
Investment return		(518)
RITC premium payable, net of reinsurance		14,305
Net cash outflow from operating activities		(19,841)
Cash flows from investing activities		
Investment income received		518
Increase in overseas deposits		(780)
Net cash outflow from investing activities		(262)
Cash flows from financing activities		
Collection of losses		23,841
Member's agents fees paid on behalf of members		(236)
Net cash inflow from financing activities		23,605
Net increase in cash and cash equivalents		3,502
Cash and cash equivalents at 1 January 2017		-
Cash and cash equivalents at 31 December 2019	14	3,502

The notes on pages 56 to 65 form part of these financial statements.

Notes to the Syndicate Underwriting Year Accounts

For the 36 months ended 31 December 2019

1. Basis of preparation

The Syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Lloyd's Regulations") and in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom, including relevant disclosures of Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK (“FRS 102”) and Financial Reporting Standard 103 Insurance Contracts (“FRS 103”).

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

The Syndicate's functional currency is US Dollars, being the primary economic environment in which it operates. The accounts have been presented in Sterling (GBP), which is the Syndicate’s presentation currency and rounded to the nearest £'000.

Members participate on a Syndicate by reference to a year of account and each Syndicate year of account is a separate annual venture. These accounts relate to the 2017 year of account which has been closed by reinsurance to close at 31 December 2019. Consequently the balance sheet represents the assets and liabilities of the 2017 year of account at the date of closure and the profit and loss account reflects the transactions for that year of account during the 36 months period until closure. As each Syndicate year of account is a separate annual venture, there are no comparative figures.

Whilst the directors of the managing agent have a reasonable expectation that the Syndicate has adequate resources to continue in operation existence for the foreseeable future, these financial statements represent the participation of members in the 2017 year of account, which closed on 31 December 2019. The accumulated loss on the 2017 year of account will be called shortly after publication of these accounts. Therefore the 2017 year of account is not continuing to trade and, accordingly the directors have not adopted the going concern basis in preparation of these accounts. This has no effect on the amounts reported in the accounts as the 2017 year of account will be closed by payment of a reinsurance to close premium, as outlined in note 6 below, which is consistent with the normal course of business for a Lloyd's Syndicate.

2. Accounting policies

Significant 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 annual accounts.

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

Accounting policies continued

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.

Underwriting transactions

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of that three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due, but not yet notified to the Syndicate year of account.

Written premium is earned over the period of the policy on a time apportionment basis having regard, where appropriate, to the incidence of risk. Unearned premiums represent the balance of premiums written in the period to the balance sheet date that are not earned.

Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

The reinsurance to close premium is determined by reference to the outstanding technical provisions (including those for outstanding claims and unearned premiums, net of deferred acquisition costs and unexpired risks and associated reinstatement premiums) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinstatement premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

Accounting policies continued

The outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters and previous experience of the cost of settling claims with similar characteristics. The amount included in respect of IBNR is based on statistical techniques of estimation applied by the in-house actuaries and a detailed review of losses by management, further reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time (using market data where syndicate data is unavailable) 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 includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year of account and the current security rating of the reinsurance companies involved.

The Syndicate uses a number of statistical techniques to assist in making the above estimates. 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 methods used, and the estimates made, are reviewed regularly.

A provision for unexpired risks is created where claims, related expenses and deferred acquisition costs, likely to arise after the balance sheet date in respect of contracts relating to the closing year of account, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums at the balance sheet date.

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.

Regular way purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Syndicate commits itself to purchase or sell the asset.

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 profit or loss are measured at fair value with fair value changes recognised immediately in profit or 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 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.

Accounting policies continued

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Interest income on financial assets measured at amortised cost is recognised using the effective interest method. For the purpose of separately presenting investment income and unrealised gains and losses for financial assets at fair value through profit or loss, interest income is recognised as it accrues on the next coupon payment.

For investments at fair value through profit or loss, realised gains and losses represent the difference between the net proceeds on disposal and the purchase price. For investments measured at amortised cost, realised gains and losses represents the difference between the net proceeds on disposal and the latest carrying value (or if acquired after the last reporting date, the purchase price).

Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price. Movements in unrealised investment gains and losses comprise the increase/decrease in the reporting period in the value of the investments held at the reporting date and the reversal of unrealised investment gains and losses recognised in earlier reporting periods in respect of investment disposals of the current period, or the valuation at the beginning of the year; as well as the reversal of previously recognised unrealised gains and losses in respect of investment disposed of in the current period.

Investment return is initially recorded in the non-technical account. The return is transferred in full to the general business technical account to reflect the investment return on funds supporting underwriting business.

Syndicate operating expenses

Costs incurred by the Managing Agent in respect of the Syndicate are charged to the Syndicate and included within the relevant profit and loss account heading. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

Where expenses are incurred jointly by the Managing Agent and the Syndicate, they are apportioned depending on the amount of work performed, resources used, and volume of business transacted.

Pensions

The Managing Agent operates a defined contribution scheme. Pension contributions to Syndicate staff are charged to the Syndicate and included within net operating expenses.

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 income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue & Customs.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Foreign currencies

The Syndicate's functional currency is US Dollars being the primary economic environment in which it operates. The Syndicate's presentation currency is Sterling (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 or appropriate average rate. Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Exchange differences are recorded in the non-technical account.

In translating its results and financial position into the presentational currency, the Syndicate translates all assets and liabilities at the closing rates of exchange and translates all income and expense items at average rates, with all resulting exchange gains and losses recognised in other comprehensive income.

3. Risk management

Effective from 31 December 2019, the RITC process means that Insurance, Financial, Credit, Liquidity, Market and Capital risks are transferred to the accepting 2018 Year of Account of the Syndicate. Accordingly, these Underwriting Year accounts do not have any associated disclosures as required by section 34 of FRS 102 and FRS 103. Full disclosures relating to these risks are provided in the main Syndicate Annual Accounts.

4. Particulars of business written

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

	Gross premiums written £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct Insurance;						
Accident & Health	52	54	-	(29)	(6)	19
Motor (other)	39	38	-	(13)	(7)	18
Fire and other damage to property	15,712	15,428	(31,114)	(5,284)	10,859	(10,111)
Third party liability	101	101	(85)	(41)	(19)	(44)
Credit and suretyship	4,193	4,172	(1,429)	(1,440)	(572)	731
	20,097	19,793	(32,628)	(6,807)	10,255	(9,387)
Reinsurance acceptances	83,447	81,332	(114,688)	(20,653)	22,666	(31,343)
Total	103,544	101,125	(147,316)	(27,460)	32,921	(40,730)

All premiums were concluded in the UK.

5. 2017 Year of Account

	2017 Pure year £'000	2017 Total £'000
Technical account balance before allocated investment return and net operating expenses	(13,270)	(13,270)
Brokerage and commission on gross premium	(13,594)	(13,594)
	(26,864)	(26,864)
Other acquisition costs	(1,655)	(1,655)
Change in deferred acquisition costs	325	325
Net other expenses	(12,536)	(12,536)
Investment income	518	518
	(13,348)	(13,348)
Balance on technical account	(40,212)	(40,212)

There are no prior years included within the 2017 underwriting year result.

6. Reinsurance to close premium payable net of reinsurance

	Reported £'000	IBNR £'000	Total £'000
Gross outstanding losses	22,134	6,503	28,637
Reinsurance recoveries anticipated	(9,261)	(4,466)	(13,727)
Net outstanding losses	12,873	2,037	14,910
Future gross reinstatement premiums			(2,542)
Future reinsurance reinstatement premiums			1,937
Reinsurance to close premium payable			14,305

7. Net operating expenses

	£'000
Acquisition costs	15,249
Change in deferred acquisition costs	(325)
Standard personal expenses	2,070
Administration expenses	10,466
	27,460

	£'000
The closed year loss is stated after charging:	
Auditor's remuneration:	
Audit of the Financial statements	106
Other services pursuant to Regulations and Lloyd's Byelaws	33
	139

The auditor did not receive any other remuneration other than that stated above.

8. Investment income

	£'000
Income from investments	491
Realised gains on investments	36
Realised losses on investments	(9)
	518

9. Financial investments

	Fair Value £'000	Cost £'000
Holdings in collective investment schemes	2,772	2,772
	2,772	2,772

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.

All financial investments are recorded at fair value and have been categorised within the level 2 category of the fair value hierarchy. 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.

There are no financial investments within the level 1 or 3 categories of the fair value hierarchy.

10. Debtors arising out of direct insurance operations

	£'000
Due within one year – Intermediaries	5
Due after one year – Intermediaries	10
	15

11. Debtors arising out of reinsurance operations

	£'000
Due within one year – Intermediaries	2,957
	2,957

12. Creditors arising out of direct insurance operations

	£'000
Due within one year – Intermediaries	104
	104

13. Creditors arising out of reinsurance operations

	£'000
Due within one year – Reinsurance accepted	110
Due within one year – Reinsurance ceded	784
	894

14. Cash and cash equivalents

	£'000
Cash at bank and in hand	730
Holdings in collective investment schemes	2,772
	3,502

15. 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 as well as Special Purpose Arrangements 1892, 6123, 6126 and 6131 were managed on behalf of third party capital providers.

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 4).

16. Related parties

Asta provides services and support to Syndicate 5886 in its capacity as Managing Agent. The 2017 year of account was charged managing agency fees of £1,124,280. Asta also recharged £2,385,872 worth of service charges to the 2017 year of account. As at 31 December 2019, £6,675 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 Byelaw provisions. All transactions are entered into on an arm's length basis.

The Managing Agent is owned by Asta Capital Limited, a company incorporated in the U.K. and registered in England and Wales. Paraline International, a wholly owned subsidiary of Paraline Group, owns 31.3% of Asta Capital Limited.

Blenheim's parent company – White Bear Capital Limited – acquired Nameco (No 1036) Limited, a Lloyd's corporate member on 21 November 2019. Nameco (No 1036) Limited participated on Syndicate 5886 with the following participations – 2017 Year of Account (£4,184), 2018 Year of Account (£4,605) and 2019 Year of Account (£5,501). Since acquisition, Nameco (No 1036) has been renamed White Bear Corporate Capital Limited.

17. Post balance sheet event

The reinsurance premium paid to close the 2017 year of account at 31 December 2019 was agreed by the Board of the Managing Agency on the 11 February 2020. Consequently the technical provisions at 31 December 2019 have been presented in the balance sheet under the headings "reinsurance recoveries anticipated on gross reinsurance premiums payable to close the account" and "reinsurance to close premiums payable to close the account - gross amount" in accordance with the format prescribed by the Syndicate Accounting Byelaw.

A total of £15.6 million will be collected from members in US Dollars in June 2020 in respect of the 2017 year of account.

Summary of Closed Year Results (Unaudited)

as at 31 December 2019

	2017 £'000
Syndicate allocated capacity	**149,904**
Number of Underwriting members	1,378
Aggregate net premiums (£'000)	71,414

Results for an illustrative share of £10,000

	£
Gross premiums written	6,907
Net earned premiums	4,641
Net claims	(4,572)
Reinsurance to close	(954)
Loss on exchange	(8)
Syndicate operating expenses	(1,694)
Balance on technical account	(2,587)
Investment income less investment expenses and charges and investment gains less losses	35
Loss on ordinary activities before illustrative expenses	(2,552)
Currency translation differences	74
Total recognised losses before illustrative personal expenses	(2,478)
Illustrative personal expenses	
Managing agent's fee	(75)
Other personal expenses (excluding member's agents fees)	(63)
	(138)
Loss after illustrative personal expenses	(2,616)
Total of Syndicate operating expenses, managing agent's fee and profit commission	(1,769)
Capacity utilised	69.1%
Net capacity utilised	47.6%
Loss ratio	119.1%

Notes

1. The summary of closed year results has been prepared from the audited accounts of the Syndicate. This summary however is not audited.
2. Personal expenses have been stated at the amount which would be incurred pro rata by individual Names writing the illustrative premium income in the Syndicate irrespective of any minimum charge applicable. Corporate members may be charged at different rates. Foreign tax, which may be treated as a credit for personal tax purposes, has been excluded.
3. As regards the 2017 year of account, an illustrative share of £10,000 represents 0.0067% of the respective allocated capacity.
4. The loss ratio is net claims paid plus the reinsurance to close divided by net earned premiums plus reinsurance to close received.