

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

SYNDICATE CVS 1919
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The Syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The Syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the Syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any Syndicate of Lloyd's, and no offer to join Lloyd's or any Syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a Syndicate in any Syndicate year is not predictive of the related Syndicate's performance in any subsequent Syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the Syndicate reports and accounts. You also agree that you will not provide any person with a copy of any Syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

Syndicate 1919

Contents

	Page
Directors and administration	3
Managing agent's report	4
Statement of managing agent's responsibilities	9
Independent auditors' report to the members of Syndicate 1919	10
Income statement	13
Statement of total comprehensive income	15
Statement of member's balances	16
Statement of financial position	17
Statement of cash flows	19
Notes to the financial statements	20

Syndicate 1919

Directors and administration

MANAGING AGENT

Starr Managing Agents Limited

Directors

N C T Pawson	(Non-executive Chairman)
S Blakey	(Chief Executive Officer – resigned 01 January 2018, remaining as Non-executive Director)
J Herbert	(Chief Executive Officer – appointed 01 January 2018)
D Stewart	(Director of Underwriting)
G J L Broughton	(Finance Director)
C W Buchanan	(Head of Casualty)
A Missen	(Chief Operating Officer)
D French	(Non-executive – resigned 01 January 2018)
R Shaak	(Non-executive)
J Mantz	(Non-executive – resigned 22 March 2018)
N Newman-Young	(Non-executive)
T Froehlich	(Non-executive)
A P Hulse	(Non-executive – appointed 14 March 2018)

Company secretary

A Bahia

Managing agent's registered office

4th Floor
30 Fenchurch Avenue
London
EC3M 5AD

Managing agent's registered number

6265337

SYNDICATE

Active underwriter

A Raven

Bankers

Citibank NA
Royal Bank of Canada
Barclays Plc

Statutory auditor

BDO LLP, London

Syndicate 1919

Managing agent's report

The directors of Starr Managing Agents Limited ("SMAL") present their managing agent's report, incorporating the strategic report, for the year ended 31 December 2018.

This annual report is prepared using the annual basis of accounting as required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

The financial statements have been presented for the first time in US Dollars for the reasons set out in note 1b. Comparatives have been restated accordingly.

Separate underwriting year accounts for the closed 2016 account have not been produced as the Syndicate member has agreed in writing that no underwriting year accounts shall be prepared in respect of the Syndicate.

Principal activity and review of the business

The principal activity of Syndicate 1919 during the period was the transaction of general insurance and reinsurance business in the United Kingdom.

The Syndicate's business is underwritten under a limited number of binding authority arrangements granted to Starr Underwriting Agents Limited ("SUAL") in London, an established and experienced underwriting agency. SUAL is an FCA regulated insurance intermediary and an approved Society of Lloyd's ("Lloyd's") Coverholder. Lloyd's consortium business for the 2014 and post years of account is written via SMAL. Delegated authority is also given to a number of Starr offices in overseas territories to access local markets not otherwise presented to Lloyd's. SUAL and SMAL share a single management team.

SUAL and SMAL are both 100% owned by Starr Global Financial Inc. (Nevada).

The Syndicate currently has a portfolio of six divisions, namely:

Aviation – direct and facultative business including airlines, products, and general aviation.

Technical risks – direct and facultative technical risks including onshore and offshore energy, process industries, power, chemical and other heavy industries, property and construction.

Accident and health – direct and facultative.

Political – direct and facultative business including credit risk and contract frustration.

Casualty – direct and facultative business including financial lines, construction, energy, export products and environmental and crisis management.

Aon Client Treaty – participation on the London market facility for Aon business. This arrangement has been cancelled for the 2019 year of account.

Results

The result for the calendar year 2018 is a loss of \$8.4m (2017: profit of \$24.6). Losses will be called by reference to the results of individual underwriting years. The members' funds total surplus is \$105.1m (2017: surplus \$114.3m). In addition, the syndicate holds Funds at Lloyd's which are not shown on the Syndicate balance sheet.

Results in the 2018 calendar year have been mixed across the various underwriting divisions of Syndicate 1919. The Aviation division generated favourable results for the Syndicate, given the

Syndicate 1919

Managing agent's report

absence of major events and a positive rating environment across all subclasses of Aviation. The Technical Risks ("Tech") division had break-even results during 2018, with a loss in the Onshore Energy subclass offset by profits in Offshore Energy. The Casualty division suffered poor experience against plan in its main subclasses as a result of adverse claims development on older underwriting years, particularly in the Professional Indemnity class 2014/2015. The other, smaller divisions of Syndicate 1919, including Accident & Health ("A&H"), Political Risks ("PFR") and the Aon Client Treaty ("ACT"), had more marginal results during 2018, and the Marine division ran in line with expectations (a large element of this business is in run off).

The Syndicate evaluates its performance using key performance indicators that allow the measurement of volumes of business being written and the underlying profitability of this business. The Syndicate's key performance indicators during the period were as follows:

	2018	2017
	\$000	\$000
Gross written premiums	389,141	371,634
(Loss) / Profit for the period	(8,404)	24,633
Combined ratio*	109.1%	82.2%

*The combined ratio is calculated as net claims incurred plus net operating expenses, divided by net earned premiums.

Principal risks and uncertainties

The SMAL Board sets risk appetite annually as part of the Syndicate's business planning and Syndicate Capital Requirement process. SMAL's Risk Committee meets quarterly to review and update the risk register and to monitor performance against risk appetite using a series of key risk indicators reported through the Own Risk and Solvency Assessment ("ORSA") process. The principal risks and uncertainties facing the Syndicate are as follows:

Insurance risk

Insurance risk includes the risk 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 SMAL Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The SMAL Board then monitors performance against the business plan throughout the year. SMAL sets upper limits on and monitors maximum probable losses from catastrophe-exposed business. Reserve adequacy is monitored through quarterly reviews by the Syndicate actuary.

The Syndicate has a defined event risk tolerance, which determines the maximum gross and net loss that the Syndicate limits its exposure to, from major catastrophe event scenarios. At 31 December 2018 the maximum was \$195m gross and \$28m net for the Syndicate (2017: \$200m gross and \$20m net). This scenario has a probability around that of a 1 in 200 year event. The Syndicate also adopts risk tolerance maximum net limits for a number of non-elemental scenarios including aviation collision and North Sea rig loss.

Managing agent's report

The risk tolerance policy recognises that there may be circumstances in which the net event limit could be exceeded. Such circumstances include non-renewal or delay in renewal of reinsurance protection, reinsurance security failure, or regulatory and legal requirements. A detailed analysis of catastrophe exposures is carried out every month and measured against the event risk tolerance. The following assumptions and procedures are used in the process:

- The data used reflects the information supplied to the Syndicate by insureds and ceding companies. This may prove to be inaccurate or could develop during the policy period.
- The exposures are modelled using a mixture of physical models for natural catastrophe risks and underwriter input for man-made catastrophe risks to arrive at damage factors. These factors are then applied to the assumed aggregate exposure to produce gross loss estimates. The damage factors may prove to be inadequate.
- The reinsurance programme as purchased is applied – a provision for reinsurer counterparty failure is analysed but may prove to be inadequate.
- Reinstatement premiums both payable and receivable are included.

There is no guarantee that the assumptions and techniques deployed in calculating these event loss estimate figures are accurate. Furthermore, there could also be a loss which exceeds these figures. The likelihood of such a catastrophe is considered to be remote but the most severe scenarios modelled are simulated events and these simulations could prove to be unreliable.

Credit risk

The Syndicate has credit risk exposure to its reinsurers, brokers, coverholders and investments. The largest component of credit risk is the default by one or more of the Syndicate's reinsurers. SMAL has a Reinsurance Security Committee that reviews and agrees the security of the proposed reinsurers. The Committee assesses the acceptability of reinsurers and sets maximum usage limits based on each reinsurer's security rating. A listing of all acceptable security is maintained by the Reinsurance Security Committee of SMAL. Usage of any reinsurer that does not appear on the list of approved reinsurers, or usage of an approved reinsurer in excess of its applicable limit, requires prior authorisation from the Reinsurance Security Committee. The Reinsurance Security Committee reviews and agrees the form and structure of the reinsurance programme to be purchased by the Syndicate and monitors progress on placement and exhaustion of cover. Aged debt in respect of premiums and reinsurance recoveries is actively managed and closely monitored by the SMAL Executive Committee.

Market risk

The key aspect of market risk is that the Syndicate may incur losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The majority of assets and liabilities are denominated in the functional currency, US Dollars, however SMAL monitors net exposure to any other material currencies to determine if further action is required.

Due to the nature of our investment portfolio we are not significantly exposed to realised market valuation differences on bonds as these are not traded on a regular basis. The factor which impacts our investments most is interest rates. Interest rates have a direct impact on investment return and the valuation of bonds is directly linked to interest rates and their anticipated movements.

Syndicate 1919

Managing agent's report

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. To mitigate this risk the cash positions are monitored on a daily basis and investments are held in highly liquid instruments.

Operational risk

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate, both from internal and external events. SMAL seeks to manage this risk through the use of control monitoring, detailed procedure manuals, peer reviews, internal audits and appropriate training courses. The findings of Internal Audit in relation to operational risk are presented to the Audit Committee which reviews the key findings and monitors the implementation of associated actions.

Regulatory risk

SMAL is required to comply with the requirements of the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. SMAL has a compliance team which monitors regulatory developments, assesses the impact on agency policy and carries out a compliance monitoring programme which is reported to the SMAL Board throughout the year.

Future developments

From 1 January 2019 the Syndicate has written direct EU risks via Lloyd's Brussels. These are written by the Lloyd's Brussels company and then 100% reinsured into Syndicate 1919. There is limited anticipated impact on Syndicate 1919 aside from an additional 2.5% commission on gross written premium payable to Lloyd's Brussels.

SMAL expects to see organic growth in the three largest divisions, being Aviation, Technical Risks and Casualty especially in the more positive rating environment now apparent in the market. Syndicate 1919 will continue to develop these areas where business opportunities for profitable growth present themselves. In addition, SMAL is constantly investigating new lines of business where opportunities may present themselves to achieve improved returns.

Medium to long-term developments

SMAL has a desire to build its managed Syndicate into a significant participant in the Lloyd's market. It will do this in a number of ways:

- By expanding existing product lines where rates and competition permit. This will be done by seeking improved terms and increased participations as well as attracting new clients.
- Leveraging available capital resources within the Starr group as required to take advantage of opportunities.

By order of the Board

.....

Graham Broughton
Finance Director, London
19 March 2019

Syndicate 1919

Managing agent's report

Directors

Details of the directors of the managing agent that served during the year to 31 December 2018 and as at the signing date of this report are provided on page 3.

Disclosure of information to the auditors

Each of the persons who is a director of the managing agent at the date of approval of this report confirms that:

- So far as the director is aware there is no relevant audit information of which the Syndicate's auditors are unaware; and
- The director has taken all the steps that he ought to have taken as a director in order to make himself aware of relevant audit information and to establish that the Syndicate's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

The Directors also confirm their agreement with the disclosures within the managing agent's report.

Auditors

On 1 February 2019 Moore Stephens LLP merged its business with BDO LLP. As a result, Moore Stephens LLP has resigned as auditor and the directors have appointed BDO LLP as auditor in its place. BDO LLP has indicated its willingness to continue in office.

The Directors of the managing agent, SMAL, intend to reappoint BDO LLP as the Syndicate's auditors.

By order of the Board

.....

Graham Broughton
Finance Director, London
19 March 2019

Syndicate 1919

Statement of managing agent's responsibilities

Starr Managing Agents Limited is responsible for preparing the Syndicate annual accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare Syndicate annual accounts at 31 December each year which give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the managing agent is required to:

1. Select suitable accounting policies which are applied consistently;
2. Make judgements and estimates that are reasonable and prudent;
3. State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
4. Prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The managing agent is responsible for keeping adequate accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

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

The financial statements on pages 13 to 54 were approved by the Board of Starr Managing Agents Limited on 19 March 2019 and were signed on its behalf by

.....
Graham Broughton
Finance Director, London
19 March 2019

Independent auditor's report to the members of Syndicate 1919

Opinion

We have audited the financial statements of Syndicate 1919 (the 'syndicate') for the year ended 31 December 2018 which comprise the Income Statement, the Statement of Total Comprehensive Income, the Statement of 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 2018 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.

Syndicate 1919

Independent auditor's report to the members of Syndicate 1919

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 auditor's report to the members of Syndicate 1919

Responsibilities of the Managing Agent

As explained more fully in the Statement of Managing Agent's responsibilities out on page 9, 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

150 Aldersgate Street

London

EC1A 4AB

20 March 2019

Syndicate 1919

Income Statement: technical account – general business for the year ended 31 December 2018

				*Restated
		2018		2017
Income Statement: technical account - general business	Notes	\$000		\$000
Earned premiums, net of reinsurance				
Gross premiums written	4	389,141	371,634	
Outward reinsurance premiums		(274,392)	(255,785)	
Net premiums written		<u>114,749</u>	<u>115,849</u>	
Change in the provision for the unearned premiums				
Gross amount	12	(8,094)	11,888	
Reinsurers' share	12	5,689	(5,764)	
Change in the net provision for unearned premiums		<u>(2,405)</u>	<u>6,124</u>	
Earned premiums, net of reinsurance		112,344		121,973
Allocated investment return transferred from the non-technical account		2,679		841
Claims incurred, net of reinsurance				
Clams paid				
Gross amount		(251,545)	(223,034)	
Reinsurers' share		171,425	147,250	
Net claims paid		<u>(80,120)</u>	<u>(75,784)</u>	
Change in the provision for claims				
Gross amount	12	(72,869)	(330)	
Reinsurers' share	12	57,118	7,785	
Change in the net provision for claims		<u>(15,751)</u>	<u>7,455</u>	
Claims Incurred, net of reinsurance		(95,871)		(68,329)
Net technical operating expenses	4,5	(26,650)		(32,040)
Balance on Technical account for general business		<u>(7,498)</u>		<u>22,445</u>

All operations are continuing.

Syndicate 1919

Income statement: non-technical account for the year ended 31 December 2018

	Notes	2018 \$000	*Restated 2017 \$000
Balance on technical account for general business		(7,498)	22,445
Investment return	8	5,093	1,953
Allocated investment return transferred to general business technical account		(2,679)	(841)
Foreign exchange (losses)/gains		(3,320)	1,076
(Loss)/ Profit for the year		<u>(8,404)</u>	<u>24,633</u>

Syndicate 1919

Statement of total comprehensive income for the year ended 31 December 2018

	Notes	2018 \$000	*Restated 2017 \$000
(Loss)/ Profit for the financial year		(8,404)	24,633
Total comprehensive income		<u>(8,404)</u>	<u>24,633</u>

Syndicate 1919

Statement of member's balances as at 31 December 2018

		*Restated
	2018	2017
Notes	\$000	\$000
Balance at 1 January	114,334	89,223
(Loss)/ Profit for the year	(5,084)	23,557
Foreign exchange gains/ (losses)	(3,320)	1,076
Non-standard personal expenses and other movement in member's balances	(786)	478
Balance at 31 December	<u>105,144</u>	<u>114,334</u>

Syndicate 1919

Statement of financial position - Assets as at 31 December 2018

	Notes	2018 \$000	*Restated 2017 \$000
Investments			
Financial Investments	9	295,616	271,449
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	179,277	177,024
Claims outstanding	12	<u>445,808</u>	<u>396,000</u>
		625,085	573,024
Debtors			
Debtors arising out of direct insurance operations	10	270,161	238,800
Debtors arising out of reinsurance operations		50,916	46,534
Other debtors		<u>10,739</u>	<u>11,038</u>
		331,816	296,372
Other Assets			
Cash at bank and in hand		2,986	2,759
Overseas deposits	11	61,544	63,325
		<u>64,530</u>	<u>66,084</u>
Prepayments and accrued income			
Deferred acquisition cost	12	64,728	65,628
Prepayments		<u>946</u>	<u>1,289</u>
		65,674	66,917
Total Assets		<u>1,382,721</u>	<u>1,273,846</u>

Syndicate 1919

Statement of financial position - Liabilities as at 31 December 2018

	Notes	2018 \$000	*Restated 2017 \$000
Capital and reserves			
Members' balances	15	105,144	114,334
Technical provisions			
Provision for unearned premium	12	267,469	264,995
Claims outstanding - gross amount	12	<u>706,980</u>	<u>648,330</u>
		974,449	913,325
Creditors			
Creditors arising out of reinsurance operations		172,523	154,137
Creditors arising out of direct insurance operations		63,160	26,187
Other creditors		<u>4,747</u>	<u>4,856</u>
		240,430	185,180
Reinsurers' share of deferred acquisitions costs	12	40,563	40,949
Accruals and other deferred income		<u>22,135</u>	<u>20,058</u>
		62,698	61,007
Total liabilities and shareholders' equity		<u>1,382,721</u>	<u>1,273,846</u>

The financial statements on pages 13 to 54 were approved by the Board of Starr Managing Agents Limited on 19 March 2019 and were signed on its behalf by

.....
Graham Broughton
Finance Director, London
19 March 2019

Syndicate 1919

Statement of cash flows for the year ended 31 December 2018

		2018	*Restated 2017
	Notes	\$000	\$000
(Loss)/ Profit for the year		(8,404)	24,633
Movement in net technical provisions		29,229	(29,781)
Movement in debtors		(53,689)	5,758
Movement in creditors		69,489	621
Unrealised losses	8	1,760	2,660
Foreign exchange movements		(6,973)	(3,962)
Net cash flow from operating activities		<u>31,412</u>	<u>(71)</u>
Purchase of equity and debt instruments		(108,977)	(135,846)
Sale of equity and debt instruments		77,399	135,655
Net cash flow from investing activities		<u>(31,578)</u>	<u>(191)</u>
Distribution of profit		(17,065)	(51,916)
Profits added in FIS		17,065	51,916
Other financing activity		-	-
Net cash flow from financing activities		<u>-</u>	<u>-</u>
Movement on cash and cash equivalents		(166)	(262)
Foreign exchange translation gains on cash		393	28
Cash and cash equivalents at 1 January		2,759	2,993
Cash and cash equivalents at 31 December		<u>2,986</u>	<u>2,759</u>

Notes to the financial statements For the year ended 31 December 2018

1. Basis of preparation

a) Statement of compliance

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and applicable Accounting Standards in the United Kingdom. The result for the year is determined on the annual basis of accounting in accordance with Financial Reporting Standard 102 (applicable in the UK) and Financial Reporting Standard 103: 'Insurance Contracts'.

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

b) Basis of preparation

The financial statements for the year ended 31 December 2018 were approved for issue by the Board of Directors on 14 March 2019.

Financial Reporting Standard 102 requires each entity to identify its functional currency and a presentational currency. The functional currency is identified as the currency of the primary economic environment in which the entity operates.

The functional currency of the Syndicate is US Dollars as the majority of the underwriting business, cash flows and expenses are in US Dollars. For this reason we have adopted US Dollars (previously GBP) as the presentation currency for these financial statements and have restated the 2017 comparatives. The impact of this change in presentation currency has resulted in the removal of foreign exchange translation adjustments from the financial statements. The 2017 value of this change in GBP is loss of £1.1m and the 2016 and prior change in GBP is a profit of £6.8m. The financial statements are rounded to the nearest \$000.

The directors have a reasonable expectation that continued capital support will be in place such that the Syndicate will continue to write new business in future underwriting years of account. Accordingly they continue to adopt the going concern basis in preparing the annual accounts.

2. Accounting policies

Premiums written

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Unearned premiums

Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date, calculated on a combination of time apportionment and risk profile of the policy.

Notes to the financial statements for the year ended 31 December 2018

Reinsurance premium ceded

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

Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods. Market standard statistical methods including Bornhuetter-Ferguson and Chain Ladder are used to assist in making these estimates.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on the 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 and the current security rating of the reinsurance companies involved.

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

Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account relevant investment return.

Notes to the financial statements for the year ended 31 December 2018

Acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date. Deferred acquisition costs are amortised systematically over the life of the contracts.

Reinsurance commission receivable from quota share and facultative reinsurers, are deferred to the extent that they represent the reinsurers' share of acquisition costs. Overrider commissions receivable from reinsurers are recognised on inception of the related insurance contracts.

Foreign currencies

Monetary items are retranslated at the closing rate with exchange differences reported through the non-technical account. Non-monetary items (for example, tangible assets) are translated into the functional currency using period average rate of exchange prevailing at the time of the transaction as a proxy for transactional rates.

The results and financial position of the syndicate are translated into the presentation currency as follows:

- a) assets and liabilities are translated at the closing rate at the balance sheet date; and
- b) income and expenses are translated at the average rate of exchange during each quarter of the year.

Financial investments

The Syndicate has adopted Sections 11 and 12 of FRS 102 in respect of financial instruments.

The Syndicate classifies its financial assets held for investment purposes (investments) into 'shares and other variable-yield securities', 'debt securities and other fixed-income securities', 'overseas deposits' and 'other investments' (asset and mortgage backed securities) – all at fair value through profit or loss. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

The Syndicate determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the investments are acquired or originated. Financial assets are classified as fair value through profit or loss as the Syndicate's documented investment strategy is to manage financial investments acquired on a fair value basis. The available for sale category is used only in cases when the investments are passively managed.

Investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the

Notes to the financial statements for the year ended 31 December 2018

purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Fair value of financial assets

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

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The fair value is based upon quotes from pricing services where available. These pricing services derive prices based on an average of quotes provided by brokers. Where multiple quotes are not available, the fair value is based upon evaluated pricing services, which typically use proprietary cash flow models and incorporate observable market inputs, such as credit spreads, benchmark quotes and other trade data. If such services do not provide coverage of the asset, then fair value is determined manually using indicative broker quotes, which are corroborated by recent market transactions in similar or identical assets. Where there is an active market for financial investments and their fair value is the unadjusted quoted market price, these are classified as Level 1. Level 1 also includes bond funds, where fair value is based upon quoted prices. Where the market is inactive or the price is adjusted, but significant market observable inputs have been used by the pricing sources, then these are considered to be Level 2. This is typically the case for government agency debt, corporate debt, mortgage and asset-backed securities and catastrophe bonds. Certain assets, for which prices or other market inputs are unobservable, are classified as Level 3.

Loans and deposits with credit institutions

As a condition of underwriting, certain countries require a level of capital to be held in restricted accounts. These are known as 'overseas deposits' and are lodged centrally with Lloyd's. The split between levels is determined by Lloyd's who provide a working schedule detailing the underlying assets.

Derecognition of financial assets

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- a) The rights to the cash flows from the asset have expired; or
- b) The Syndicate retains the right to receive cash flows from the asset and has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either (a) the Syndicate has transferred substantially all the risks and rewards of the asset; or (b) the Syndicate has neither

Notes to the financial statements for the year ended 31 December 2018

transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Syndicate has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards nor transferred control of the asset, the asset is recognised to the extent of the Syndicate's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Syndicate could be required to repay. In that case, the Syndicate also recognises an associated liability.

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.

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the fair valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

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 for the investment return generated on investments supporting technical balances. Investment return generated on Funds in Syndicate capital balances are retained in the non-technical account.

The tables provided in note 13 give further analysis on the syndicate's investments detailing credit rating, ageing and fair value hierarchy.

Taxation

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

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

Pension costs

SUAL employs all UK based staff and operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net

Notes to the financial statements for the year ended 31 December 2018

operating expenses. There are no direct transactions between the Syndicate and the pension schemes.

Profit commission

No profit commission arrangements are in place with the managing agent for the closing 2016 year of account and all subsequent years of account.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Syndicate's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognised in the period in which the estimate is revised if the change affects only that period, or in the period of the revision and future periods if the change affects both current and future periods.

Critical judgements in applying the Syndicate's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Syndicate's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

Reinsurance assets

Reinsurance assets include balances due from reinsurance companies for paid and unpaid losses. Reinsurance assets are measured in accordance with the accounting policy stated in note 2. Reinsurance assets are subject to impairment testing and the carrying amount is reduced to its recoverable amount. The asset is impaired if objective evidence is available to suggest that it is probable that the Syndicate will not be able to collect the amounts due from reinsurers.

Provision for unearned premiums and deferred acquisition costs

The directors use their judgement in selecting appropriate earnings patterns for the business underwritten and associated acquisition costs. Two main patterns are used being (1) a straight-line pattern over the life of the policy for open market risks and (2) an extended pattern for delegated authority premium to take into account the expected pattern for written business attached to the master contract. Both of these patterns are calculated with reference to the inception and expiry dates of the policies concerned. At the balance sheet date the carrying amount for the unearned premium reserve (net of reinsurance) is \$88.2m (2017: \$88.0m) and deferred acquisition costs of \$24.2m (2017: \$24.7m).

Notes to the financial statements for the year ended 31 December 2018

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

- **Valuation of liabilities of non-life insurance contracts**

Estimates are made for both the expected ultimate cost of claims reported and claims incurred but not reported (IBNR) at the reporting date. The estimate of IBNR is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Syndicate uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes past trends can be used to project future developments. The gross carrying amount for non-life insurance contract liabilities, the summation of IBNR and UPR, at the balance sheet is \$974.4m (2017: \$913.3m).

- **Valuation of financial instruments**

The directors use their judgement in selecting an appropriate valuation technique. Where possible, financial instruments are marked at prices quoted in active markets. In certain instances, such price information is not available for all instruments and the Syndicate uses valuation techniques to measure such instruments. These techniques use “market observable inputs” where available, derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. For positions where observable reference data are not available for some or all parameters the Syndicate estimates the non-market observable inputs used in its valuation models. More details on this are given in note 13.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, yield curves, credit spreads, liquidity statistics and other factors. The use of different valuation techniques could lead to different estimates of fair value.

- **Gross written premium**

A significant proportion of revenue recognised in a year is estimated premium income (“EPI”). The extent of coverage under certain contracts at the year-end is unknown and hence the premium income in respect of these requires estimation. The main area of estimation relates to third party coverholder arrangements. EPI is estimated based on information supplied by coverholders, review of the performance of previous years’ contracts and takes into account whether the contract is a renewal or new to Starr.

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

4. Class of business analysis

An analysis of the underwriting result before investment return and currency translation adjustment is set out below:

2018	Gross written premiums \$'000's	Gross premiums earned \$'000's	Gross claims incurred \$'000's	Net operating expenses \$'000's	Reinsurance balance \$'000's	Total \$'000's
Direct insurance						
Marine, aviation and transport	62,290	61,756	(32,184)	(1,608)	(26,259)	1,705
Fire and other damage to property	81,807	76,625	(133,469)	(3,726)	47,801	(12,769)
Third party liability	109,423	99,959	(64,405)	(9,366)	(18,176)	8,012
Miscellaneous	19,115	22,114	(14,263)	(1,101)	(5,352)	1,398
	272,635	260,454	(244,321)	(15,801)	(1,986)	(1,654)
Reinsurance	116,506	120,593	(80,093)	(10,849)	(38,174)	(8,523)
	389,141	381,047	(324,414)	(26,650)	(40,160)	(10,177)

2017	Gross written premiums \$'000's	Gross premiums earned \$'000's	Gross claims incurred \$'000's	Net operating expenses \$'000's	Reinsurance balance \$'000's	Total \$'000's
Direct insurance						
Marine, aviation and transport	64,502	62,858	(21,555)	(4,450)	(30,791)	6,062
Fire and other damage to property	57,668	58,526	(32,457)	(3,540)	(22,318)	211
Third party liability	83,836	86,792	(58,162)	(12,181)	(11,721)	4,728
Miscellaneous	27,937	29,458	(7,067)	(2,024)	(16,709)	3,658
	233,943	237,634	(119,241)	(22,195)	(81,539)	14,659
Reinsurance	137,691	145,888	(104,123)	(9,845)	(24,975)	6,945
	371,634	383,522	(223,364)	(32,040)	(106,514)	21,604

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

4. Class of business analysis (continued)

The net assets of the Syndicate are managed as a whole and are not allocated to separate business segments. The analysis of gross written premiums by geographical areas in which the risks are written is as follows:

	2018	2017
	\$000	\$000
UK	330,502	308,919
Other EU countries	153	86
US	47,664	30,329
Other	<u>10,822</u>	<u>32,300</u>
Total	<u><u>389,141</u></u>	<u><u>371,634</u></u>

5. Net operating expenses

	2018	2017
	\$000	\$000
Commission	22,017	20,660
Reinsurers' share of commission	(13,056)	(17,382)
Acquisition costs	21,305	27,223
Change in deferred acquisition costs	(137)	3,369
Administrative expenses	11,404	11,356
Reinsurance override commissions	<u>(14,883)</u>	<u>(13,186)</u>
	<u><u>26,650</u></u>	<u><u>32,040</u></u>

Members' personal expenses are included within administrative expenses. Administrative expenses are stated net of claims handling expenses allocated to claims paid.

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

5. Net operating expenses (continued)

Administrative expenses include auditor's remuneration:

	2018	2017
	\$000	\$000
Audit of regulatory reporting for current year end	147	131
Audit of regulatory reporting for prior year end	0	0
Audit-related assurance services	84	98
	<u>231</u>	<u>229</u>

6. Staff numbers and costs

No staff are employed directly by Starr Managing Agents Limited ("SMAL"), therefore no staff costs have been disclosed for 2018 (2017: nil).

7. Emoluments of the directors of Starr Managing Agents Limited

The Directors' emoluments have not been charged to the Syndicate for the 2018 year, but are retained by SUAL.

The active underwriter's emoluments are not charged to the Syndicate for the 2018 year, but are retained by SUAL.

8. Investment return

	2018	2017
	\$000	\$000
From financial instruments designated as at fair value through profit or loss	6,111	4,740
Interest on cash at bank	407	181
Investment expenses	(304)	(262)
Total	<u>6,214</u>	<u>4,659</u>
Other income from investments designated as at fair value through profit or loss		
Realised gains and (losses)	639	(46)
Unrealised gains and (losses)	(1,760)	(2,660)
Total	<u>(1,121)</u>	<u>(2,706)</u>
Net Investment Income	<u>5,093</u>	<u>1,953</u>

The above investment return represents values held within the technical and non-technical account. The non-technical account is associated with returns from the ring fenced Funds in Syndicate.

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

8. Investment return (continued)

The average amount of Syndicate funds available during 2018 and the investment return yield for that calendar year, excluding unrealised gains / losses and investment management fees were as follows:

	2018	2017
	\$000	\$000
Average Syndicate funds available		
Sterling	43,487	42,311
Euro	1,356	1,887
United States Dollars	170,183	214,951
Canadian Dollars	83,436	78,794
Combined in United State Dollars	<u>298,462</u>	<u>337,943</u>
Gross aggregate investment return for the calendar year in Dollars	7,158	5,061
Analysis of calendar year investment yield by fund	%	%
Sterling	2.0	0.5
Euro	0.0	0.0
United States Dollars	2.9	1.6
Canadian Dollars	1.7	1.4
Combined in United State Dollars	<u>2.4</u>	<u>1.4</u>

The overall investment yield (excluding unrealised gains / losses and investment expense) is \$7.2m (2017: \$5.3m) representing an average yield of 2.4% (2017: 1.4%) on average funds of \$298.5m (2017: \$337.9m). "Average funds" is the average of bank balances, overseas deposits and investments held at the end of each month during the calendar year.

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

9. Financial investments

	Market value		Cost	
	2018	2017	2018	2017
	\$000	\$000	\$000	\$000
Shares and other variable yield securities and units in unit trust	25,345	14,869	25,345	14,869
Debt and other fixed income securities	245,872	237,985	247,414	235,753
Other investments	<u>24,399</u>	<u>18,595</u>	<u>23,097</u>	<u>18,530</u>
	<u>295,616</u>	<u>271,449</u>	<u>295,856</u>	<u>269,152</u>

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

9. Financial investments (continued)

	Level 1	Level 2	Level 3	Total
2018	\$000	\$000	\$000	\$000
Direct insurance:				
Shares and other variable yield securities and units in unit trust	25,345	-	-	25,345
Debt securities and other fixed income securities	-	245,872	-	245,872
Overseas deposits	12,630	48,914	-	61,544
Other investments	-	24,399	-	24,399
Total	37,975	319,185	-	357,160
	Level 1	Level 2	Level 3	Total
2017	\$000	\$000	\$000	\$000
Direct insurance:				
Shares and other variable yield securities and units in unit trust	14,869	-	-	14,869
Debt securities and other fixed income securities	-	237,985	-	237,985
Overseas deposits	12,867	50,458	-	63,325
Other investments	-	18,595	-	18,595
Total	27,736	307,038	-	334,774

Other investments

The amount disclosed within this categorisation relates to asset and mortgage backed securities.

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

10. Debtors arising out of insurance operations

	2018 \$000	2017 \$000
Due from group intermediaries	167,790	96,216
Due from non-group intermediaries	102,371	142,584
	<u>270,161</u>	<u>238,800</u>

11. Overseas Deposits

	2018 \$000	2017 \$000
Overseas Deposits	<u>61,544</u>	<u>63,325</u>

12. Reconciliation of provision for claims, UPR and DAC

	Provision for Claims		UPR		DAC	
	2018	2018	2018	2018	2018	2018
	Gross \$000	Reinsurance \$000	Gross \$000	Reinsurance \$000	Gross \$000	Reinsurance \$000
Brought Forward Balance	648,329	396,000	264,996	177,024	65,628	40,948
Movement in Provision	72,869	57,118	8,094	5,689	1,372	1,236
Foreign Exchange Differences	(14,218)	(7,310)	(5,621)	(3,436)	(2,272)	(1,621)
Carried Forward Balance	<u>706,980</u>	<u>445,808</u>	<u>267,469</u>	<u>179,277</u>	<u>64,728</u>	<u>40,563</u>

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

12. Reconciliation of provision for claims, UPR and DAC (continued)

2017	Provision for Claims		UPR		DAC	
	Gross \$000	Reinsurance \$000	Gross \$000	Reinsurance \$000	Gross \$000	Reinsurance \$000
Brought Forward Balance	684,179	412,287	291,275	193,084	74,713	45,480
Movement in Provision	330	7,785	(11,888)	(5,764)	(5,550)	(2,064)
Foreign Exchange Differences	(36,179)	(24,072)	(14,392)	(10,296)	(3,535)	(2,467)
Carried Forward Balance	<u>648,330</u>	<u>396,000</u>	<u>264,995</u>	<u>177,024</u>	<u>65,628</u>	<u>40,949</u>

13. Risk management

a) Governance framework

The primary objective of the Syndicate's risk and financial management framework is to protect the Syndicate's members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. SMAL recognises the critical importance of having efficient and effective risk management systems in place.

SMAL has established a risk management function for the Syndicate with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a Syndicate policy framework which sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for the Syndicate's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Syndicate.

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

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

The Society of Lloyd's is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority under the Financial Services and Markets Act 2000. Effective 1 January 2016, Lloyd's has been subject to the Solvency II capital regime. Within this 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 the Syndicate is not disclosed in these financial statements.

Lloyd's capital setting process

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

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR is 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 2018 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates. Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position on page 17, represent resources available to meet members' and Lloyd's capital requirements.

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

c) Insurance risk

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

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

The Syndicate purchases reinsurance as part of its risk mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is made up of facultative and excess-of-loss reinsurance designed to mitigate the Syndicate's net exposure to specific risks and catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Syndicate has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

The Syndicate principally issues the following types of general insurance contracts: accident and health, property fire and peril, third-party liability, marine, aviation and transport. Risks usually cover twelve months duration.

The most significant risks arise from climate changes, natural disasters and terrorist activities. For longer tail claims that take some years to settle, there is also inflation risk.

Strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Syndicate. The Syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

The Syndicate has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage).

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Syndicate's risk appetite as decided by management. The overall aim is currently to restrict the impact of a single catastrophic event to approximately 7.5% of members' balance on a net basis. Counterparty exposure is readily monitored to prevent over concentration in the event of such a catastrophe. The Board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

The Syndicate uses both its own and commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an un-modelled event are greater than expected. As a further guide to the level of catastrophe exposure written by the Syndicate, the following table shows hypothetical claims arising for various realistic disaster scenarios (RDS) arising for various RDS's based on the Syndicate's expected risk exposures estimated for the 2019 Syndicate Business Forecast.

RDS event	Estimated gross claims \$000	Estimated net claims \$000
Cyber major data breach	88,337	44,169
Aviation war event	142,696	31,850
Third party liability event	55,000	27,500
Director and Officers liability event	50,000	25,000
Major Complex Loss	84,460	12,313

The table below sets out the concentration of outstanding claims liabilities by type of contract:

	Gross liabilities \$000	2018 Net liabilities \$000	Gross liabilities \$000	2017 Net liabilities \$000
Marine, aviation and transport	77,170	12,953	68,822	22,225
Fire and other damage to property	199,225	49,285	63,593	24,706
Third party liability	122,752	68,809	136,609	71,498
Miscellaneous	9,220	2,123	11,638	1,203
Reinsurance	298,613	128,002	367,668	132,698
Total	706,980	261,172	648,330	252,330

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

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 occurrences; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates. Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, 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 have been changed on an individual basis.

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

2018	Change in assumptions	Impact on gross liabilities \$000	Impact on net liabilities \$000	Impact on profit and members' balances \$000
Average claim cost	10%	70,698	26,117	(26,117)
Average number of claims	10%	70,698	26,117	(26,117)

2017	Change in assumptions	Impact on gross liabilities \$000	Impact on net liabilities \$000	Impact on profit and members' balances \$000
Average claim cost	10%	64,833	25,233	(25,233)
Average number of claims	10%	64,833	25,233	(25,233)

Claims development triangles

The tables on the next page illustrate the development of the estimates of earned ultimate cumulative claims for the Syndicate after the end of the underwriting year, illustrating how amounts estimated have changed from the first estimates made. Tables have been constructed on an underwriting year basis. Non US Dollar balances have been converted using period end 2018 exchange rates to aid comparability.

At the end of each first year, only part of the premium written will have been earned and it is expected that ultimate claims will increase during the period over which the premium is earned. The Syndicate is taking advantage of the transitional provision with section 6.3 of FRS 103 in order to build up to a ten year history over time.

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

Gross of Reinsurance

Underlying Pure Year	Incurred at end of underwriting year	1 year later	2 years later	3 years later	4 years later	5 years later	6 years later	7 years later	Cumulative Payments
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
2011	175,847	299,981	286,324	279,754	282,970	279,830	278,076	276,054	257,282
2012	107,509	228,009	259,497	251,951	247,854	243,174	246,804	-	230,096
2013	115,105	232,074	220,102	212,010	208,690	205,182	-	-	168,173
2014	108,894	206,448	206,795	200,121	218,811	-	-	-	147,273
2015	104,196	245,347	251,974	255,697	-	-	-	-	162,322
2016	118,500	260,566	278,680	-	-	-	-	-	155,024
2017	95,696	226,820	-	-	-	-	-	-	66,090
2018	157,771	-	-	-	-	-	-	-	12,645

Net of Reinsurance

Underlying Pure Year	Incurred at end of underwriting year	1 year later	2 years later	3 years later	4 years later	5 years later	6 years later	7 years later	Cumulative Payments
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
2011	79,963	125,771	119,017	113,333	115,841	114,560	113,385	112,648	103,278
2012	43,418	83,680	93,180	90,349	90,165	88,164	89,259	-	82,662
2013	46,647	100,273	95,067	90,608	88,739	87,680	-	-	70,936
2014	45,502	92,546	97,507	94,993	107,056	-	-	-	69,878
2015	37,023	83,796	89,601	91,309	-	-	-	-	50,478
2016	35,096	77,634	83,835	-	-	-	-	-	36,459
2017	29,630	70,628	-	-	-	-	-	-	17,029
2018	37,656	-	-	-	-	-	-	-	3,229

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

Claims Split by Reporting Year of Account

Underlying Pure Year	Gross Estimated Balance to pay	Net Estimated Balance to pay
	\$000	\$000
2010 & Prior	40,065	15,049
2011	18,772	9,370
2012	16,708	6,597
2013	37,009	16,744
2014	71,538	37,178
2015	93,375	40,831
2016	123,656	47,376
2017	160,731	53,599
2018	145,126	34,428
Total	706,980	261,172

During 2018, gross ultimate claims in respect of prior underwriting years (2016 & prior) increased marginally by \$0.6m (approximately \$0.2m net). However, this is the result of a significant reduction in premium of \$35.6m gross (approx. \$14.0m net), offset by an increase of \$25.1m gross (approx. \$10.0m net) due to underlying claims deterioration. The drivers of the adverse experience are, most notably, from the Professional classes. There was also adverse experience on Aviation (Aerospace and General Aviation), Accident & Health and Aon Client Treaty, offset by favourable experience in Technical risks.

Claims reserves established can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The impact on profit of a 1% variation in the total net claims reserves would be \$2.6m (2017: \$2.5m).

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

d) Financial risk - credit risk

Credit risk is the risk that the Syndicate becomes exposed to losses if a specific counterparty fails to perform its contractual obligations in a timely manner, causing the Syndicate loss and/or impacting the Syndicate's ability to meet its claims as they fall due. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location. Part of the Syndicate's credit risk is mitigated by the collateral received from a third party. The Syndicate is exposed to credit risk in its investment portfolio and with its premium and reinsurance receivables. The tables below show the breakdown as at 31 December 2018 and 2017 of the exposure of the bond portfolio, liquidity funds and insurance and reinsurance receivables by credit quality.

The reinsurance recoveries from Starr Insurance and Reinsurance Limited ("SIRL"), a group company, have been collateralised via the ring fencing of a bond portfolio. The current recoverable is \$91.3m which is fully collateralised. The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2018 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

	AAA	AA	A	BBB	BB or less	Not readily available/not rated	Total
2018	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Shares and other variable yield securities and unit trust	-	-	25,345	-	-	-	25,345
Debt securities	76,962	63,142	84,352	17,759	-	3,656	245,871
Overseas deposits as investments	33,033	7,594	5,309	3,290	1,073	11,245	61,544
Other Investments	11,421	756	-	-	-	12,222	24,399
Reinsurer' share of claims outstanding	1,844	127,141	316,729	-	-	94	445,808
Reinsurance debtors	20	10,676	23,943	-	-	-	34,639
Cash at bank and in hand	-	-	2,986	-	-	-	2,986
Total	123,280	209,309	458,664	21,049	1,073	27,217	840,592

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

	AAA	AA	A	BBB	BB or less	Not readily available/not rated	Total
2017	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Shares and other variable yield securities and unit trust	-	-	14,870	-	-	-	14,870
Debt securities	81,420	60,840	85,600	10,130	-	-	237,990
Overseas deposits	33,560	8,075	6,260	3,500	1,060	10,870	63,325
Other Investments	11,330	7,259	-	-	-	-	18,589
Reinsurer' share of claims outstanding	900	125,000	269,890	-	10	200	396,000
Reinsurance debtors	50	13,290	20,700	-	-	10	34,050
Cash at bank and in hand	-	-	2,759	-	-	-	2,759
Total	127,260	214,464	400,079	13,630	1,070	11,080	767,583

Ageing of Debt

It is important that the Syndicate can pay its obligations as they fall due. Levels of cash are therefore managed on a daily basis and buffers of liquid assets are held in excess of the immediate requirements. This is to reduce the risk of being forced sellers of any of the Syndicate's assets. The Syndicate funds its insurance liabilities with a portfolio of cash and debt securities exposed to market risk. Assets which are past due but not impaired have been in arrears for less than 3 months from the reporting date. The table on the next page indicate the ageing past due of cash flows arising from assets at both 31 December 2018 and 31 December 2017.

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

	Neither due nor impaired	Up to 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
2018	\$000	\$000	\$000	\$000	\$000	\$000
Shares and other variable yield securities and unit trust	25,345	-	-	-	-	25,345
Debt securities	245,872	-	-	-	-	245,872
Overseas deposits as investments	61,544	-	-	-	-	61,544
Other Investments	24,399	-	-	-	-	24,399
Reinsurer' share of claims outstanding	445,808	-	-	-	-	445,808
Reinsurance debtors	34,638	13,473	2,072	482	251	50,916
Cash at bank and in hand	2,986	-	-	-	-	2,986
Insurance debtors	217,909	23,250	8,632	7,932	12,438	270,161
Other assets	253,381	-	-	-	2,309	255,690
Total	1,311,882	36,723	10,704	8,414	14,998	1,382,721

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

	Neither due nor impaired	Up to 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
2017	\$000	\$000	\$000	\$000	\$000	\$000
Shares and other variable yield securities and unit trust	14,870	-	-	-	-	14,870
Debt securities	237,990	-	-	-	-	237,990
Overseas deposits as investments	63,325	-	-	-	-	63,325
Other Investments	18,589	-	-	-	-	18,589
Reinsurer' share of claims outstanding	396,000	-	-	-	-	396,000
Reinsurance debtors	34,050	10,314	1,300	270	600	46,534
Cash at bank and in hand	2,759	-	-	-	-	2,759
Insurance debtors	189,110	23,380	9,720	3,200	13,390	238,800
Other assets	252,489	-	-	-	2,490	254,979
Total	1,209,182	33,694	11,020	3,470	16,480	1,273,846

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

Within the tables above, 'Other assets contain an amount of \$179.3m (2017: \$177.0m) in relation to Reinsurance share of unearned premium. These items are disclosed in the currency risk tables (pages 49 and 50) within 'Reinsurers' share of technical provisions'. This has been reallocated in order to conform to Lloyd's reporting requirements.

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, geographic regions and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Syndicate's rating policy. The attributable risk ratings are assessed and updated regularly.

During the year, no credit exposure limits were exceeded. The Syndicate actively manages its product mix to ensure that there is no significant concentration of credit risk.

All debt securities and other fixed income securities shown above are listed.

e) Financial risk - liquidity risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries. The following policies and procedures are in place to mitigate the Syndicate's exposure to liquidity risk:

- a) A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- b) Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.
- c) Contingency funding plans are set up which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans. The Syndicate's catastrophe excess-of-loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

Maturity profiles

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and 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.

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

	0-1 years	1-3 years	3-5 years	>5 years	Total
2018	\$000	\$000	\$000	\$000	\$000
Creditors	240,430	-	-	-	240,430
Claims outstanding	314,386	252,360	102,518	37,716	706,980
Total assets	554,816	252,360	102,518	37,716	947,410

	0-1 years	1-3 years	3-5 years	>5 years	Total
2017	\$000	\$000	\$000	\$000	\$000
Creditors	185,180	-	-	-	185,180
Claims outstanding	262,390	245,390	94,710	45,840	648,330
Total	447,570	245,390	94,710	45,840	833,510

There are no derivative based liabilities.

f) Financial risk - market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:

- i. Currency risk;
- ii. Interest rate risk; and
- iii. Equity price risk.

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

- a) A market risk policy exists that sets out the assessment and determination of what constitutes market risk for the Syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- b) Strict control over derivative instruments (e.g. equity derivatives are only permitted to be held to facilitate portfolio management or to reduce investment risk).
- c) For assets backing outstanding claims provisions, market risk is managed by matching the duration and profile of assets to the technical provisions they are backing. This helps manage market risk to the extent that changes in the values of assets are matched by a corresponding movement in the values of the technical provisions.

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

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 and Canadian Dollars. The Syndicate monitors the matching of the foreign currency denominated liabilities with assets denominated in the same currency.

Asset liability matching by currency risk

Underwriting assets are initially held in the settlement currencies of Sterling, Euros, US Dollars and Canadian Dollars, which represent the majority of the Syndicate's liabilities by currency, thus reducing the underwriting asset liability matching currency risk. The tables on the next page presents the Syndicate's assets and liabilities by currency. The amounts are stated in the US Dollar equivalent of the local currency, in order that the amounts can be reconciled to the Syndicate's statement of financial position. The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled, aside from Euros. This minimises the currency risk inherent in these contracts so far as this is allowed by regulatory requirements. Profits or losses are converted to be reflected in the net assets of the functional currency, US Dollars.

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

2018	GBP \$000	USD \$000	EUR \$000	CAD \$000	Total \$000
Financial investments	-	226,984	-	68,632	295,616
Overseas deposits	42,280	2,809	-	16,455	61,544
Reinsurers' share of technical provisions	86,444	408,140	85,400	45,101	625,085
Insurance and reinsurance receivables	77,346	205,825	20,833	17,073	321,077
Cash and cash equivalents	1,799	209	977	1	2,986
Other assets	17,269	47,175	5,039	6,930	76,413
Total assets	225,138	891,142	112,249	154,192	1,382,721
Technical provisions	(162,421)	(582,079)	(149,758)	(80,191)	(974,449)
Insurance and reinsurance payables	(55,521)	(143,616)	(19,855)	(16,691)	(235,683)
Other creditors	(13,252)	(42,863)	(4,673)	(6,657)	(67,445)
Total liabilities	(231,194)	(768,558)	(174,286)	(103,539)	(1,277,577)
Net assets	(6,056)	122,584	(62,037)	50,653	105,144

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

2017	GBP \$000	USD \$000	EUR \$000	CAD \$000	Total \$000
Financial investments	-	206,089	-	65,360	271,449
Overseas deposits	44,740	3,205	-	15,380	63,325
Reinsurers' share of technical provisions	79,790	394,284	59,660	39,290	573,024
Insurance and reinsurance receivables	70,770	199,154	4,010	11,400	285,334
Cash and cash equivalents	1,390	(491)	1,860	-	2,759
Other assets	16,420	49,135	7,240	5,160	77,955
Total assets	213,110	851,376	72,770	136,590	1,273,846
Technical provisions	(150,900)	(573,825)	(116,510)	(72,090)	(913,325)
Insurance and reinsurance payables	(53,260)	(111,124)	(3,900)	(12,040)	(180,324)
Other creditors	(13,950)	(41,593)	(4,940)	(5,380)	(65,863)
Total liabilities	(218,110)	(726,542)	(125,350)	(89,510)	(1,159,512)
Net assets	(5,000)	124,834	(52,580)	47,080	114,334

Policyholders' assets are held in the settlement currencies of Sterling, US Dollars, Canadian Dollars and Euros which represent the majority of the Syndicate's liabilities by currency. This limits the underlying foreign exchange risk.

Foreign exchange exposure also arises when business is written in non-settlement currencies. These transactions are converted into US Dollar at the prevailing spot rate once the premiums are received. Consequently there is exposure to currency movements between the risk being written and the premiums being converted. Payments in non-settlement currencies are converted back into the underlying currency at the time a claim is to be settled; therefore the Syndicate is exposed to exchange rate risk between the claim being made and the settlement being paid. In addition there is the currency risk arising from the claims in a settlement currency being different from the net premiums earned in that currency.

If the foreign currencies were to strengthen or weaken by 10% against the Syndicate's functional currency, US Dollar, the movement in the monetary net assets and liabilities of the Syndicate would result in the following gains/(losses) in the Statement of Total Comprehensive Income at 31 December 2018.

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

	10% strengthening of currency against USD	10% weakening of currency against USD
2018	\$000	\$000
Currency		
GBP	(606)	606
EUR	(6,204)	6,204
CAD	5,065	(5,065)

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.

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

- i) Fixed rate financial assets and liabilities; and
- ii) Variable rate financial assets and liabilities.

The first of these measures the impact on profit or loss for the year (for items recorded at fair value through profit or loss) and on members' balance (for available for sale investments) that would arise from a reasonably possible change in interest rates at the reporting date on financial instruments at the period end. The second of these measures the change in interest income or expense over the period of the year attributable to a reasonably possible change in interest rates,

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

13. Risk management (continued)

based on floating rate assets and liabilities held at the reporting date. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that movements in these variables are non-linear.

	2018	2017
	\$000	\$000
Interest rate risk		
Impact of 50 basis point increase on result	(1,509)	(1,634)
Impact of 50 basis point decrease on result	1,509	1,634
Impact of 50 basis point increase on net assets	(1,509)	(1,634)
Impact of 50 basis point decrease on net assets	1,509	1,634

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

14. Related parties

Starr Managing Agents Limited

Syndicate 1919 is managed by SMAL. SMAL is owned 100% by Starr Global Financial Inc. (Nevada).

The Syndicate's Corporate Member, Starr Syndicate Limited ("SSL")'s immediate parent is Starr Indemnity & Liability Company (Texas) and is owned 100% by Starr Global Financial Inc. (Nevada). The ultimate controlling party of Syndicate 1919 is Starr International Inc. (Switzerland).

Starr Underwriting Agents Limited

SUAL underwrites on behalf of Syndicate 1919. SUAL is owned 100% by Starr Global Financial Inc. (Nevada).

Starr Underwriting Agents Dubai

SUAD underwrites on behalf of Syndicate 1919. SUAD is owned 100% by Starr Global Holdings AG. (Switzerland).

Other Starr Companies

Other companies within the Starr Companies Group have been authorised as Lloyd's coverholders and granted binding authorities to produce business on behalf of the Syndicate for which they receive commission, and in some cases, a profit commission. All contracts are prepared using standard market wordings and are on a commercial arm's length basis.

Syndicate 1919

Notes to the financial statements for the year ended 31 December 2018

14. Related parties (continued)

Certain directors of SMAL and SUAL hold directorships in certain of these companies. These are disclosed to the Boards on the conflicts registers.

The Syndicate purchases a global catastrophe cover from SIRL (a Bermudian regulated insurer) protecting all catastrophe exposed lines of business.

There are common directorships between these entities that are disclosed in the conflicts registers. All contracts are prepared using standard market wordings and are on a commercial arm's length basis.

With effect from 1 January 2011, SUAL has been acting as coverholder to the UK branch of SIRL and from 24 June 2015 SUAL is also acting as a coverholder to Starr Insurance Europe Limited ("SIEL"); SUAL is remunerated on a commission basis. SMAL has considered this and sees no material risk to the Syndicate. A protocol has been signed between all four parties (SIRL, SIEL, SUAL and SMAL) defining the allocation of risks to the three carriers.

Nicholas Pawson is a director of AmTrust Syndicates Limited ("ASL"). Syndicate 1919 cedes quota share participation to a syndicate managed by ASL on normal commercial terms.

With effect from 1 January 2014, SMAL has been writing Lloyd's consortium business for which SMAL receives a consortium management fee and binding authority commission. Prior to this period the Syndicate participated in a number of consortia managed by SUAL for which SUAL received a consortium management fee and binding authority commission.

15. Capital

SSL, which supports the Syndicate, is required to hold regulatory capital in compliance with the prudential rules issued by the PRA and is also subject to Lloyd's capital requirements, including maintaining Funds at Lloyd's ("FAL") and Funds in Syndicate ("FIS"), both of which are held in USD. 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, should the corporate member fail to meet their financial obligations when called to meet a loss or cash call, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

In addition to FAL, Syndicate 1919 is also supported by FIS, which consists of retained earnings from the syndicate distribution. These funds belong to the corporate member and are retained within the Syndicate.

In order to meet Lloyd's requirements, each syndicate is required to calculate its Syndicate 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

Notes to the financial statements for the year ended 31 December 2018

15. Capital (continued)

review by Lloyd's and approval by the Lloyd's Capital and Planning Group. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the ECA. The purpose of this uplift, which is a non-Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives.

The capital uplift applied for 2017 & 2018 was 35% of the member's SCR 'to ultimate'.

At 31 December 2018, the agreed ECA as a percentage of the agreed underwriting capacity for the following underwriting year was 71.4% (2017: 70.0%).

The Syndicate also benefits from mutualised capital within the Lloyd's Central Fund, for which a variable annual levy, for 2018 of 0.35% (2017: 0.35%) of Syndicate gross premium, is payable.

The Lloyd's Capital Requirement ("LCR") is expected to be reviewed annually by Lloyd's and periodically by the PRA. The PRA expects management to apply their rules continuously. If a firm's capital falls below its ECA, steps must be taken to restore capital adequacy. Due to the nature of the Lloyd's capital setting process, FAL requirements are formally assessed and funded twice yearly at discrete periods and must be met for the Syndicate to continue underwriting.

At 31 December 2018, SSL contributed FIS of \$105.1m (2017: \$114.3m), Starr USA Asset Holdings funded the agreed FAL requirement of \$150.8m (2017: \$151.7m).

Starr Syndicate 1919 does not seek to retain any assets significantly in excess of the Lloyd's capital requirement within the Lloyd's framework and any surplus will be retained locally as FIS, allowing FAL to be reduced.