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StarStone

Syndicate 2008

Annual Report and

Financial Statements

For the year ended 31 December 2018



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Directors and Administration

Managing agent

StarStone Underwriting Limited

Directors

The directors named below held office for the period 1 January 2018 to 31 December 2018.

E Gilmour (Chairman and Non-Executive)

A Cliff (Non-Executive)

R Delhaise

T Fillingham

D Truman

S Urry

J Wardrop (Non-Executive)

G Maina (Appointed 17 December 2018)

A Agnew (Non-Executive, Appointed 30 November 2018)

C Barrett (Appointed 11 March 2019)

Former directors who served during the year

R Grainger (Resigned 31 December 2018)

D Smith (Resigned 19 September 2018)

Directors and Administration (continued)

Managing agent's secretary

C Traxler

S Hextall

Managing agent's registered office

88 Leadenhall Street

London, EC3A 3BP

United Kingdom

Managing agent's registered number

08039754

Syndicate

Active underwriter

G Doughty

Banker

Citibank, Barclays, Royal Bank of Canada

Investment manager

Goldman Sachs

Registered auditor

KPMG LLP

Consulting Actuary

Lane Clark & Peacock LLP

Report of the directors of the managing agent

The directors of the managing agent, StarStone Underwriting Limited ("SUL") present their managing agent's report for Syndicate 2008 ("the Syndicate") the year ended 31 December 2018.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ('FRS102') and Financial Reporting Standard 103 "Insurance Contracts" ('FRS103'). The corporate member on the 2015 year of account ("YOA"), SGL 1, has exercised its right to waive the requirement to prepare separate accounts for this closed underwriting year of account.

The result for year ended 31 December 2018 is shown in the table below. Please note this table excludes take on RITC premiums and claims.

2018	2016	2017	2018	All
	YOA	YOA	YOA	YOA's
	£'000	£'000	£'000	£'000
Net premiums earned	190	-	15,718	15,908
Total technical charges	20,534	-	(20,124)	410
Technical profit	20,724	-	(4,406)	16,318
Investment income	688	-	4,288	4,976
Non-technical account - other income/charges			(7,586)	(7,586)
Loss on exchange	(259)	-	(4,096)	(4,355)
Net expenses	(456)	-	(5,150)	(5,606)
Net profit	20,697	-	(16,950)	3,747

The Syndicate recorded a £3.7m profit for the 2018 financial year across all years of account. Technical profit of £16.3m, investment income of £5.0m, other charges of £7.6m, expenses of £5.6m and loss on foreign exchange of £4.4m.

Principal activities

The principal activity of the business of Syndicate 2008 is to provide finality solutions for Lloyd's run off business through either reinsurance to close or quota share agreements.

Business review

At 1 January 2008, the Syndicate was successful in providing reinsurance to close in respect of Lloyd's Syndicates 205, 588, 861 and 1236. The following Syndicates were subsequently reinsured to close:

As at 1 January 2009: Syndicate 1121.

As at 1 January 2010: Syndicates 53 and 991, and as at 1 July 2010: Syndicate 529.

As at 1 January 2011: Syndicates 5500, 1243, 6101 and 6102. Effective 31 December 2012, the Syndicate entered into a 100% quota share reinsurance agreement with Syndicate 1200 in respect of the majority of the reserves of the 2009 and prior underwriting years of account.

Report of the directors of the managing agent (continued)

Business review (continued)

The quota share has been novated and replaced with a traditional RITC arrangement with effect from 1 January 2014.

As at 1 January 2013: Syndicate 1231's 2009 and prior years of account were reinsured, and there was a 100% quota share reinsurance agreement with Syndicate 5820 in respect its motor book on the 2010 underwriting year.

As at 1 January 2014: Syndicate 1110's 2011 and prior years of account were reinsured.

As at 1 January 2015: Syndicate 1965's 2011 and prior years of account and Syndicate 2243's 2012 and prior years of account were reinsured.

As at 1 January 2016: Syndicate 2468's 2007 and prior years of account were reinsured and a 100% quota share agreement on its 2008 Italian Public Hospital (IPH) liabilities was written.

There were no RITC transactions in 2017.

As at 1 January 2018: Syndicate 2007's 2015 and prior years of account and Syndicate 2468's 2008 to 2015 year of account were reinsured. The 2016 year of account 100% quota share agreement with S2468 on its 2008 year of account IPH liabilities was commuted.

The Syndicate continues to maintain a conservative approach to the valuation of its reinsurance asset.

Syndicates 861 and 588 are fully reinsured and, as a result, any gross or net technical movements do not impact the Syndicate's result.

Risk review

A description of the principal risks and uncertainties facing the Syndicate is set out in the notes to the financial statements.

Future developments

The intention of the board is to continue to pursue reinsurance to close opportunities and other Lloyd's closure solutions as they arise, and to manage the ongoing liabilities of the Syndicate as economically and efficiently as possible.

In February 2019, the Syndicate entered into four RITC agreements with AmTrust Syndicates Ltd for Syndicates 2526, 1206, 1861 and 5820, reinsuring their 2016 and prior years of account.

Brexit

With the UK government invoking Article 50 in March 2017, this would mean that without extensions, or agreement of the Withdraw Agreement and Transition Period, the UK will formally leave the European Union on 29 March 2019. As a direct result of this decision Starstone's Board formulated a contingency strategy and work programme and has planned on the basis of a worst case/hard Brexit. A key implication of Brexit is the loss of 'passporting rights' which allows Lloyd's of London and Syndicate 2008 to conduct cross-border business throughout the European Economic Area (EEA).

Report of the directors of the managing agent (continued)

Brexit (continued)

In order to provide continued access to Lloyd's for policyholders within the EEA, Lloyd's has set up a subsidiary in Brussels (Lloyd's Insurance Company S.A.). Starstone has worked closely with Lloyd's on this contingency arrangement. Lloyd's Brussels is an insurance company authorised and regulated by the National Bank of Belgium and regulated by the Financial Services and Markets Authority. The subsidiary is fully capitalised and has the same financial ratings as Lloyd's, AM Best (A), Fitch (AA-) and Standard & Poors (A+).

There is still considerable uncertainty with the consequence of executing Article 50 and the current negotiations. Starstone has sought to appropriately mitigate the volatility of the resultant uncertainties from a withdrawal from Europe where known but as a result of the contingency arrangement put in place by Lloyd's, Starstone's Board are confident that Syndicate 2008's future performance should not be materially impacted by Brexit.

Directors

The current directors of the managing agent are set out on page 2.

None of the directors participate directly on the Syndicate.

Disclosure of information to auditor

The directors of the managing agent who held office at the date of approval of this managing agent's report confirm that, as far as they are each aware, there is no relevant audit information of which the Syndicate's auditor is unaware; and each director has taken all the steps that they ought to have taken in their capacity as a director to make themselves aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Auditor

Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Syndicate Meeting

The managing agent confirms that it does not propose to hold an annual general meeting of the members of the Syndicate.



T Fillingham
Chief Executive Officer
For and on behalf of the board
21 March 2019

Statement of managing agent's directors' responsibilities

The directors of the managing agent are responsible for preparing the Syndicate annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their Syndicates annual accounts for each financial year. Under that law they have elected to prepare the annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period. In preparing these financial statements, the directors of the managing agent are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- Assess the Syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The directors of the managing agent are 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 them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Syndicate and to prevent and detect fraud and other irregularities.

The directors of the managing agent are responsible for the maintenance and integrity of the Syndicate and financial information included on the Syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



T Fillingham

Chief Executive Officer

For and on behalf of the board

21 March 2019



Independent auditor's report to the members of Syndicate 2008

Opinion

We have audited the financial statements of Syndicate 2008 for the year ended 31 December 2018 which comprise the Income Statement: Technical account – General business, Income Statement: non-technical account, Statement of Financial Position – Assets, Statement of Financial Position – Liabilities, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 3.

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 profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors of the Managing Agent have prepared the Annual Accounts on the going concern basis as they do not intend to liquidate the Syndicate or to cease its operations, and as they have concluded that the Syndicate's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Syndicate's business model, including the impact of Brexit, and analysed how those risks might affect the Syndicate's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Syndicate will continue in operation.



Independent auditor's report to the members of Syndicate 2008 (continued)

Report of the directors of the Managing Agent

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the directors of the Managing Agent and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

In our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Responsibilities of the directors of the Managing Agent

As explained more fully in their statement set out on page 7, the directors of the Managing Agent are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to cease trading, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.



Independent auditor's report to the members of Syndicate 2008 (continued)

The purpose of our audit work and to whom we owe our responsibilities

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

A handwritten signature in black ink, appearing to read 'Maddams'.

David Maddams (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
Canary Wharf
London E14 5GL

22 March 2019

Income Statement: Technical account – General Business

For the year ended 31 December 2018

	Note	2018		2017	
		£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	5	971,264		2,973	
Outwards reinsurance premiums		5,616		(1,652)	
			976,880		1,321
Change in the provision for unearned premiums	17				
Gross amount		(19,935)		1,970	
Reinsurers' share		14,274		(1,970)	
			(5,661)		-
			971,219		1,321
Allocated investment return transferred from the non-technical account	10		4,976		3,381
Claims incurred, net of reinsurance					
Claims paid	6				
Gross amount		(312,676)		(58,642)	
Reinsurers' share		89,550		30,773	
			(223,126)		(27,869)
Change in the provision for claims	17				
Gross amount		(938,390)		74,669	
Reinsurers' share		202,341		(28,871)	
			(736,049)		45,798
Net operating expenses	7		(1,332)		(7,848)
Balance on the technical account – general business			15,688		14,783

All operations relate to continuing activities.

The notes on pages 17 to 48 form an integral part of these financial statements.

Income Statement - Non-technical account

For the year ended 31 December 2018

	<i>Note</i>	2018 £'000	2017 £'000
Balance on the technical account – general business		15,688	14,783
Non-technical account – other charges		(7,586)	-
Investment income	10	17,315	2,686
Unrealised gains on investments	10	4,396	2,859
Investment expenses and charges	10	(649)	(244)
Unrealised losses on investments	10	(16,086)	(1,920)
Allocated investment return transferred to technical account	10	(4,976)	(3,381)
Loss on foreign exchange		(4,355)	(2,289)
Profit for the financial year		3,747	12,494

All operations relate to continuing activities.

There are no items of other comprehensive income in the accounting period, therefore no statement of other comprehensive income has been presented.

The notes on pages 17 to 48 form an integral part of these financial statements.

Statement of Financial Position – Assets

As at 31 December 2018

	Note	2018		2017	
		£'000	£'000	£'000	£'000
Investments					
Other financial investments	11		964,759		296,744
Reinsurers' share of technical provisions					
Provision for unearned premiums	17	17,827		3,037	
Claims outstanding		299,405		90,090	
			317,232		93,127
Debtors					
Debtors arising out of direct insurance operations	12	12,585		5,042	
Debtors arising out of reinsurance operations	13	22,705		12,520	
Other debtors	14	39,336		11,154	
Other assets	15	30,490		-	
Accrued interest and rent		4,801		1,602	
			109,917		30,318
Other assets					
Cash at bank and in hand	20		8,951		13,646
Total assets			1,400,859		433,835

The notes on pages 17 to 48 form an integral part of these financial statements.

Statement of Financial Position – Liabilities

As at 31 December 2018

	Note	2018		2017	
		£'000	£'000	£'000	£'000
Capital and reserves					
Members' balances			1,450		11,960
Technical provisions					
	17				
Provision for unearned premiums		23,709		3,037	
Claims outstanding		1,331,490		369,552	
			1,355,199		372,589
Deposits received from reinsurers					
			25,526		30,049
Creditors					
Creditors arising out of direct insurance operations	18	304		3,035	
Creditors arising out of reinsurance operations	19	11,532		9,837	
Other creditors		3,681		5,504	
			15,517		18,376
Accruals and deferred income					
			3,167		861
Total liabilities and equity			1,400,859		433,835

The notes on pages 17 to 48 form an integral part of these financial statements.

The Syndicate financial statements on pages 11 to 48 were approved by the board of StarStone Underwriting Limited on 21 March 2019 and were signed on its behalf by:



T Fillingham
 Chief Executive Officer
 21 March 2019

Statement of Changes in Members' Balances

For the year ended 31 December 2018

	2018	2017
	£'000	£'000
Members' balances brought forward at 1 January	11,960	10,224
Profit for the year	3,747	12,494
Payments of profit to members' personal reserve fund ¹	(14,257)	(10,758)
Members' balances carried forward at 31 December	1,450	11,960

The notes on pages 17 to 48 form an integral part of these financial statements.

Members participate on Syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

¹ During the period the Syndicate distributed profits of £14.3m (2017: £10.8m) to SGL No. 1 Limited, the corporate member.

Statement of Cash Flows

For the year ended 31 December 2018

	2018		2017	
	£'000	£'000	£'000	£'000
Cash flows from operating activities				
Profit for the year	3,747		12,494	
<i>Adjustments:</i>				
Increase in technical provisions	982,610		(83,930)	
Increase in reinsurers share of technical provisions	(224,105)		37,559	
Increase in debtors	(45,910)		64,854	
Increase in creditors	(553)		1,891	
Net interest and dividends receivable	(4,976)		(3,381)	
Movement in other assets/liabilities	(38,212)		(11,751)	
Foreign exchange (gains)/loss	(810)		(960)	
Net cash inflow from operating activities		671,791		16,776
Cash Flow from investing activities				
Acquisitions of financial instruments	(1,146,636)		(332,010)	
Proceeds from sales of financial instruments	870,264		270,528	
Interest received	16,665		2,440	
Decrease in deposit with credit institutions	(274,942)		(1,728)	
Decrease in overseas deposits	(99,081)		2,555	
Foreign exchange gains	(29,309)		10,400	
Net cash outflow from investing activities		(663,039)		(47,815)
Net cash flow from financing activities:				
Transfer to members in respect of underwriting participations	(14,257)		(10,755)	
Net cash outflow from financing activities		(14,257)		(10,755)
Net decrease/(increase) in cash and cash equivalents		(5,505)		(41,794)
Cash and cash equivalents at 1 January		13,646		54,482
Effect of exchange rate changes on cash and cash equivalents		810		958
Cash at bank in hand		8,951		13,646

The notes on pages 17 to 48 form an integral part of these financial statements.

Notes (forming part of the financial statements)

1. Basis of preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014, and Financial Reporting Standard 103 *Insurance Contracts* ("FRS 103") as issued in March 2014.

The financial statements have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss that are measured at fair value.

The financial statements are presented in Pound Sterling ("GBP"), which is the Syndicate's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The managing agent has prepared the financial statements on the expectation that continued capital support will be in place such that the Syndicate will continue to write new RITC business in future underwriting years of account.

2. Use of judgements and estimates

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

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The measurement of the provision for claims outstanding involves judgments and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

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

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate Managing agent's external actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced. The provision for claims also includes amounts in respect of internal and external claims handling costs.

In arriving at the level of claims provisions no margin is applied over and above the actuarial best estimate.

Further information about the risk that the provision for claims outstanding could be materially different from the ultimate cost of claims settlement is included in note 4.

3. Significant accounting policies

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

Notes (continued)

3. Significant accounting policies (continued)

Premiums written

Premiums written comprise the reinsurance to close premiums on contracts inceptioned during the financial year as well as adjustments made in the year to premiums written in prior accounting periods by the reinsured Syndicates. Premiums exclude taxes and duties levied on them.

Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the statement of financial position date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Claims provisions and related recoveries

Claims incurred comprise claims and claims handling expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses.

Outstanding claims include an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end (IBNR). Anticipated salvage and subrogation and other recoveries are recognised as other assets.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. A number of statistical techniques are used to assist in making these estimates.

Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Syndicate may not recover all amounts due, and that event has a reliably measurable impact on the amount that the Syndicate will receive from the reinsurer. Impairment losses are recognised in profit or loss in the period in which the impairment loss is recognised.

Foreign currencies

The Syndicate has adopted Pounds Sterling as both its presentational and functional currency. As such, no differences arise on conversion between the two.

Transactions in foreign currencies are translated to the functional currency using the average rates of exchange for the period. The Syndicate's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the statement of financial position date. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on translation of foreign currency amounts relating to the insurance operations of the Syndicate are included in the non-technical account.

Notes (continued)

3. Significant accounting policies (continued)

Financial assets and liabilities

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

Classification

The accounting classification of financial assets and liabilities determines the way in which they are measured and changes in those values are presented in the income statement. Financial assets and liabilities are classified on their initial recognition. Subsequent reclassifications are permitted only in restricted circumstances.

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

Deposits with credit institutions, debtors, and accrued interest are classified as loans and receivables.

Recognition

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

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

Measurement

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

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

Loans and receivables and non-derivative financial liabilities are measured at amortised cost using the effective interest method.

Notes (continued)

3. Significant accounting policies (continued)

Identification and measurement of impairment

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

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

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

Off-setting

Financial assets and financial liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Syndicate currently has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Investment return

Investment income comprises interest income, dividends receivable and realised investment gains. Investment return comprises investment income and movements in unrealised gains and losses on financial instruments at fair value through profit or loss, less investment management expenses, interest payable, realised losses and impairment losses.

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

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

Notes (continued)

3. Significant accounting policies (continued)

Investment return (continued)

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

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

Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the statement of financial position under the heading 'other debtors'.

No provision has been made for any other overseas tax payable by members on underwriting results.

Pension costs

Enstar (EU) Limited, which employs the staff utilised by SUL, operates a defined contribution pension scheme. Pension costs relating to staff performing Syndicate duties are charged to the Syndicate and included within "net operating expenses".

Managing agent's Fee

In 2018, a fixed fee of £1.978m was charged to the Syndicate by SUL. The fee was based on 0.5% of the Syndicate's economic capital assessment ("ECA"), plus £150,000 for board time agreed upon by the directors. This amount is included within "net operating expenses".

Notes (continued)

4. Risk and capital management

Introduction and overview

This note presents information about the nature and extent of insurance and financial risks to which the Syndicate is exposed, the Managing agent's objectives, policies and processes for measuring and managing insurance and financial risks, and for managing the Syndicate's capital.

Risk management framework

The Board of SUL sets the risk appetite annually as part of the Syndicate's business planning and Individual Capital Assessment process. The Board of the managing agent has established procedures to review and update the risk register regularly and to monitor performance against the risk appetite using a series of key risk indicators. The principal risks and uncertainties facing the Syndicate are as follows:

Insurance risk

Insurance risk includes the risks that 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). Given that the business of the Syndicate is reinsuring Syndicates in run-off, the remaining insurance risk is primarily claims and reserving risk. Reserve adequacy is monitored through quarterly review.

Notes (continued)

4. Risk and capital management (continued)

Concentration of insurance risk

The Syndicate's exposure to insurance risk is well diversified. The following table provides an analysis of the geographical breakdown of its gross and net claims reserves by class of business.

2018 Gross	Accident and Health	Marine, aviation and transport	Fire and other damage to property	Third party liability	Reinsurance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
United States	21,615	61,908	46,841	162,175	46,861	339,400
United Kingdom	1,791	20,129	4,525	220,871	89,377	336,693
Other EEA	2,957	27,163	11,095	264,791	21,930	327,936
Other Non-EEA	2,840	6,911	13,803	106,007	12,251	141,812
Australia & New Zealand	628	636	3,067	79,165	5,081	88,577
Canada	-	1,138	4,627	88,354	2,953	97,072
Total	29,831	117,885	83,958	921,363	178,453	1,331,490

2017 Gross	Accident and Health	Marine, aviation and transport	Fire and other damage to property	Third party liability	Reinsurance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
United States	21,639	26,041	26,486	35,672	29,853	139,691
United Kingdom	1,046	2,434	3,621	31,039	2,947	41,087
Other EEA	444	4,392	2,668	123,692	2,431	133,627
Other Non-EEA	98	523	6,404	20,769	2,568	30,362
Australia & New Zealand	6	6	49	4,871	1,229	6,161
Canada	1	103	2,557	15,833	130	18,624
Total	23,234	33,499	41,785	231,876	39,158	369,552

Notes (continued)

4. Risk and capital management (continued)

Concentration of insurance risk (continued)

2018 Net	Accident and Health	Marine, aviation and transport	Fire and other damage to property	Third party liability	Reinsurance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
United States	12,746	48,070	35,453	94,019	28,358	218,646
United Kingdom	589	15,432	5,679	153,395	76,349	251,444
Other EEA	2,960	18,130	11,932	248,456	23,292	304,770
Other Non-EEA	3,008	6,375	10,792	88,838	11,248	120,261
Australia & New Zealand	603	604	2,715	60,396	4,619	68,937
Canada	1	1,033	2,815	61,584	2,594	68,027
Total	19,907	89,644	69,386	706,688	146,460	1,032,085

2017 Net	Accident and Health	Marine, aviation and transport	Fire and other damage to property	Third party liability	Reinsurance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
United States	10,200	8,581	14,554	24,969	17,016	75,320
United Kingdom	259	2,122	2,551	20,943	2,602	28,477
Other EEA	444	3,721	2,427	114,689	2,412	123,693
Other Non-EEA	98	523	6,404	20,769	2,568	30,362
Australia & New Zealand	6	6	49	3,967	1,229	5,257
Canada	1	74	948	15,200	130	16,353
Total	11,008	15,027	26,933	200,537	25,957	279,462

Notes (continued)

4. Risk and capital management (continued)

Sensitivity to insurance risk

The liabilities established could be significantly lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty varies between the classes of business and the nature of the risk being underwritten and can arise from developments in case reserving for large losses and catastrophes, or from changes in estimates of claims incurred but not reported (IBNR). A five per cent increase or decrease in the ultimate cost of settling claims arising is considered to be reasonably possible at the reporting date.

A five percent increase or decrease in total net claims liabilities would have the following effect on profit or loss and equity:

	2018		2017	
	5 per cent increase £'000	5 per cent decrease £'000	5 per cent increase £'000	5 per cent decrease £'000
Accident and health	(995)	995	(550)	550
Marine, aviation and transport	(4,482)	4,482	(751)	751
Fire and other damage to property	(3,469)	3,469	(1,347)	1,347
Third party liability	(35,335)	35,335	(10,027)	10,027
Total	(44,281)	44,281	(12,675)	12,675

Financial risk

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

Credit risk

Credit risk is the risk of financial loss to the Syndicate if a counterparty fails to discharge a contractual obligation. The Syndicate is exposed to credit risk in respect of the following:

- debt securities;
- reinsurers' share of insurance liabilities;
- amounts due from intermediaries;
- amounts due from reinsurers in respect of settled claims;
- cash and cash equivalents; and
- other debtors and accrued interest.

The nature of the Syndicate's exposures to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior year.

Management of credit risk

The Syndicate's credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty. Financial assets are graded according to current credit ratings issued by rating agencies such as Standard and Poor's.

Notes (continued)

4. Risk and capital management (continued)

Management of credit risk (continued)

The Syndicate limits the amount of cash and cash equivalents that can be deposited with a single counterparty, and maintains an authorised list of acceptable cash counterparties.

Exposure to credit risk

The Syndicate's exposure to intermediaries and reinsurance counterparties is monitored by the individual business units as part of their credit control processes. The impact of reinsurer default is regularly assessed and managed accordingly.

All intermediaries must meet minimum requirements established by the Syndicate. The credit ratings and payment histories of intermediaries are monitored on a regular basis.

The Syndicate assesses the creditworthiness of all reinsurers by reviewing public rating information and by internal investigations.

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposure. The Syndicate does not hold any collateral as security or purchase any credit enhancements (such as guarantees, credit derivatives and netting arrangements that do not qualify for offset).

The Syndicate has inherited the reinsurance programs of the reinsured Syndicates, so the risk is largely the exposure to reinsurers on past reinsurance rather than new purchases of reinsurance. Intra-group reinsurance arrangements are in place in relation to one portfolio (Syndicates 588/861) and are collateralised 100% on a funds withheld basis. Any new purchase of reinsurance may only be carried out with the Board's prior approval of the related security.

The following table analyses the credit rating by investment grade of financial investments, reinsurers' share of technical provisions, debtors arising out of direct insurance and reinsurance operations, cash at bank and in hand, and other debtors and accrued interest that are neither past due, nor impaired.

Notes (continued)

4. Risk and capital management (continued)

Exposure to credit risk (continued)

Year 2018	AAA	AA	A	BBB	<BBB	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments							
Shares and other variable yield securities and units in unit trusts	15,584	15,357	51,580	82,151	58,918	82,811	306,401
Debt securities and other fixed income securities	201,695	121,640	156,320	60,657	-	1,186	541,498
Deposits with credit institutions	-	-	5,514	-	-	-	5,514
Overseas deposits as investments	56,207	13,814	7,447	6,287	3,481	24,110	111,346
Reinsurers' share of technical provisions	-	73,542	216,211	7,765	264	1,623	299,405
Cash at bank and in hand	-	-	8,951	-	-	-	8,951
Total	273,486	224,353	446,023	156,860	62,663	109,730	1,273,115

Year 2017	AAA	AA	A	BBB	<BBB	Not rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments							
Shares and other variable yield securities and units in unit trusts	4,599	10,742	8,357	2,489	319	9,645	36,151
Debt securities and other fixed income securities	86,213	32,737	99,102	24,473	-	-	242,525
Deposits with credit institutions	-	-	7,018	-	-	-	7,018
Overseas deposits as investments	5,427	1,098	1,297	645	492	2,091	11,050
Reinsurers' share of technical provisions	-	15,072	65,926	7,019	50	2,023	90,090
Cash at bank and in hand	-	-	13,646	-	-	-	13,646
Total	96,239	59,649	195,346	34,626	861	13,759	400,480

Notes (continued)

4. Risk and capital management (continued)

Financial assets that are past due or impaired

The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date. The Syndicate does not consider these debtors to be impaired on the basis of stage of collection of amounts owed to the Syndicate.

These debtors have been individually assessed for impairment by considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties. An analysis of the carrying amounts of past due or impaired debtors is presented in the table below.

Year 2018	Debtors arising from direct insurance operations £'000	Debtors arising from reinsurance operations £'000
Past due but not impaired financial assets:		
Past due by:		
Up to 3 months	-	18,350
Three to Six Months	-	-
Six Months to one year	-	386
Greater than one year	-	2,142
Past due but not impaired financial assets	-	20,878
Impaired financial assets	-	-
Gross value of past due and impaired financial assets	-	20,878
Less: individually assessed impairment allowances	-	-
Net carrying value of past due and impaired financial assets	-	20,878
Neither past due nor impaired financial assets	12,585	1,827
Net carrying value	12,585	22,705

Notes (continued)

4. Risk and capital management (continued)

Financial assets that are past due or impaired (continued)

Year 2017	Debtors arising from direct insurance operations £'000	Debtors arising from reinsurance operations £'000
Past due but not impaired financial assets:		
Past due by:		
Up to 3 months	-	4,263
Three to Six Months	-	-
Six Months to one year	-	560
Greater than one year	-	5,757
Past due but not impaired financial assets	-	10,580
Impaired financial assets	-	-
Gross value of past due and impaired financial assets	-	10,580
Less: individually assessed impairment allowances	-	-
Net carrying value of past due and impaired financial assets	-	10,580
Neither past due nor impaired financial assets	5,042	1,940
Net carrying value	5,042	12,520

Liquidity risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations arising from its insurance contracts and financial liabilities. The Syndicate is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts.

The nature of the Syndicate's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year.

Management of liquidity risk

The Syndicate's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Syndicate's reputation. The Investment Committee review cash flow forecasts quarterly. The only source of additional funds currently available to the Syndicate is cash call though other options may be investigated in due course.

Notes (continued)

4. Risk and capital management (continued)

Management of liquidity risk (continued)

The maturity analysis presented in the table below shows the remaining contractual maturities for the Syndicate's insurance contracts and financial instruments. For insurance contracts, the contractual maturity is the estimated date when the gross undiscounted contractually required cash flows will occur. For financial assets and liabilities it is the earliest date on which the gross undiscounted cash flows (including contractual interest payments) could be paid assuming conditions are consistent with those at the reporting date.

Year 2018	Carrying amount £'000	Total cash flows £'000	Undiscounted net cash flows			
			Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	306,400	306,400	306,400	-	-	-
Debt securities	541,500	541,500	29,403	90,836	256,139	165,122
Deposits with credit institutions	116,859	116,859	116,859	-	-	-
Reinsurers share of technical provisions	299,405	299,405	72,879	94,863	50,638	81,025
Debtors and accrued interest	76,873	76,873	76,873	-	-	-
Cash at bank and in hand	8,951	8,951	8,951	-	-	-
Total assets	1,349,988	1,349,988	611,365	185,699	306,777	246,147
Technical provisions	1,331,490	1,331,490	324,098	421,869	225,195	360,328
Creditors	15,516	15,516	15,516	-	-	-
Total liabilities	1,347,006	1,347,006	339,614	421,869	225,195	360,328

Notes (continued)

4. Risk and capital management (continued)

Management of liquidity risk (continued)

In the above tables, equity investments, which have no contractually required cash flows, but which are actively traded, are included in the 'less than one year' column. In practice cash could be realised through the sale of these equity investments, and through the sale the Syndicate's investments in debt securities, the majority of which are actively traded. The disclosure does not take account of premiums received from new business written which can be used to pay claims arising.

Market risk

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

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

Year 2017	Carrying amount £'000	Total cash flows £'000	Undiscounted net cash flows			
			Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	36,151	36,151	36,151	-	-	-
Debt securities	242,525	242,525	6,360	18,680	102,505	114,980
Deposits with credit institutions	18,068	18,068	18,068	-	-	-
Reinsurers share of technical provisions	90,090	90,090	27,027	31,532	14,414	17,117
Debtors and accrued interest	30,318	30,318	30,318	-	-	-
Cash at bank and in hand	13,646	13,646	13,646	-	-	-
Total assets	430,798	430,798	131,570	50,212	116,919	132,097
Technical provisions	369,552	369,552	110,866	129,343	59,128	70,215
Creditors	18,376	18,376	18,376	-	-	-
Total liabilities	387,928	387,928	129,242	129,343	59,128	70,215

Notes (continued)

4. Risk and capital management (continued)

Management of market risks

The agency's Investment Committee meets quarterly to review the performance of the investments held and the return achieved on the Syndicate's cash deposits. Goldman Sachs Asset Management Limited ("GSAM") were appointed in August 2017 and is an investment manager acting on behalf of the Syndicate. The other key aspect of market risk is that the Syndicate could incur losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. This has been mitigated by the currency matching of assets and liabilities as far as can be achieved allowing for regulatory funding restrictions.

In line with group policy, as at 31 December 2018, the Syndicate had no currency forward contracts.

Interest rate risk

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

Interest rate risk arises primarily from the Syndicate's financial investments, cash and overseas deposits. The risk of changes in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The StarStone Investment Committee monitors the duration of these assets on a regular basis.

Currency risk

The Syndicate writes business primarily in Sterling, Euro and US dollar and is therefore exposed to currency risk arising from fluctuations in the exchange rates of Sterling against these currencies.

The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled.

The table below summarises the carrying value of the Syndicate's assets and liabilities, at the reporting date:

Notes (continued)

4. Risk and capital management (continued)

Currency risk (continued)

Year 2018	GBP £'000	USD £'000	EUR £'000	CAD £'000	Other £'000	Total £'000
Financial investments	210,375	275,532	277,108	81,445	8,955	853,415
Reinsurers' share of technical provisions	111,281	137,856	21,307	28,997	17,791	317,232
Insurance and reinsurance receivables	2,763	28,005	4,047	(291)	766	35,290
Cash and cash equivalents	2,881	732	3,849	129	1,360	8,951
Overseas deposits	29,654	7,678	-	20,276	53,736	111,344
Other assets	17,187	31,808	10,358	6,817	8,457	74,627
Total assets	374,141	481,611	316,669	137,373	91,065	1,400,859
Technical provisions	410,489	468,035	296,429	94,165	86,081	1,355,199
Insurance and reinsurance payables	(4,734)	18,564	(1,588)	(794)	388	11,836
Other creditors	8,566	9,019	8,619	5,887	283	32,374
Total liabilities	414,321	495,618	303,460	99,258	86,752	1,399,409
Net (liabilities)/assets	(40,180)	(14,007)	13,209	38,115	4,313	1,450

Notes (continued)

4. Risk and capital management (continued)

Currency risk (continued)

Year 2017	GBP £'000	USD £'000	EUR £'000	CAD £'000	Other £'000	Total £'000
Financial investments	40,445	119,313	102,614	20,896	2,426	285,694
Reinsurers' share of technical provisions	15,163	66,296	9,397	2,271	-	93,127
Insurance and reinsurance receivables	(1,630)	19,585	87	(480)	-	17,562
Cash and cash equivalents	2,301	3,774	7,556	2	13	13,646
Overseas deposits	5,354	1,964	-	3,732	-	11,050
Other assets	4,628	5,676	1,825	623	4	12,756
Total assets	66,261	216,608	121,479	27,044	2,443	433,835
Technical provisions	63,406	169,142	119,854	19,854	333	372,589
Insurance and reinsurance payables	3,408	10,492	(1,152)	124	-	12,872
Other creditors	4,095	30,809	1,278	232	-	36,414
Total liabilities	70,909	210,443	119,980	20,210	333	421,875
Net (liabilities)/assets	(4,648)	6,165	1,499	6,834	2,110	11,960

Sensitivity analysis to market risks

An analysis of the Syndicate's sensitivity to interest rate, currency and other price risk is presented in the table below. The table shows the effect on profit or loss of reasonably possible changes in the relevant risk variable, assuming that all other variables remain constant, if that change had occurred at the end of the reporting period and had been applied to the risk exposures at that date.

Notes (continued)

4. Risk and capital management (continued)

Sensitivity analysis to market risks (continued)

	2018	2017
	Profit or loss for the year	Profit or loss for the year
	£'000	£'000
Interest rate risk		
+ 50 basis points shift in yield curves	(15,420)	(5,436)
- 50 basis points shift in yield curves	15,420	5,436
Currency risk		
10 percent increase in GBP/euro exchange rate	1,321	150
10 percent decrease in GBP/euro exchange rate	(1,321)	(150)
10 percent increase in GBP/US dollar exchange rate	(1,401)	617
10 percent decrease in GBP/US dollar exchange rate	1,401	(617)
Equity price risk		
5 percent increase in equity prices	1,566	351
5 percent decrease in equity prices	(1,566)	(351)

The impact of the reasonably possible changes in the risk variables on Members' balances would be the same, since the Syndicate recognises all changes in recognised assets and liabilities in the income statement.

A 10% increase/decrease in exchange rates, 5% increase/decrease in equity prices and a 50 basis point increase/decrease in yield curves have been selected on the basis that these are considered to be reasonably possible changes in these risk variables over the following year.

The sensitivity analysis demonstrates the effect of a change in a key variable while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

The sensitivity analyses do not take into consideration that the Syndicate's financial investments are actively managed. Additionally, the sensitivity analysis is based on the Syndicate's financial position at the reporting date and may vary at the time that any actual market movement occurs. As investment markets move past pre-determined trigger points, action would be taken which would alter the Syndicate's position.

Operational risk

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. The agency seeks to manage this risk through the use of detailed procedure manuals and a structured programme of compliance testing of processes and systems, including those of sub-contractors used.

Notes (continued)

4. Risk and capital management (continued)

Group risk

This is the risk that changes in group strategy or the fortunes of other group companies will lead to losses to the Syndicate. This risk is reviewed quarterly as part of the regular review processes.

Regulatory risk

The managing agent is required to comply with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Lloyd's requirements include minimum standards and 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 a regulatory change. The agency monitors regulatory developments and assesses their impact on agency policy and procedures. In addition, the agency carries out a compliance monitoring programme.

Capital management

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to supervision by the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with the Solvency II Framework.

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly, the capital requirement in respect of Syndicate 2008 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 Syndicates on which it is participating but not other members' shares. Accordingly, the capital requirements that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 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'.

Notes (continued)

4. Risk and capital management (continued)

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), assets held 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 pages 13 and 14, represent resources available to meet members' and Lloyd's capital requirements.

5. Analysis of underwriting result

An analysis of the underwriting result before investment return is presented in the table below:

Year 2018	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Net Technical Result £'000
Accident and health	14	108	(1,376)	(28)	5	(1,291)
Marine, aviation and transport	791	6,020	689	(1,592)	(621)	4,496
Fire and other damage to property	(10)	(77)	(6,990)	20	47	(7,000)
Third party liability	(133)	(1,016)	7,677	268	369	7,298
Other	970,335	944,259	(1,251,066)	-	312,183	5,376
Total direct	970,997	949,294	(1,251,066)	(1,332)	311,983	8,879
Reinsurance	267	2,035	-	-	(202)	1,833
Total	971,264	951,329	(1,251,066)	(1,332)	311,781	10,712

Year 2017	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Net Technical Result £'000
Accident and health	8	13	1,077	(527)	119	682
Marine, aviation and transport	2,155	3,583	1,902	(932)	(2,400)	2,153
Fire and other damage to property	95	159	1,337	(655)	43	884
Third party liability	171	285	9,327	(4,566)	898	5,944
Other	5	8	712	(349)	78	449
Total direct	2,434	4,048	14,355	(7,029)	(1,262)	10,112
Reinsurance	539	895	1,672	(819)	(458)	1,290
Total	2,973	4,943	16,027	(7,848)	(1,720)	11,402

Notes (continued)

6. Claims

Favourable movements of £0.4 million, (2017: £11.2 million favourable) in the past year's provision for claims outstanding, net of expected reinsurance recoveries, are included in claims incurred, net of reinsurance.

These arose in respect of the following classes of business:

	2018	2017
	£'000	£'000
Accident and health	17	752
Marine, aviation and transport	56	1,402
Fire and other damage to property	38	934
Third party liability	254	6,516
Miscellaneous	18	424
Reinsurance	26	1,168
	409	11,196

7. Net operating expenses

	2018	2017
	£'000	£'000
Acquisition costs:		
Brokerage and commissions	1,470	484
Administrative expenses	4,136	7,364
RITC Take on adjustment	(4,274)	-
Net operating expenses	1,332	7,848

Notes (continued)

7. Net operating expenses (continued)

Administrative expenses include:

	2018	2017
	£'000	£'000
Auditors' remuneration:		
- fees payable to the Syndicate's auditor for the audit of these financial statements	30	30
- fees payable to the Syndicate's auditor for the audit of regulatory returns	257	101
- fees payable to the Syndicate's auditor and its associates in respect of other services pursuant to legislation	91	42
Fee Paid to managing agent	1,978	585
Management Fee	10,774	4,721
Other	2,758	1,885
Paid ULAE transferred to gross incurred claims	(11,752)	-
	4,136	7,364

In 2018, the Syndicate transferred 75% of its expenses to the technical account. These expenses are related to the unallocated loss adjustment expenses ("ULAE") paid during the year.

8. Key management personnel compensation

The directors of StarStone Underwriting Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2018	2017
	£'000	£'000
Directors' emoluments	982	867
Contribution to pension schemes	27	19
	1,009	886

The active underwriter, during the year, received the following aggregate remuneration charged to the Syndicate:

	2018	2017
	£'000	£'000
Emoluments	371	243
Contribution to pension schemes	-	-
	371	243

No other compensation was payable to key management personnel.

Notes (continued)

9. Staff numbers and costs

During 2018, all staff continued to be employed on behalf of SUL by Enstar EU Limited ("EEUL"). EEUL charged a management fee that covered all salary, pension, accommodation, computer and other costs as a single amount. The total amount of EEUL management fees recharged to SUL and the Syndicate amounts to £10.8m (2017: £4.7m).

	2018	2017
Administration and finance	37	11
Underwriting	1	1
Claims	24	13
	62	25

10. Investment return

The investment return transferred to the technical account from the non-technical account comprises the following:

	2018	2017
	£'000	£'000
Investment income:		
Interest and dividend income	19,339	4,523
Realised gains/(losses)	(2,024)	(1,837)
Net unrealised (losses)/gains on investments	(11,690)	939
Investment management expenses, including interest	(649)	(244)
Investment return transferred to the technical account from the non-technical account	(4,976)	(3,381)
Total investment return	-	-

Notes (continued)

10. Investment return (continued)

The table below presents the average amounts of funds in the year per currency and analyses by major currency the average investment yields in the year.

	2018	2017
	£'000	£'000
Average amount of Syndicate funds available for investment during the year		
Sterling	220,736	51,145
Euro	248,538	107,095
US dollar	237,637	139,530
Canadian Dollar	95,397	27,132
Australian Dollar	51,311	5,788
Total funds available for investment, in Sterling	853,619	330,690
Total investment return	4,976	3,381
Annual investment yield		
Sterling	1.52%	-35.00%
Euro	-0.96%	74.00%
US dollar	0.04%	1.74%
Canadian Dollar	2.28%	89.00%
Australian Dollar	2.79%	80.00%
Total annual investment yield, in Sterling	0.58%	1.02%

11. Financial investments

	Carrying value		Cost	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	306,400	36,151	308,122	33,781
Debt securities and other fixed income securities	541,499	242,525	545,253	243,721
Overseas deposits	111,346	11,050	111,346	11,051
Loans and deposits with credit institutions	5,514	7,018	5,514	7,018
Total financial investments	964,759	296,744	970,235	295,571

Notes (continued)

11. Financial investments (continued)

As at 31 December 2018 and 31 December 2017 all financial assets were measured at fair value through profit and loss.

The Syndicate classifies its financial instruments held at fair value in its statement of financial position using a fair value hierarchy, as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Prices based on recent transactions in identical assets (either unadjusted or adjusted)
- Level 3 – Prices determined using a valuation technique

The table below analyses financial instruments held at fair value in the Syndicate's statement of financial position at the reporting date by its level in the fair value hierarchy.

2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable yield securities and units in unit trusts	84,904	221,496	-	306,400
Debt securities and other fixed income securities	193,337	348,162	-	541,499
Loans and deposits with credit institutions	-	5,514	-	5,514
Overseas deposits	26,661	84,685	-	111,346
Total	304,902	659,857	-	964,759

2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable yield securities and units in unit trusts	5,604	30,547	-	36,151
Debt securities and other fixed income securities	59,538	182,987	-	242,525
Loans and deposits with credit institutions	-	7,018	-	7,018
Overseas deposits	5,542	5,508	-	11,050
Total	70,684	226,060	-	296,744

Information on the methods and assumptions used to determine fair values for each major category of financial instrument measured at fair value is provided below.

Equity instruments listed on a recognised exchange are valued using prices sourced from the primary exchange on which they are listed. Units in unit trusts are valued using the latest unit price or share price provided by the unit trust. Shares and other variable securities and units in unit trusts are generally categorised as level 1 in the fair value hierarchy except where they are not actively traded, in which case they are generally measured on prices of recent transactions in the same instrument. The Syndicate has no exposure to hedge funds.

Notes (continued)

11. Financial investments (continued)

Debt securities are generally valued using prices provided by external pricing vendors. Pricing vendors will often determine prices by consolidating prices of recent trades for identical or similar securities obtained from a panel of market makers into a composite price. The pricing service may make adjustments for the elapsed time from a trade date to the valuation date to take into account available market information. Lacking recently reported trades, pricing vendors will use modelling techniques to determine a security price.

Some government and supranational securities are listed on recognised exchanges and are generally classified as level 1 in the fair value hierarchy. Those that are not listed on a recognised exchange are generally based on composite prices of recent trades in the same instrument and are generally classified as level 2 in the fair value hierarchy.

Corporate bonds, including asset backed securities, that are not listed on a recognised exchange or are traded in an established over-the-counter market are also mainly valued using composite prices. Where prices are based on multiple quotes and those quotes are based on actual recent transactions in the same instrument the securities are classified as level 2, otherwise they are classified as level 3 in the fair value hierarchy.

The fair values for all securities in the fixed maturity investments portfolio are independently provided by the investment accounting service providers, investment managers and investment custodians, each of which utilize internationally recognized independent pricing services. Enstar Group record the unadjusted price provided by the investment accounting service providers, investment managers or investment custodians and validate this price through a process that includes, but is not limited to:

- (i) comparison of prices against alternative pricing sources;
- (ii) quantitative analysis (e.g. comparing the quarterly return for each managed portfolio to its target benchmark);
- (iii) evaluation of methodologies used by external parties to estimate fair value, including a review of the inputs used for pricing;
- (iv) comparing the price to Enstar Group's knowledge of the current investment market.

Enstar Group have on-going due diligence processes with respect to the other investments carried at fair value and their managers. These processes are designed to assist in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however, Enstar Group obtain the audited financial statements for funds annually, and regularly review and discuss the fund performance with the fund managers to corroborate the reasonableness of the reported net asset values.

At the reporting date all debt instruments were valued using valuation techniques based on observable market data.

12. Debtors arising out of direct insurance operations

	2018	2017
	£'000	£'000
Due within one year	12,585	5,042
Due after one year	-	-
	12,585	5,042

Notes (continued)

13. Debtors arising out of reinsurance operations

	2018	2017
	£'000	£'000
Amounts due within one year	22,705	12,520
Amounts due after one year	-	-
	22,705	12,520

14. Other debtors

	2018	2017
	£'000	£'000
LCA debtors	23,587	2,718
Funds withheld	5,545	-
Commission receivable	3,947	-
Other	6,257	8,436
	39,336	11,154

15. Other assets

As at 31 December, an asset of £30.5m (2017: £nil) pertained to the 2018 year of account RITC's. This amount will be amortised in line with the accounting standard.

Notes (continued)

16. Claims development

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2018 in all cases. The tables below show the claims development subsequent to the reinsurance to close of Syndicates 2468 (2008 account and Post) and 2007 (2016 and prior) to Syndicate 2008.

Pure underwriting year - Gross	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
Estimate of ultimate gross claims							
At end of underwriting year							
One year later							
Two years later							
Three years later	184,856	67,405	-	-	645,800	-	898,061
Four years later	186,787	70,829	-	627,321	-	-	884,937
Five years later	182,537	73,332	471,765	-	-	-	727,634
Six years later	174,599	557,334	-	-	-	-	731,933
Seven years later	715,540	-	-	-	-	-	715,540
Less gross claims paid	623,555	436,160	343,623	431,179	413,976	-	2,248,493
Gross ultimate claims reserve	91,985	121,174	128,142	196,142	231,824	-	769,267
Gross ultimate claims reserve for 2010 and prior years	562,223	-	-	-	-	-	562,223
Gross claims reserves	654,208	121,174	128,142	196,142	231,824	-	1,331,490

Pure underwriting year - Net	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
Estimate of ultimate gross claims							
at end of underwriting year							
One year later							
Two years later							
Three years later	144,577	52,718	-	-	499,314	-	696,609
Four years later	146,088	55,396	-	485,027	-	-	686,511
Five years later	142,763	57,354	364,756	-	-	-	564,873
Six years later	136,555	431,562	-	-	-	-	568,117
Seven years later	554,763	-	-	-	-	-	554,763
Less net claims paid	483,524	337,758	265,680	333,376	320,074	-	1,740,412
Net ultimate claims reserve	71,239	93,804	99,076	151,651	179,240	-	595,010
Net ultimate claims reserve for 2010 and prior years	437,075	-	-	-	-	-	437,075
Net claims reserves	508,314	93,804	99,076	151,651	179,240	-	1,032,085

Notes (continued)

17. Technical provisions

	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	2018	2018	2018	2017	2017	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Incurred claims outstanding:						
Claims notified	283,651	(82,815)	200,836	335,777	(112,113)	223,664
Claims incurred but not reported	85,901	(7,275)	78,626	115,510	(13,340)	102,170
Balance at 1 January	369,552	(90,090)	279,462	451,287	(125,453)	325,834
RITC take on reserves	1,251,064	(291,480)	959,584	-	-	-
Change in prior year provisions	2	(411)	(409)	(9,519)	(1,677)	(11,196)
Claims paid during the year	(312,676)	89,550	(223,126)	(58,642)	30,773	(27,869)
Effect of movements in exchange rates	23,548	(6,974)	16,574	(13,574)	6,267	(7,307)
Balance at 31 December	1,331,490	(299,405)	1,032,085	369,552	(90,090)	279,462
Claims notified	994,372	(244,516)	749,856	283,651	(82,815)	200,836
Claims incurred but not reported	337,118	(54,889)	282,229	85,901	(7,275)	78,626
Balance at 31 December	1,331,490	(299,405)	1,032,085	369,552	(90,090)	279,462
Unearned premiums						
Balance at 1 January	3,037	(3,037)	-	5,233	(5,233)	-
Premiums written during the year	971,264	5,616	976,880	2,973	(1,652)	1,321
Premiums earned during the year	(951,329)	(19,890)	(971,219)	(4,943)	3,622	(1,321)
Effect of movements in exchange rate	737	(516)	221	(226)	226	-
Balance at 31 December	23,709	(17,827)	5,882	3,037	(3,037)	-

The table above shows changes in the insurance contract liabilities and assets from the beginning of the period to the end of the period.

Notes (continued)

18. Creditors arising out of direct insurance operations

Creditors arising out of direct insurance operations	2018 £'000	2017 £'000
Due within one year	304	3,035
Due after one year	-	-
	304	3,035

19. Creditors arising out of reinsurance operations

Creditors arising out of reinsurance operations	2018 £'000	2017 £'000
Due within one year	11,532	9,837
Due after one year	-	-
	11,532	9,837

20. Cash and cash equivalents

Only deposits with credit institutions with maturities of three months or less that are used by the Syndicate in the management of its short-term commitments are included in cash and cash equivalents.

	2018 £'000	2017 £'000
Short term deposits with credit institutions	5,514	7,018
Cash at bank and in hand	8,951	13,646
Total cash and cash equivalents	14,465	20,664

21. Related parties

The ultimate parent company of SUL is Enstar Group Limited (59%) in conjunction with Stone Point Capital (39.3%) and Dowling Capital Partners (1.7%). Enstar Group Limited is a company registered in Bermuda under number 30916. Copies of the ultimate parent company's consolidated financial statements may be obtained from The Secretary, Enstar Group Limited, Windsor Place, 3rd Floor, 22 Queen Street, Hamilton, HM11, Bermuda.

The main component of operating expenses was the Enstar EU limited management fees of £10.8m (2017: £4.7m) as shown in note 7.

At 31 December 2018, Syndicate 2008 owed £0.1m to SUL in respect of expenses (2017: £nil). No amount of profit commission (2017: £Nil) is due to SUL at 31 December 2018.

J Lee, B Merriman are directors of SGL No.1 Limited which provides 100% of the nominal stamp capacity of the Syndicate. The Syndicate's YOA 2019 stamp is £17.5m (2018 YOA: £30m)

Notes (continued)

21. Related parties (continued)

In 2008, the Syndicate ceded to Fitzwilliam (SAC) Insurance Limited ("FW") a 100% quota share in respect of the reinsurance to close of Syndicates 588 and 861. The amount owing to FW at 31 December 2018 is £6.3m (2017: £2.4m). This amount is collateralised on a "funds withheld" basis.

The Syndicate cedes 100% of all profits or losses in relation to the unexpired risks on Syndicate 2243 to StarStone Insurance SE.

22. Foreign exchange rates

The following currency exchange rates have been used for principal foreign currency transactions

	2018		2017	
	Year-end rate	Average rate	Year-end rate	Average rate
Euro	1.1130	1.1303	1.1249	1.1406
US dollar	1.2746	1.3351	1.3524	1.2886
Canadian dollar	1.7365	1.7306	1.6942	1.6732
Australian dollar	1.8097	1.7857	1.7312	1.6807

23. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyds ("FAL"). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating members' underwriting liabilities. The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulatory Authority requirements and resource criteria. The determination of FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these financial statements by way of such capital resources. However, the Managing agent is able to make a call on the members FAL to meet liquidity requirements or to settle losses.

24. Post Balance Sheet Events

In February 2019, the Syndicate entered into four RITC agreements with AmTrust Syndicates Ltd for Syndicates 2526, 1206, 1861 and 5820, reinsuring their 2016 and prior years of account.

Syndicate 2008 will assume net reserves of £657.5m and will receive a consideration equal to this amount.