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**Beat Syndicate 4242**

**Syndicate Annual Report and Accounts**  
31 December 2018

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## **Directors and administration**

### **Managing Agent**

Asta Managing Agency Ltd

### **Directors**

T A Riddell (Chairman)\*  
R P Barke  
C V Barley  
L Harfitt  
A J Hubbard\*  
D J G Hunt  
P A Jardine\*  
M D Mohn\*  
S P A Norton  
J W Ramage\*  
K Shah\*  
R A Stevenson\*  
J M Tighe

Non Executive Directors\*

### **Company Secretary**

N J Burdett

### **Managing Agent's Registered Office**

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

### **Managing Agent's Registered Number**

1918744

### **Active Underwriter**

M H McConnell	(Resigned 01 March 2018)
S P A Norton	(Appointed 01 March 2018 – Resigned 09 April 2018)
P M Rayner	(Appointed 09 April 2018 – Resigned 01 November 2018)
A J T Milligan	(Appointed 01 November 2018)

### **Claims Administrator**

Boulder Claims LLC

### **Bankers**

Citibank N.A  
Barclays Bank PLC  
Lloyds Bank  
RBC Dexia

## **Directors and administration (continued)**

### **Investment Managers**

New England Asset Management (NEAM)

### **Registered Auditors**

KPMG LLP

### **Signing Actuary**

P Chappell, KPMG LLP

## Managing Agent's report

The Syndicate's Managing Agent is a company registered in England and Wales. The directors of the Managing Agent present their report for the year ended 31 December 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 ("Lloyd's Regulations 2008").

### Results

The total recognised result for the calendar year is a loss of \$74,057,935 (2017: loss of \$40,24,436).

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

### Principal activities and review of the business

The Syndicate transacts general insurance and reinsurance business in the United Kingdom (U.K.) within the Lloyd's market under the oversight of the Managing Agent. It underwrites portfolios of insurance and reinsurance through binding authority agreements with managing general agents, Lloyd's consortia agreements and from 2019, through the Syndicate's service companies.

The substantial majority of the portfolio for 2018 and prior has been underwritten in association with ICAT Managers (LLC).

ICAT Managers underwrites through a network of relationships with surplus line wholesale brokers and licensed retail agents. It specialises in underwriting property insurance located in areas of the United States (U.S.) that are prone to hurricanes and earthquakes. Coverage includes natural catastrophe perils, All Other Perils (AOP), general liability, equipment breakdown and limited flood coverage.

The Syndicate writes small commercial properties through its binding authority agreements with ICAT Managers, in addition to contracting with other Managing General Agents and insurers to underwrite residential insurance and admitted commercial insurance business subject to oversight by ICAT Managers. Furthermore, the Syndicate contracts with Boulder Claims (a subsidiary of ICAT Managers) to provide claims administration services to the Syndicate in respect to the portfolio derived from ICAT.

Beat Capital Partners Ltd ("Beat"), a long-term venture capital fund focused on the insurance industry, became the corporate sponsor of the Syndicate during 2018 through a transaction to acquire Paraline UK (Group) Ltd, a company that holds certain capital and operational rights in respect to the Syndicate. This prompted the name change to Beat Syndicate 4242 and, for the 2019 underwriting year, the introduction of new portfolios underwritten by subsidiary companies of Beat. These portfolios include cyber insurance and specialty treaty reinsurance covering exposures both within U.S. and international markets..

The Syndicate's financial results include the acceptance and cession of business for Special Purpose Arrangement 6123 ("SPA 6123" or "the SPA"). The SPA was formed in May 2015 to offer further opportunity for capital deployment by the Syndicate's capital providers in support of business underwritten for the Syndicate by ICAT Managers. The SPA effectively grosses up the financial statements of the Syndicate, without impacting the Syndicate's net result. The

## Managing Agent's report continued

gross-up includes \$25.9 million of written premium for 2018 (2017: \$17.7 million) as well as losses and commissions attributable to the SPA in addition to apportioned general and administrative expenses. The SPA has its own allocated expenses and outwards reinsurance program as outlined in the SPA 6123 Annual Report.

The Syndicate's underwriting capacity for 2018 is £130m (\$165.1 million), £20 million of which relates to business reinsured by SPA 6123 (\$25.4 million). Underwriting capacity is a measure of the maximum gross premiums, net of acquisition costs that the Syndicate is eligible to write; the Syndicate in 2018 wrote \$153.6 million (2017: \$143.2 million) in such premiums.

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

	2018 \$'000	2017 \$'000
Eastern Seaboard	32,202	32,609
Florida	74,758	67,504
Gulf Coast	41,956	41,084
Hawaii (includes direct and inward reinsurance premiums)	3,037	5,264
Earthquake (includes direct and inward reinsurance premiums)	62,054	56,144
	214,007	202,605

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

	2018 \$'000	2017 \$'000
Gross Written Premiums	214,007	202,605
Loss for the financial year	(74,058)	(40,240)
Net loss ratio*	116.3%	83.5%
Combined ratio (financial basis)*	171.6%	138.4%

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

The Syndicate has material natural catastrophe exposure and hence the loss ratios particularly reflect the impacts of Hurricanes Harvey and Irma to the 2017 calendar year (impacting the 2016 and 2017 years of account) and Hurricanes Michael and Florence to the 2018 calendar year (impacting the 2017 and 2018 years of account).

## Managing Agent's report continued

The return on capacity for the 2016 closed year of accounts at 31 December 2018 is shown below, together with forecasts for the two open years of account.

	2018 Open	2017 Open	2016 Closed
	\$'000	\$'000	\$'000
Capacity	139,700	127,000	120,650
Forecast / Result	(47,235)	(65,665)	422
Return on insurance capacity	(33.8%)	(51.7%)	0.4%

## Outward reinsurance arrangements

*SPA 6123 Coverage* - In 2018 and 2017, the Syndicate had a variable quota share reinsurance contract with SPA 6123. This applies solely to the commercial property portfolio underwritten via the binding authority arrangement with ICAT Managers.

*Catastrophe Coverage* - The Syndicate has layered catastrophe reinsurance to protect against the adverse accumulation of the losses from multiple policies as a result of large catastrophic events. The 2018 programme inceptioned at 1 April 2018 ( a similar structure was also placed for 12 months inceptioned 1 April 2017).

*All Other Peril Coverage* - The Syndicate has per risk reinsurance to protect against the occurrence of losses from other perils such as large fires that impact upon the portfolio underwritten, or overseen, by ICAT Managers.

Other reinsurances: The Syndicate has proportional reinsurance to cover most of its general liability and equipment breakdown related liabilities and also purchases facultative AOP reinsurance for non-catastrophe loss exposures.

The above described 2018 reinsurance placements are to be supplemented by reinsurance programmes in relation to the new portfolios entered into by the above described subsidiaries of Beat for the 2019 year of account.

## Principal risks and uncertainties

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

### Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Syndicate Board manages insurance risk through the approved business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate Board then monitors performance against the business



## **Managing Agent's report continued**

plan through the year. Reserve adequacy is monitored through quarterly review by the Syndicate actuary and the Reserving Committee.

### **Credit risk**

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

### **Market risk**

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

The Syndicate underwrites the majority of its business in U.S. Dollars, which is its functional currency. The Syndicate incurs the majority of its expenses in Sterling; these expenses, however, do not create material currency risk for the Syndicate.

Exposure to changes in interest rates comes from the Syndicate's investment portfolio. The Agency seeks to minimise this risk through investing in either fixed interest securities or high quality floating rate notes.

In addition, an Investment Committee which reports to the Syndicate Board, ensures that the Syndicate's investment portfolio is managed by the external investment manager in accordance with the Syndicate's risk appetite and to guidelines as approved by the Syndicate Board.

### **Liquidity risk**

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash or can only meet obligations at excessive cost. To mitigate this risk the Syndicate Board and Investment Committee reviews cash flow projections regularly and ensures that, where needed, the Syndicate has liquidity facilities in place or has utilised the option of a cash call from capital providers.

The Syndicate has in place a line of credit with Barclays bank and has called on Capital Providers of the 2017 and 2018 years of account.

### **Operational risk**

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

## **Managing Agent's report continued**

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

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

## **Group / strategic risk**

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

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

## **Future developments**

The Syndicate increased its underwriting capacity to write business to £200 million for the 2019 underwriting year (2018: £130 million). This amount is gross of £35 million underwriting capacity for the 2019 underwriting year (2018: £20m) relating to business reinsured by SPA 6123.

Significant uncertainty remains associated with the UK's planned exit from the European Union. The risks to UK economic growth remain significant as the terms of the UK's exit from the EU remain unclear. The vast majority of existing business is derived from the US, and so is not expected to be affected by changing legislation. However it is anticipated that gross premium of approximately £1.3m to be written in 2019 will be sourced from within the European Economic Area (EEA), as part of the Syndicate's new cyber business.

To mitigate the risk of losing access to EEA business and mitigate the impact of the Lloyd's syndicates losing EEA passporting rights, Lloyd's have set up an EU regulated insurance company (LIC) in Brussels to underwrite EEA-exposed business from 1 January 2019. This is a fully operational, capitalised insurance company under Solvency II. It is authorised and regulated by the National Bank of Belgium and regulated by the Financial Services and Markets Authority and licensed to write non-life risks across the EEA and the UK.

Writing business via Lloyd's Brussels has necessitated a number of operational changes that syndicates have had to make to enable them to be able to write EEA business via a reinsurance arrangement with LIC. The Managing Agency has been working with the Syndicate to implement these changes to ensure that the Syndicate was set up to write business via Lloyd's Brussels from 1 January 2019.

## Managing Agent's report continued

### Directors

Details of the Directors of the Managing Agent that were serving at the year end and up to the date of signing of the financial statements are provided on page 1. Changes to the directors were as follows:-

R P Barke	Appointed 01 January 2018
P A Jardine	Appointed 01 November 2018
R A Stevenson	Appointed 01 November 2018
C Chow**	Resigned 28 February 2019
N J Burdett**	Appointed 01 March 2019

Company Secretaries\*\*

### Disclosure of Information to the Auditor

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

### Auditors

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 Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by Syndicate members before 26 April 2019.

On behalf of the Board



N J Burdett  
Company Secretary  
22 March 2019

## Statement of Managing Agent's 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 company 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.

## Independent auditor's report

### Independent auditor's report to the members of Syndicate 4242

#### Opinion

We have audited the financial statements of Syndicate 4242 for the year ended 31 December 2018 which comprise the Statement of Profit or Loss: Technical account – General business, Statement of Profit or Loss: Non-technical account, Statement of financial position, Statement of changes in members' balances, Statement of cash flows and related notes, including the accounting policies in note 2.

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 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 Return 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.

## **Independent auditor's report continued**

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.

## **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 9, 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.

## Independent auditor's report continued

### 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](http://www.frc.org.uk/auditorsresponsibilities).

### 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.



**Timothy Butchart (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
London  
22 March 2019

## Statement of profit or loss

### Technical account - General business

For the year ended 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Gross premiums written	3	214,007	202,605
Outward reinsurance premiums		(105,036)	(91,372)
Net written premiums		108,971	111,233
Change in the provision for unearned premiums			
Gross amount		(9,625)	(4,638)
Reinsurers' share		5,022	(572)
	4	(4,603)	(5,210)
<b>Earned premiums, net of reinsurance</b>		104,368	106,023
<b>Allocated investment return transferred from the non-technical account</b>		678	442
Claims paid			
Gross amount		(191,448)	(84,150)
Reinsurers' share		97,630	13,458
		(93,818)	(70,692)
Changes in the provision for claims outstanding			
Gross amount		(227,135)	(90,735)
Reinsurers' share		199,525	72,867
		(27,610)	(17,868)
<b>Claims incurred, net of reinsurance</b>	4	(121,428)	(88,560)
<b>Net operating expenses</b>	5	(57,616)	(58,189)
<b>Balance on technical account – general business</b>		(73,998)	(40,284)

All the amounts above are in respect of continuing operations.

The notes on pages 19 to 48 form part of these financial statements.



## Statement of profit or loss continued

### Non-technical account

For the year ended 31 December 2018

	Notes	2018 \$'000	2017 \$'000
<b>Balance on technical account – general business</b>		(73,998)	(40,284)
Investment income		571	519
Unrealised gains on investments		40	36
Unrealised losses on investments		-	(19)
Gains on realisation of investments		125	87
Losses on realisation of investments		(11)	(88)
Investment expenses and charges		(47)	(93)
Allocated investment return transferred to the general business technical account	9	(678)	(442)
Exchange (losses) / gains		(60)	44
<b>Loss for the financial year</b>		<u>(74,058)</u>	<u>(40,240)</u>

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

All the amounts above are in respect of continuing operations.

The notes on pages 19 to 48 form part of these financial statements.

## Statement of changes in members' balances

For the year ended 31 December 2018

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Members' balances brought forward at 1 January	(40,024)	29,356
Loss for the financial year	(74,058)	(40,240)
Payments of profit to members	(2,720)	(28,670)
Cash calls in period	42,500	-
Members' Agent fees	43	(167)
Non standard personal expenses	989	(303)
Members' balances carried forward at 31 December	<u>(73,270)</u>	<u>(40,024)</u>

Members participate on Syndicates by reference to years of account (YOA) 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.

The notes on pages 19 to 48 form part of these financial statements.

## Statement of financial position

As at 31 December 2018

	Notes	2018 \$'000	2017 \$'000
<b>Assets</b>			
<i>Investments</i>			
Other financial investments	10	54,382	44,987
<i>Reinsurers' share of technical provisions</i>			
Provision for unearned premiums	4	21,596	16,574
Claims outstanding	4	277,521	78,020
		<hr/>	<hr/>
		299,117	94,594
<i>Debtors</i>			
Debtors arising out of direct insurance operations	11	19,499	17,926
Debtors arising out of reinsurance operations	12	29,866	24,839
Other debtors		116	1
		<hr/>	<hr/>
		49,481	42,766
<i>Cash and other assets</i>			
Cash at bank and in hand		3,930	30
		<hr/>	<hr/>
		3,930	30
<i>Prepayments and accrued income</i>			
Accrued income		4,775	1,734
Deferred acquisition costs	4	25,362	22,982
Other prepayments and accrued interest		1,916	2,287
		<hr/>	<hr/>
		32,053	27,003
<i>Total assets</i>		<hr/>	<hr/>
		438,963	209,380

The notes on pages 19 to 48 form part of these financial statements.

## Statement of financial position continued

As at 31 December 2018

	Notes	2018 \$'000	2017 \$'000
<b>Members' balance and liabilities</b>			
<i>Capital and reserves</i>			
Members' balances		(73,270)	(40,024)
<i>Liabilities</i>			
<i>Technical provisions</i>			
Provision for unearned premiums	4	88,494	78,869
Claims outstanding	4	348,610	121,475
		<u>437,104</u>	<u>200,344</u>
<i>Creditors</i>			
Creditors arising out of reinsurance operations	13	46,595	38,729
Other creditors	14	19,125	5,173
		<u>65,720</u>	<u>43,902</u>
<i>Accruals and deferred income</i>		<u>9,409</u>	<u>5,158</u>
<i>Total liabilities</i>		<u>512,233</u>	<u>249,404</u>
<i>Total members' balances and liabilities</i>		<u>438,963</u>	<u>209,380</u>

The notes on pages 19 to 48 form part of these financial statements.

The financial statements on pages 13 to 48 were approved by board of directors on 19 March 2019 and were signed on its behalf by:



D J G Hunt  
Director  
22 March 2019

## Statement of cash flows

For the year ended 31 December 2018

	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>		
<i>Loss on ordinary activities</i>	(74,058)	(40,240)
Increase in gross technical provisions	236,760	95,373
(Increase) in reinsurers' share of gross technical provisions	(204,523)	(72,295)
(Increase) in debtors	(6,715)	(20,745)
Increase in creditors	21,818	20,759
Movement in other assets/liabilities	(799)	(1,877)
Investment return	(678)	(442)
<i>Net cash outflow from operating activities</i>	<u>(28,195)</u>	<u>(19,467)</u>
<b>Cash flows from investing activities</b>		
Purchase of other financial investments	(87,553)	(92,809)
Sale of other financial investments	78,489	139,966
Investment income received	678	442
Increase in overseas deposits	(331)	(195)
<i>Net cash (outflow) / inflow from investing activities</i>	<u>(8,717)</u>	<u>47,404</u>
<b>Cash flows from financing activities</b>		
Payments of profit to members' personal reserve fund	(2,720)	(28,670)
Cash call	42,500	-
Members' agents fee advances and other non-standard personal expenses	1,032	(470)
<i>Net cash inflow / (outflow) from financing activities</i>	<u>40,812</u>	<u>(29,140)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	3,900	(1,203)
<b>Cash and cash equivalents at beginning of year</b>	<u>30</u>	<u>1,233</u>
<b>Cash and cash equivalents at end of year</b>	<u>3,930</u>	<u>30</u>

The notes on pages 19 to 48 form part of these financial statements.

## Notes to the financial statements

For the year ended 31 December 2018

### 1. Basis of preparation

#### Statement of compliance

The Syndicate comprises a group of members of the Society of Lloyd's that underwrites insurance business in the London Market. The address of the Syndicate's managing agent is stated on page 1.

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

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value. The financial statements are prepared in US Dollars, which is the functional and presentational currency of the Syndicate and rounded to the nearest \$'000.

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

### 2. Accounting policies

#### Use of estimates

The preparation of accounts in conformity with U.K. GAAP requires that the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the accounts, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include:

- (i) provision for claims outstanding (refer to claims incurred accounting policy);
- (ii) expected policy cancellations;
- (iii) accruals for contingent commissions under reinsurance contracts; and
- (iv) estimates of future premium for binder contracts (refer to gross premiums accounting policy)
- (v) recoverability of reinsurance assets.

#### Insurance contracts

Insurance contracts are contracts where the Syndicate (as an insurer or reinsurer) accepts significant insurance risk (risk arising from both underwriting risk and timing risk), from a policyholder or reinsured by agreeing to compensate them if a specified uncertain future event (the insured or reinsured event) adversely affects them. The Syndicate determines whether it has significant insurance risk by comparing the amount and timing of premiums, commissions, and claim settlement expenses paid with the amount and timing of such cash flows if the insured event did not occur. Insurance contracts can also transfer financial risk.

## **Accounting policies continued**

Once the Syndicate classifies a contract as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk decreases significantly during this period, unless all rights and obligations extinguish or expire.

### **Gross premiums**

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

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

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

### **Reinsurance premiums**

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

### **Claims incurred**

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

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

The amount included in respect of IBNR is based on statistical techniques of estimation applied by actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions.

Claims handling expenses mostly consist of fees that the Syndicate pays to an associated third party claims administrator for the handling of claims on its behalf. In exchange for these services, the Syndicate pays a base fee equal to a percentage of gross premiums written. The paid fee gives the Syndicate access to the claims administrator's staff for the administration of claims; it also entitles the Syndicate to a predetermined number of new claim file allowances. To the extent that actual claim volume exceeds the accumulated claim file allowances under the base fee, the claims administrator charges an additional fee for each additional claim.

## **Accounting policies continued**

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

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

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

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

### **Provisions for unearned premiums**

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

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

### **Unexpired risks**

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

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

No unexpired risk provision was recorded at 31 December 2018 (2017: Nil).

### **Acquisition costs**

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.



## **Accounting policies continued**

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

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

### **Reinsurance assets**

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

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

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

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

### **Insurance receivables**

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

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

### **Insurance payables**

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

### **Foreign currency translation**

The Directors measure foreign currency assets and liabilities at the closing exchange rate in effect at the balance sheet date, while they measure foreign currency revenues and expenses at the historical exchange rates in effect at the time of the related transactions. The Directors used an exchange rate of 1.27 to translate Sterling balances into U.S. Dollars at 31 December 2018 (1.35 at 31 December 2017).

## 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*

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.

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

#### *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

## Accounting policies continued

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

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

### Investment return

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

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

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

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

### Fair value measurement of investments

The Syndicate measures its investments at fair value through profit or loss using valuation techniques that maximise the use of observable market data and minimise the use of unobservable market data. The Syndicate determines fair value based on assumptions that market participants would use in pricing an investment in the principal or most advantageous market. When considering market participant assumptions in its fair value measurements, the Syndicate uses the fair value hierarchy below to classify its investments.

## Accounting policies continued

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

## Offsetting

The Syndicate sets off and presents its financial assets and liabilities net where:

- (i) each it and another party owes the other determinable amounts,
- (ii) it has the right to set off the amount owed with the amount owed by the other party,
- (iii) it intends to set off, and
- (iv) the right of set off is enforceable at law.

## Taxation

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

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

## Profit commission

Profit commission is charged by the managing agent at a rate of 17.5% of profit for the 2018 & 2017 YOA, and 12.5% for 2016 and prior YOA, which is subject to the operation of a two year deficit clause.

## Pension costs

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

## Syndicate operating expenses

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

## Going concern

These financial statements have been prepared on a going concern basis, as the Syndicate will be continuing to underwrite business for the foreseeable future.

### 3. Segmental analysis

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

2018	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Fire and other damage to property	189,207	181,368	(417,660)	(55,975)	214,808	(77,459)
Third-party liability	1,537	1,267	(769)	(392)	(512)	(406)
Reinsurance Acceptances	23,263	21,747	(154)	(8,445)	(9,959)	3,189
	214,007	204,382	(418,583)	(64,812)	204,337	(74,676)

  

2017	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Fire and other damage to property	179,606	177,868	(170,229)	(45,433)	(758)	(38,552)
Third-party liability	1,051	863	(280)	(850)	94	(173)
Reinsurance Acceptances	21,948	19,236	(4,376)	(18,663)	1,802	(2,001)
	202,605	197,967	(174,885)	(64,946)	1,138	(40,726)

Included in the reinsurance balance are reinsurance commissions and profit participation of \$7.2 million (\$6.8 million in 2017).

Surplus lines wholesale brokers pay fire and other damage to property and third party liability premiums to the Syndicate's coverholders in single payments, while policyholders working through licensed retail agents pay premiums in single or multiple instalments to ceding insurance companies.

All premiums were concluded in the UK.

Commissions on direct insurance gross premiums written during 2018 were \$52.2 million (2017: \$50.7 million).

## 4. Technical provisions

2018		\$'000	
	Gross provisions	Reinsurance assets	Net
<b>Claims outstanding</b>			
Balance at 1 January	121,475	(78,020)	43,455
Claims incurred during the year	418,583	(297,155)	121,428
Paid claims during the year	(191,448)	97,630	(93,818)
RITC accepted from SPA 6123	-	24	24
<b>Balance at 31 December</b>	<b>348,610</b>	<b>(277,521)</b>	<b>71,089</b>
<b>Unearned premiums</b>			
Balance at 1 January	78,869	(16,574)	62,295
Change in unearned premiums	9,625	(5,022)	4,603
<b>Balance at 31 December</b>	<b>88,494</b>	<b>(21,596)</b>	<b>66,898</b>
<b>Deferred acquisition costs</b>			
Balance at 1 January	22,982	-	22,982
Change in deferred acquisition costs	2,380	-	2,380
<b>Balance at 31 December</b>	<b>25,362</b>	<b>-</b>	<b>25,362</b>
2017		\$'000	
	Gross provisions	Reinsurance assets	Net
<b>Claims outstanding</b>			
Balance at 1 January	30,740	(5,153)	25,587
Claims incurred during the year	174,885	(86,325)	88,560
Paid claims during the year	(84,150)	13,458	(70,692)
RITC accepted from SPA 6123	-	-	-
<b>Balance at 31 December</b>	<b>121,475</b>	<b>(78,020)</b>	<b>43,455</b>
<b>Unearned premiums</b>			
Balance at 1 January	74,231	(17,146)	57,085
Change in unearned premiums	4,638	572	5,210
<b>Balance at 31 December</b>	<b>78,869</b>	<b>(16,574)</b>	<b>62,295</b>
<b>Deferred acquisition costs</b>			
Balance at 1 January	21,473	-	21,473
Change in deferred acquisition costs	1,509	-	1,509
<b>Balance at 31 December</b>	<b>22,982</b>	<b>-</b>	<b>22,982</b>

## 5. Net operating expenses

	2018	2017
	\$'000	\$'000
Acquisition costs	(60,391)	(59,380)
Change in deferred acquisition costs	2,381	1,509
Administration expenses	(6,802)	(7,075)
Reinsurance commissions and profit participation	7,196	6,757
Total	<u>(57,616)</u>	<u>(58,189)</u>

## 6. Staff costs

	2018	2017
	\$'000	\$'000
Wages and salaries	(706)	(468)
Social security costs and other pension costs	(52)	(34)
	<u>(758)</u>	<u>(502)</u>

## 7. Auditor's remuneration

	2018	2017
	\$'000	\$'000
Fees payable to the Syndicate's auditor for the audit or these financial statements	(104)	(104)
Other services pursuant to Regulations and Lloyd's Byelaws	(216)	(216)
Other services relating to actuarial review	(39)	(39)
	<u>(359)</u>	<u>(359)</u>

Auditor's remuneration is included as part of the administrative expenses in note 5 to the financial statements.

## 8. Emoluments of the Directors of Asta Managing Agency Ltd

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

No emoluments of the Directors or staff of Asta Managing Agency Ltd were directly charged to the Syndicate.

No other compensation was payable to key management personnel.

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

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Active Underwriter's emoluments	(526)	(260)
	<hr/>	<hr/>
	(526)	(260)



## 9. Investment return

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Income from other financial investments	571	519
Gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	125	87
<i>Total investment income</i>	696	606
Losses on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	(11)	(88)
Investment expenses and charges	(47)	(93)
	(58)	(181)
Unrealised gains and losses on investments		
- Financial instruments at fair value through profit and loss	40	17
<i>Total investment return</i>	678	442
Average amount of funds available for investing during the year:		
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Average funds available for investment	53,407	65,824
Investment returns	571	519
Investment yield	1.1%	0.8%

"Average fund" is the average of bank balances, overseas deposits and investments held at the end of each quarter during the calendar year. For this purpose, investments are revalued at month-end market prices, which include accrued income where appropriate.

## 10. Financial investments

	2018	
	Carrying value	Purchase price
	\$'000	\$'000
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	41,883	41,883
Debt securities and other fixed income securities		
- Designated at fair value through profit or loss	11,300	11,257
Deposits with credit institutions (overseas deposits)	1,199	1,199
	<u>54,382</u>	<u>54,339</u>

	2017	
	Carrying value	Purchase price
	\$'000	\$'000
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	17,190	17,190
Debt securities and other fixed income securities		
- Designated at fair value through profit or loss	26,929	26,912
Deposits with credit institutions (overseas deposits)	868	868
	<u>44,987</u>	<u>44,970</u>

Amounts included within shares and other variable securities include CIS/Unit Trusts where funds are invested in a single entity which invests in investments. These are treated as cash instruments with the carrying value and purchase price being the same.

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

## Financial investments continued

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

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
31 December 2018				
Shares and other variable yield securities and units in unit trusts	41,883	-	-	41,883
Debt securities and other fixed income securities	6,819	4,481	-	11,300
Deposits with credit institutions (overseas deposits)	800	399	-	1,199
<b>Total</b>	<b>49,502</b>	<b>4,880</b>	<b>-</b>	<b>54,382</b>
	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
31 December 2017				
Shares and other variable yield securities and units in unit trusts	-	17,190	-	17,190
Debt securities and other fixed income securities	16,190	10,739	-	26,929
Deposits with credit institutions (overseas deposits)	530	338	-	868
<b>Total</b>	<b>16,720</b>	<b>28,267</b>	<b>-</b>	<b>44,987</b>

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

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

Included in the level 3 category, are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Syndicate's own data. The Syndicate does not have any financial investments that meet level 3 criteria.

## 11. Debtors arising out of direct insurance operations

	2018	2017
	\$'000	\$'000
Due from intermediaries (within one year)	19,499	17,926
	<u>19,499</u>	<u>17,926</u>

## 12. Debtors arising out of reinsurance operations

	2018	2017
	\$'000	\$'000
Due from ceding insurers (within one year)	12,236	9,143
Due from ceding insurers (after one year)	17,630	15,696
	<u>29,866</u>	<u>24,839</u>

## 13. Creditors arising out of reinsurance operations

	2018	2017
	\$'000	\$'000
Reinsurance ceded (within one year)	29,565	23,035
Reinsurance ceded (after one year)	17,030	15,694
	<u>46,595</u>	<u>38,729</u>

## 14. Other creditors

At 31 December 2018 the Syndicate borrowed \$17.5 million from Barclays bank in the form of a revolving credit facility (2017: Nil).

Additional creditor items include profit commissions payable, in line with prior years.

## 15. Related parties

Asta Managing Agency Ltd (Asta) is the Syndicate's Managing Agent.

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

This table below details amounts expensed to Asta.

	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>
Managing Agent fees on insurance capacity	1,325	1,175
Service fees	3,227	2,655
Recharges (expenses)	667	183
Profit commissions	(37)	31
Total expenses	<u>5,182</u>	<u>4,044</u>
Balance payable (including expenses accrued but not yet due) to the Managing Agent at 31 December	<u>2,622</u>	<u>942</u>

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

At the start of 2018, Paraline Group Ltd (Paraline Group), a company registered in Bermuda, facilitated 19.8% (31.8% for the 2017 underwriting year and 31.9% for 2016) of the Syndicate's insurance capacity through its owned corporate members. Paraline Reinsurance, Ltd (Paraline Re), an indirectly owned Bermudian reinsurance company of Paraline Group supports the Paraline corporate member's participation on the Syndicate. Unrelated foreign reinsurers fully support the other Paraline-owned corporate members' participation. An affiliate of Paraline Group, Elliott CCM Limited, provided another 1.2% (1.8% for the 2017 underwriting year and 1.7% for 2016 underwriting year) of capacity.

In October 2018, Paraline Group sold their interest in several of their corporate members (including CCM 6 Ltd and CCM 9 Ltd, but excluding Paraline CCM Ltd) to Beat Capital Partners Ltd (Beat) as part of a merger. Paraline Group is now a joint shareholder of Beat.

Paraline Group provided a short term loan of \$4.0 million in December 2017 to assist with the payment of catastrophe losses arising on the 2017 year of account and a further \$10 million in January 2018. This was fully paid back by 31 December 2018.

## Related parties continued

The table below details the percentage of total Syndicate capacity provided members' by underwriting year.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Paraline CCM Ltd	3.64%	3.48%	3.50%
Paraline Re (Bermuda) Ltd (via Paraline CCM Ltd)	10.92%	10.44%	10.50%
Hannover Re AG (via Beat CCM 6 Ltd)	5.23%	6.41%	6.41%
Labuan Re Underwriting Ltd	13.25%	14.59%	14.59%
IAT CCM Limited	9.00%	9.00%	9.00%
SCOR Underwriting Limited	12.00%	11.95%	11.95%
Hampden Members	11.43%	11.60%	11.60%
Taiping Re UK Ltd	9.00%	9.00%	9.00%
Everest Corporate Member Limited	6.75%	6.75%	6.75%
Elliott CCM Ltd	1.16%	1.78%	1.70%
Sompo Japan Nipponkoa (via Beat CCM 9 Ltd)	0.00%	11.50%	11.50%
Securis LCM Limited	6.90%	3.50%	3.50%
Point Dume LLP	10.55%	0.00%	0.00%
Hyde Park Capital Limited	0.17%	0.00%	0.00%
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Several of the members feature in the Syndicate's catastrophe reinsurance programme, along with other 3<sup>rd</sup> party reinsurers – these arrangements are conducted at arm's length.

Pursuant to an inter-syndicate loan deed between the Syndicate and SPA 6123, the Syndicate may advance up to \$10.0 million to SPA 6123 (2017: \$10.0 million); such advances accrue interest at an annual rate equal to the greater of:

- (a) the Six Month U.S. Treasury Bill rate at the date of the advance, or
- (b) the Syndicate's average investment yield earned during the period of the advance.

At 31 December 2018, the Syndicate held a loan receivable balance from SPA 6123 of \$27.0 million (\$19.0 million in 2017). The Syndicate also owed SPA 6123 \$22.8 million at 31 December 2018 (\$18.6 million in 2017).

## **16. Disclosure of interests**

### **Managing Agent's interest**

During 2018 Asta was the Managing Agent for ten Syndicates and three Special Purpose Arrangements. Syndicate 1729, 1897, 1980, 2357, 2525, 2689, 2786, 3268, 4242 and 5886 as well as Special Purpose Arrangements 6131, 6123 and 6126 were managed on behalf of third party capital providers.

On 1 January 2018, Asta took on management of Syndicate 1980 and Syndicate 3268. Asta also took on management of Special Purpose Arrangement 6131.

The agency also provides administrative services to Syndicates and Special Purpose Arrangements, also undertaking a number of ancillary roles for other clients.

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

## **17. Funds at Lloyd's**

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

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

## **18. Off-balance sheet items**

The Syndicate has not been party to an arrangement, which is not reflected in its statement of financial position, where material risks and benefits arise for the Syndicate. The Syndicate has a \$55.0 million (2017: \$35.0 million) letter of credit facility from Barclays Bank PLC, which was fully utilised at year end. This was used to support US trust fund requirements.

## **19. Risk management**

### **a) Governance framework**

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

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

## **Risk management continued**

business conduct standards for operations. Asta reviews and monitors each policy to ensure compliance with the policy throughout the Syndicate.

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

### **b) Capital management objectives, policies and approach**

#### **Capital framework at Lloyd's**

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

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

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 4242 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 participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was 35% of the member's SCR 'to ultimate'.



## **Risk 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), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates. Accordingly, the ending members balances reported on the statement of financial position on page 17, represent resources available to meet members' and Lloyd's capital requirements.

### **c) Insurance risk**

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

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

The Syndicate purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on a non-proportional basis. Non-proportional reinsurance is excess-of-loss reinsurance designed to mitigate the Syndicate's net exposure to large losses. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

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

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

The Syndicate uses both its own and commercially available risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an un-modelled event are greater than those arising from a modelled event.

## Risk management continued

As a further guide to the level of catastrophe exposure written by the Syndicate, the following table shows hypothetical claims arising out of the RDS on the Syndicates in-force exposure at 31 December 2018.

	<b>Estimated gross losses \$'000</b>
Windstorm in the North-eastern U.S.	233,354
Windstorm in the Carolinas	242,616
Florida windstorm (Miami-Dade)	444,779
Florida windstorm (Pinellas)	473,295
Windstorm in the Gulf of Mexico	443,656
California earthquake (Los Angeles)	401,057
California earthquake (San Francisco)	389,896
New Madrid area of the U.S. earthquake	109,257
Syndicate-specific scenario (Mississippi windstorm)	234,764
Syndicate-specific scenario (U.S. Pacific Northwest earthquake)	237,872

### Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each underwriting year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence; changes in market factors such as public attitude to claiming; 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.

## Risk management continued

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on net liabilities, profit and members' balances.

The table below show how a five percent increase or decrease in net claim liabilities would affect the Syndicate's profit for the financial year and its members' balances.

<b>2018</b>	<b>Five Percent increase</b>	<b>Five Percent decrease</b>
	<b>\$'000</b>	<b>\$'000</b>
Fire and other damage to property	(3,531)	3,531
Third party liability	(21)	21
Reinsurance accepted	(3)	3
<b>2017</b>	<b>Five Percent increase</b>	<b>Five Percent decrease</b>
	<b>\$'000</b>	<b>\$'000</b>
Fire and other damage to property	(2,163)	2,163
Third party liability	(10)	10
Reinsurance accepted	-	-

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

The Syndicate has material exposure to the Hurricanes Harvey and Irma in the 2016 and 2017 years of account, and Hurricanes Florence and Michael in the 2017 and 2018 years of account. This increases the uncertainty of the Syndicate's total reserves, but does not increase that uncertainty in an adverse direction significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development.

### Claims development table

The tables below show the Syndicate's cumulative incurred claims development, including both claims notified and IBNR for each underwriting year, together with the cumulative payments to date on a gross and net of reinsurance basis at the balance sheet date.

## Risk management continued

### Estimate of cumulative gross claims incurred:

Underwriting year	2012	2013	2014	2015	2016	2017	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At end of first underwriting year	14,929	6,794	5,822	12,080	25,710	125,844	196,190
One year later	23,172	11,080	13,743	26,304	70,487	316,595	
Two years later	22,847	11,459	13,627	28,315	98,862		
Three years later	21,260	10,239	12,356	28,385			
Four years later	20,977	10,229	12,538				
Five years later	20,989	10,229					
Six years later	20,989						
Less cumulative gross paid	(20,989)	(10,229)	(12,160)	(27,527)	(65,685)	(159,806)	(38,782)
Gross outstanding claims	-	-	378	858	33,177	156,789	157,408
<b>Total gross outstanding claims (all years)</b>							<u>348,610</u>

## Risk management continued

### Estimate of cumulative net claims incurred:

Underwriting year	2012	2013	2014	2015	2016	2017	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At end of first underwriting year	14,695	6,634	5,594	10,869	22,227	64,312	71,965
One year later	22,151	10,980	12,472	22,689	44,936	110,055	
Two years later	21,868	11,359	12,247	21,837	45,600		
Three years later	20,281	10,139	11,114	21,794			
Four years later	19,997	10,129	11,224				
Five years later	20,010	10,129					
Six years later	20,010						
Less cumulative net paid	(20,010)	(10,129)	(10,985)	(21,217)	(41,084)	(83,322)	(32,941)
Net outstanding claims	-	-	239	577	4,516	26,733	39,024
<b>Total net outstanding claims (all years)</b>							<u>71,089</u>

## Risk management continued

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

### d) Financial risk

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

#### 1) Credit risk

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

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

- Investment guidelines are established setting out the quality of investments to be included within the Syndicate's portfolio. The policy is monitored by the Investment Committee and/or Syndicate Board.
- Reinsurance is placed with counterparties that either have a good credit rating or are unrated collateralised reinsurers, and the concentration of risk is avoided by following policy guidelines in respect of counterparties' limits. If the counterparty is downgraded or does not have a good credit rating, then collateral is sought to mitigate any risk. This is monitored by the Reinsurance Security Committee, a sub committee of the Syndicate Board.

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

## Risk management continued

2018	\$'000			Total
	Neither past due or impaired	Past due	Impaired	
Other financial investments	54,382	-	-	54,382
Reinsurers share of claims outstanding	277,521	-	-	277,521
Debtors arising out of direct insurance operations	19,499	-	-	19,499
Debtors arising out of reinsurance insurance operations	29,866	-	-	29,866
Other debtors	53,765	-	-	53,765
Cash at bank and in hand	3,930	-	-	3,930
<b>Total</b>	<b>438,963</b>	<b>-</b>	<b>-</b>	<b>438,963</b>

2017	\$'000			Total
	Neither past due or impaired	Past due	Impaired	
Other financial investments	44,987	-	-	44,987
Reinsurers share of claims outstanding	78,020	-	-	78,020
Debtors arising out of direct insurance operations	17,926	-	-	17,926
Debtors arising out of reinsurance insurance operations	2,637	-	-	2,637
Other debtors	65,780	-	-	65,780
Cash at bank and in hand	30	-	-	30
<b>Total</b>	<b>209,380</b>	<b>-</b>	<b>-</b>	<b>209,380</b>

The Syndicate has a reinsurance asset under dispute. The total amount is \$19.8 million (2017: Nil) which has arisen due to a dispute over the provision of collateral by the reinsurer to cover their share of reinsurance losses. There is naturally an element of uncertainty over the actual recovery pending resolution of the dispute although the debt is not yet due.

## Risk management continued

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2018 by classifying assets according to independent credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

	\$'000					
	AAA	AA	A	BBB or less	Not Rated	Total
<b>2018</b>						
Other financial investments	5,277	6,896	42,046	160	3	54,382
Reinsurers share of claims outstanding	-	3,322	239,761	-	34,438	277,521
Debtors arising out of reinsurance operations	-	-	27,033	-	2,833	29,866
Cash at bank and in hand	-	-	3,930	-	-	3,930
<b>Total</b>	<b>5,277</b>	<b>10,218</b>	<b>312,770</b>	<b>160</b>	<b>37,274</b>	<b>365,699</b>

	\$'000					
	AAA	AA	A	BBB or less	Not Rated	Total
<b>2017</b>						
Other financial investments	28,473	16,316	122	75	1	44,987
Reinsurers share of claims outstanding	-	154	41,641	-	36,225	78,020
Debtors arising out of reinsurance operations	-	81	2,556	-	-	2,637
Cash at bank and in hand	-	-	30	-	-	30
<b>Total</b>	<b>28,473</b>	<b>16,551</b>	<b>44,349</b>	<b>75</b>	<b>36,226</b>	<b>125,674</b>

## Risk management continued

### 2) Liquidity risk

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

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.

2018	\$'000					Total
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	
<i>Assets</i>						
Other financial investments	-	54,382	-	-	-	54,382
Reinsurers share of claims outstanding	-	165,955	100,106	10,955	505	277,521
Debtors	-	31,851	17,630	-	-	49,481
Cash	-	3,930	-	-	-	3,930
<b>Total</b>	<b>-</b>	<b>256,118</b>	<b>117,736</b>	<b>10,955</b>	<b>505</b>	<b>385,314</b>
<i>Liabilities</i>						
Claims outstanding	-	(208,466)	(125,749)	(13,760)	(635)	(348,610)
Creditors	-	(42,885)	(22,835)	-	-	(65,720)
<b>Total</b>	<b>-</b>	<b>(251,351)</b>	<b>(148,584)</b>	<b>(13,760)</b>	<b>(635)</b>	<b>(414,330)</b>



## Risk management continued

2017	\$'000					Total
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	
<i>Assets</i>						
Other financial investments	-	44,987	-	-	-	44,987
Reinsurers share of claims outstanding	-	47,914	25,723	4,152	231	78,020
Debtors	-	23,762	19,004	-	-	42,766
Cash	-	30	-	-	-	30
<b>Total</b>	<b>-</b>	<b>160,269</b>	<b>44,727</b>	<b>4,152</b>	<b>231</b>	<b>209,380</b>
<i>Liabilities</i>						
Claims outstanding	-	(74,600)	(40,050)	(6,465)	(360)	(121,475)
Creditors	-	(28,208)	(15,694)	-	-	(43,902)
<b>Total</b>	<b>-</b>	<b>(102,808)</b>	<b>(55,744)</b>	<b>(6,465)</b>	<b>(360)</b>	<b>(165,377)</b>

The Syndicate has a \$55.0 million (2017: \$35.0 million) letter of credit facility from Barclays Bank PLC, which was and remains fully utilised in the year. This was to support US trust fund requirements.

### 3) Market risk

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

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

#### a) Currency risk

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

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

## Risk management continued

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

2018	\$'000				Total
	USD	GBP	EUR	CAD	
Total Assets	438,850	115	(2)	-	438,963
Total Liabilities	(512,233)	-	-	-	(512,233)
Net Assets	(73,383)	115	(2)	-	(73,270)

2017	\$'000				Total
	USD	GBP	EUR	CAD	
Total Assets	209,380	-	-	-	209,380
Total Liabilities	(249,404)	-	-	-	(249,404)
Net Assets	(40,024)	-	-	-	(40,024)

The Syndicate matches its currency position so holds net assets across a number of currencies. The Syndicate takes into consideration the underlying currency of the Syndicate's required capital and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates. It is noted that the Syndicate does not currently have great exposure to foreign currency risk, as the vast majority of its business is conducted in US Dollars.

### Sensitivity to changes

The table below gives an indication of the impact on profit of a percentage change in the relative strength of US Dollars against the value of the Sterling, Euro and Canadian Dollar simultaneously. The analysis is based on the information as at 31st December 2018.

	Impact on profit and members' balance	
	2018 £'000	2017 £'000
US Dollar weakens		
10% against other currencies	(11)	-
20% against other currencies	(23)	-
US Dollar strengthens		
10% against other currencies	11	-
20% against other currencies	23	-

## Risk management continued

### b) Interest rate risk

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

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

The Syndicate has no significant concentration of interest rate risk.

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

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest Rate Risk		
Impact of 50 basis point increase on result	(47)	(86)
Impact of 50 basis point decrease on result	47	74
Impact of 50 basis point increase on net assets	(47)	(86)
Impact of 50 basis point decrease on net assets	47	74

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

### 20. Post balance sheet events

A cash call was made to members in January 2019 for \$14.0 million on the 2017 YOA and \$33.5 million on the 2018 YOA. A subsequent cash call was made to members in March 2019 for \$9.0 million on the 2017 YOA and \$12.5 million on the 2018 YOA.

The Syndicate will collect the 2016 year of account losses in US Dollars from members in 2019.

The Directors evaluated other events subsequent to the balance sheet date through to 22 March 2019, the date the Syndicate issued these annual accounts, and determined that no other items require disclosure.