

Important information about Syndicate Reports and Accounts

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

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

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

StarStone Syndicate 1301

Annual Report and
Financial Statements

For the year ended 31 December 2019

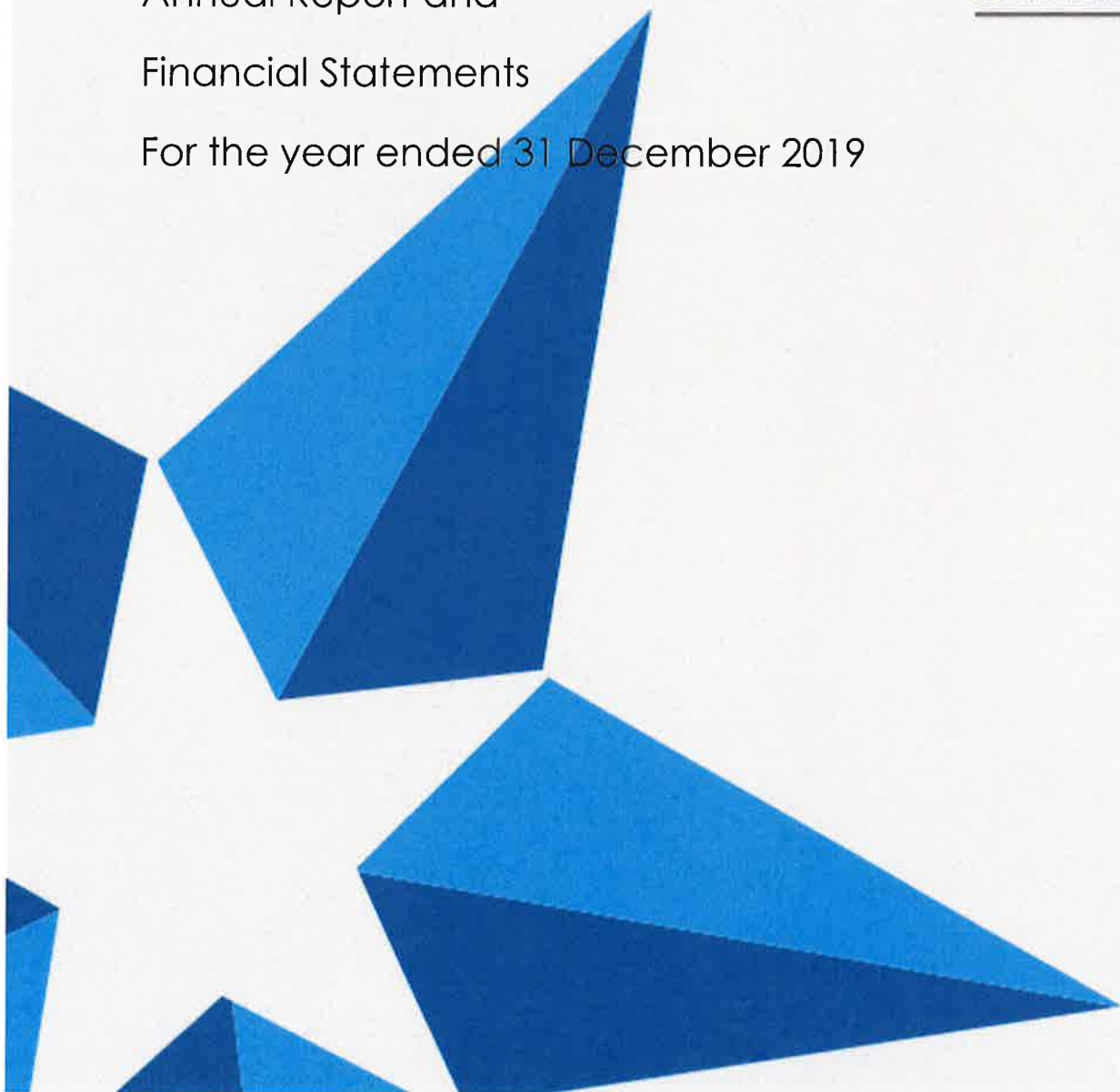


Table of Contents

Directors and administration.....	2
Report of the directors of the managing agent.....	4
Statement of managing agent's directors' responsibilities.....	9
Independent auditor's report to the members of Syndicate 1301.....	10
Income Statement - Technical account.....	13
Income Statement - Non-technical account.....	14
Statement of Financial Position – Assets.....	15
Statement of Financial Position – Liabilities.....	16
Statement of Changes in Members' Balances.....	17
Statement of Cash Flows.....	18
Notes.....	19

Directors and administration

Managing Agent

StarStone Underwriting Limited

Directors

The directors named below held office during the year and up to the date of signing the annual accounts.

E Gilmour (Chairman and Non-Executive)

A Agnew (Non-Executive)

C Barrett (Appointed 11 March 2019)

R Delhaise

B Dimmock (Appointed 27 November 2019)

S Schnorr (Chief Executive Officer, appointed 3 January 2020)

D Truman

J Wardrop (Non-Executive)

Former directors who served during the year

A Cliff (Resigned 28 March 2019)

T Fillingham (Resigned 29 April 2019)

G Maina (Resigned 10 February 2020)

S Urry (Resigned 31 December 2019)

Directors and administration (continued)

Managing agent's secretary

C Traxler

S Hextall

Managing agent's registered office

7th Floor, One Creechurch Place

London, EC3A 5AY

United Kingdom

Managing agent's registered number

08039754

Syndicate

Active underwriter

S Low (Appointed 5 December 2019)

Bankers

Citibank, Barclays, Royal Bank of Canada

Investment manager

Goldman Sachs

Registered auditor

KPMG LLP

Consulting actuary

KPMG LLP

Directors' interests

None of the Directors of the managing agent have any participation in the Syndicate's premium income capacity.

Report of the directors of the managing agent

The directors of StarStone Underwriting Limited (SUL), the managing agent for Syndicate 1301 ("the Syndicate"), present their report for the year ended 31 December 2019.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS102") and Financial Reporting Standard 103 "Insurance Contracts" ("FRS103").

Results

The result for the Syndicate for the year ended 31 December 2019 is a loss of £32.5 million (2018: £89.1 million loss). The Syndicate's key financial performance indicators during the year were as follows:

	2019 £'m	2018 £'m
Gross written premium	175.4	248.5
Gross premiums earned	206.7	229.9
Net premiums earned	142.1	122.4
Loss for the financial year	(32.5)	(89.1)
Claims ratio	86.8%	130.2%
Commission ratio	30.6%	23.2%
Expense ratio	13.2%	23.9%
Combined ratio	130.6%	177.3%

Principal activities

The Syndicate's principal activity remains the transaction of general insurance and reinsurance business in the United Kingdom at Lloyd's of London. The Syndicate underwrites a mixture of Marine, Aviation, Property, Casualty, Reinsurance, and Specialty lines of business. The Syndicate trades through the Lloyd's worldwide licenses and rating platform. It also benefits from the Lloyd's brand. Lloyd's has an A (Excellent) rating from A.M. Best, A+ (Strong) rating from Standard & Poor's and AA- (Very Strong) rating from Fitch.

Report of the directors of the managing agent (continued)

Business profile

The Syndicate is a global specialty underwriter focused on London Wholesale Market Business, European Retail Business and US Retail Business through both the Syndicate and StarStone's wholly owned service companies in Europe and the US.

The Syndicate offers a broad range of Property, Casualty and Specialty insurance products from large multi-national through to small and middle-market clients around the world, with the Syndicate writing a diversified portfolio by territory and line of business.

The Syndicate's operations are managed across two business units: Marine, Aviation & Transport and Specialty.

Marine, Aviation & Transport

The Marine segment offers a range of Marine products including Hull and Machinery, Marine and Energy Liabilities, Cargo, War, Transport Liabilities, Offshore Energy and Specie & Fine Art. The Aviation segment includes General Aviation.

Both Marine and Aviation segments are primarily written from London but some European Retail Business is also written through the Syndicate service company branch network.

Specialty

The Specialty division includes the segments Crisis Management, Property and Casualty.

Crisis Management encompasses the Terrorism, Political Risk and Credit products. Coverage is provided to a wide-ranging portfolio of commercial entities looking to mitigate their exposure to terrorism, war, government interference and payment.

The Property segment includes Onshore Energy and a low volume and selective North American delegated property portfolio. Most lines are written on a full value, primary, excess of loss or quota share basis.

The Casualty segment includes Financial Lines, Accident & Health and Personal Accident Treaty products. Financial Lines is underwritten through a network of local European offices covering management liability, professional liability and crime. The Accident & Health products provide protection for accidental death, permanent & temporary disability, sports/high net worth individuals.

Business review

A strategic review was undertaken and agreed during the second half of 2018. Outcomes of this review included re-underwriting of underperforming lines and ceasing to underwrite non-performing lines of business and segments that would not deliver a sustainable cross cycle return. The exited lines include Aviation Products and Airlines, Excess Casualty, Power & Utility, Direct & Facultative Property and other non-core Property lines, Construction, Healthcare, Yacht and Shipbuilding. The Syndicate ceased to underwrite these lines and segments on or prior to 1 January 2019, other than Aviation Products and Airlines, which was no longer written from April 2019. These lines of business and segments were in run-off during the year ended 31 December 2019.

Report of the directors of the managing agent (continued)

Business review (continued)

The table below sets out the Syndicate's key financial performance indicators split between core and re-underwritten and exited lines of business.

	2019 Core & re- underwritten £'m	2019 Exited £'m	2019 Total £'m	2018 Core & re- underwritten £'m	2018 Exited £'m	2018 Total £'m
Gross written premium	161.1	14.3	175.4	169.3	79.2	248.5
Gross premiums earned	160.5	46.2	206.7	159.4	70.5	229.9
Net premiums earned	119.4	22.7	142.1	88.8	33.6	122.4
Claims ratio	72.3%	162.8%	86.8%	115.7%	168.3%	130.2%
Commission ratio	31.3%	26.8%	30.6%	23.5%	22.4%	23.2%
Expense ratio	12.4%	17.2%	13.2%	22.4%	27.8%	23.9%
Combined ratio	116.0%	206.8%	130.6%	161.6%	218.5%	177.3%

The result for the financial year ended 31 December 2019 was impacted by claims deterioration for exited lines of business, with a combined ratio of 206.8% (2018: 218.5%). This included adverse development for Excess Casualty, Direct & Facultative Property and other non-core Property lines, Healthcare and Construction.

The combined ratio for core and re-underwritten lines of business improved to 116.0% (2018: 161.6%) following an improvement in results for re-underwritten lines Cargo, Hull and General Aviation. The claims ratio of 72.3% (2018: 115.7%) included prior year large loss development for Cargo and Hull.

Gross written premiums decreased, as expected, to £175.4m (2018: £248.5m), mainly from exited lines decreasing to £14.3m (2018: £79.2m), but also reduced volumes for re-underwritten lines. This is a result of the focus on underwriting discipline, pricing adequacy and pricing for profitability rather than scale.

From 1 January 2017, the Syndicate entered into a Quota Share Treaty with KaylaRe Ltd, which from February 2018 is wholly owned by Enstar Group Limited, the Syndicate's ultimate parent company. From 1 January 2019, the KaylaRe Ltd contract was cancelled by mutual agreement between the parties. The quota share treaty with KaylaRe Ltd reduces net earned premium by £19.7m (2018: £28.4m) and reduces net commissions by £10.1m (2018: £25.7m)

The Syndicate's expense ratio improved to 13.2% (2018: 23.9%), mainly a result of the 2018 financial year expenses being comparably higher due to provisions made for doubtful debt and costs associated with remediation.

The non-technical account includes a foreign exchange gain of £5.2m (2018: £3.9m) arising from the translation of foreign currency net positions at closing rates of exchange. This is mainly from the US dollar position and the strengthening of the GBP Sterling during the financial year.

Report of the directors of the managing agent (continued)

Investment performance

The Syndicate's investment return of £5.8m (2018: £1.5m) comprises realised gains of £0.9m (2018: loss £0.6m), unrealised gains £3.0m (2018: nil) and investment income £1.9m (2018: £2.1m). The Syndicate's return is mainly from its Fixed Income portfolio which primarily comprises corporate, government, asset and mortgage backed investments. These have benefitted from the tightening of credit spreads and decrease in forward interest rates during the financial year.

Risk review

A description of the principal risks and uncertainties facing the Syndicate is set out in the notes to the financial statements (Risk and Capital Management review).

Future developments

The Syndicate underwriting capacity for the 2020 underwriting year is £185.8m (2019: £185.8m).

The Syndicate will continue to focus on its core lines of general insurance and reinsurance business following the repositioning during 2018.

The Syndicate completed the assessment and selection of its reinsurance broker ahead of the placement of the 2020 reinsurance programme. The focus for the Syndicate being to reduce retentions and optimise efficiency through combining or separating current programmes.

During 2018 and 2019, the Syndicate has transitioned a number of functions away from a shared service model with the parent, although certain functions remain shared where it is beneficial to the Syndicate such as investment management. The Syndicate also exited certain MGA relationships. The Syndicate will continue to focus on cost management.

The Syndicate continues to monitor the emergence of the COVID-19 outbreak and assess the potential exposure. It is too early to estimate the possible impact from either an underwriting risk or investment risk perspective although it is considered to be limited. The Syndicate is also continuing to monitor the impact to customers, suppliers and other key stakeholders and reviewing business continuity plans, as appropriate.

Brexit

Following the EU Referendum in June 2016, and pursuant to the exit process triggered under Article 50 of the Treaty on European Union in March 2017 and the ratification of the withdrawal agreement by the UK government and the EU (through the Council of Ministers), the UK ceased to be a member of the EU and the European Economic Area ('EEA') on 31 January 2020 ('Brexit') and entered a transition period, currently due to expire on 31 December 2020. During this transition period, the UK retains the benefits of membership of the EU's internal market and the customs union, but loses its representation in the EU's institutions and its role in EU decision-making.

The UK and EU are currently seeking to determine the terms of their future relationship by the end of the transition period, and the resulting economic, trading and legal relationships with both the EU and other counterparties currently remain unclear and subject to significant uncertainty. If the UK and EU do not agree a new comprehensive trade agreement by the end of the transition period and the transition period is not extended, then, subject to separate agreements being made with third countries, the UK would be expected to operate on basic World Trade Organization terms, the outcome of which for SUL would be similar in certain respects to a 'no-deal' Brexit, and which may result in, amongst others, loss of access to the EU single market

Report of the directors of the managing agent (continued)

Brexit (continued)

for goods and services, the imposition of import duties and controls on trade between the UK and the EU and related trade disruption.

In response to Brexit and, specifically the loss of access to the Single Market which enabled underwriters at Lloyd's to underwrite insurance and reinsurance from all EU member states on a cross-border basis, Lloyd's set up a dedicated European subsidiary during 2018.

Lloyd's new insurance company based in Brussels (Lloyd's Insurance Company S.A.), authorised and regulated by the National Bank of Belgium, has been set up to enable Lloyd's underwriters to continue to access risks located in EEA countries.

SUL is authorised to underwrite EU risks on behalf of Lloyd's Brussels, and those risks are in turn reinsured by Syndicate 1301. In addition, SUL has established an intermediary coverholder, StarStone Underwriting Services B.V. in Rotterdam, which acts on behalf of Syndicate 1301. From 1 January 2020 any business domiciled or located in the EEA can be underwritten through StarStone Underwriting Services B.V.

Directors

None of the Directors of the managing agent who served during the year ended 31 December 2019 were underwriting Names on the Syndicate for the 2017, 2018 or 2019 years of account.

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

Auditor

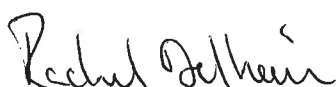
Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Disclosure of information to auditor

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

Syndicate meeting

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



R Delhaise

Director

For and on behalf of the board

5 March 2020

Statement of managing agent's directors' responsibilities

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

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

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

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

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

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

On behalf of the board



R Delhaise

Director

5 March 2020



Independent auditor's report to the members of Syndicate 1301

Opinion

We have audited the Syndicate annual accounts of Syndicate 1301 for the year ended 31 December 2019 which comprise the Income Statement: Technical account – General business, Income Statement: non-technical account, Statement of Financial Position – Assets, Statement of Financial Position – Liabilities, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 3.

In our opinion the Syndicate annual accounts:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2019 and of its loss 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 Syndicate annual accounts on the going concern basis as they do not intend to cease underwriting 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 Syndicate annual accounts ("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 Syndicate annual accounts. In our evaluation of the directors' conclusions, we considered the inherent risks to the syndicate's business model, including the impact of Brexit, and analysed how those risks might affect the syndicate's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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



Independent auditor's report to the members of Syndicate 1301 (Continued)

Report of the directors of the Managing Agent

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the Syndicate annual accounts 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 Syndicate annual accounts audit work, the information therein is materially misstated or inconsistent with the Syndicate annual accounts 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 Syndicate annual accounts.

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 Syndicate annual accounts 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 Syndicate annual accounts 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 Syndicate annual accounts that are free from material misstatement, whether due to fraud or error; assessing the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Syndicate annual accounts 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 Syndicate annual accounts.

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



Independent auditor's report to the members of Syndicate 1301 (Continued)

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

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

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

David Maddams (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

5 March 2020

Income Statement: Technical account – General Business

For the year ended 31 December 2019

	Note	2019		2018	
		£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	5	175,405		248,516	
Outwards reinsurance premiums		(31,933)		(115,680)	
			143,472		132,836
Change in the provision for unearned premiums					
Gross amount	16	31,250		(18,607)	
Reinsurers' share		(32,626)		8,178	
			(1,376)		(10,429)
			142,096		122,407
Allocated investment return transferred from the non-technical account					
	10		5,804		1,500
Claims incurred, net of reinsurance					
Claims paid					
Gross amount	5	(191,246)		(153,350)	
Reinsurers' share		64,675		35,609	
			(126,571)		(117,741)
Change in the provision for claims					
Gross amount	16	1,858		(103,187)	
Reinsurers' share		1,403		61,612	
			3,261		(41,575)
Net operating expenses					
	7		(62,195)		(57,537)
Balance on the technical account – general business					
			(37,605)		(92,946)

All operations relate to continuing activities.

The notes on pages 19 to 55 form an integral part of these financial statements.

Income Statement - Non-technical account

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Balance on the technical account – general business		(37,605)	(92,946)
Investment income	10	2,829	1,475
Unrealised gains on investments	10	5,104	578
Investment expenses and charges	10	(19)	(21)
Unrealised losses on investments	10	(2,110)	(532)
Allocated investment return transferred to technical account	10	(5,804)	(1,500)
Gain on foreign exchange		5,150	3,889
Loss for the financial year		(32,455)	(89,057)

All operations relate to continuing activities.

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

The notes on pages 19 to 55 form an integral part of these financial statements.

Statement of Financial Position – Assets

As at 31 December 2019

	Note	2019		2018	
		£'000	£'000	£'000	£'000
Investments					
Other financial investments	11		167,710		161,559
Reinsurers' share of technical provisions					
Provision for unearned premiums	16	17,708		51,760	
Claims outstanding		129,615		133,860	
			147,323		185,620
Debtors					
Debtors arising out of direct insurance operations	12	59,376		142,450	
Debtors arising out of reinsurance operations	13	51,643		67,022	
Other debtors		5,517		4,527	
			116,536		213,999
Other assets					
Cash at bank and in hand	18	5,399		5,058	
			5,399		5,058
Prepayments and accrued income					
Accrued interest		322		339	
Deferred acquisition costs	14	21,868		29,366	
Other prepayments and accrued income		413		-	
			22,603		29,705
Total assets			459,571		595,941

The notes on pages 19 to 55 form an integral part of these financial statements.

Statement of Financial Position – Liabilities

As at 31 December 2019

	Note	2019		2018	
		£'000	£'000	£'000	£'000
Capital and reserves					
Members' balances			(85,522)		(93,667)
Technical provisions					
Provision for unearned premiums		82,191		119,573	
Claims outstanding		372,186		388,949	
	16		454,377		508,522
Deposits received from reinsurers					
			40,342		-
Creditors					
Creditors arising out of direct insurance operations		13,361		55,471	
Creditors arising out of reinsurance operations		28,717		107,847	
Other creditors		3,266		1,897	
	17		45,344		165,215
Accruals and deferred income					
			5,030		15,871
Total liabilities and equity			459,571		595,941

The notes on pages 19 to 55 form an integral part of these financial statements.

The Syndicate financial statements on pages 13 to 55 were approved by the board of StarStone Underwriting Limited and were signed on its behalf by:



R Delhaise
Director
5 March 2020

Statement of Changes in Members' Balances

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Members' balances brought forward at 1 January		(93,667)	(47,240)
Loss for the year		(32,455)	(89,057)
Closed year cash call / (distribution)	22	40,600	(4,240)
Open year cash calls made		-	47,393
Exchange difference		-	(523)
Members' balances carried forward at 31 December		(85,522)	(93,667)

The notes on pages 19 to 55 form an integral part of these financial statements.

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.

Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019		2018	
		£'000	£'000	£'000	£'000
Cash flows from operating activities:					
Loss for the year		(32,455)		(89,057)	
<i>Adjustments:</i>					
(Decrease)/Increase in technical provisions		(54,145)		133,239	
Decrease/(Increase) in reinsurers share of technical provisions		38,297		(76,934)	
Decrease/(Increase) in debtors, subrogation and salvage and prepayments		104,962		(76,435)	
(Decrease)/Increase in creditors		(130,711)		101,196	
Movement in other assets/liabilities		39,945		(40)	
Net interest and dividends receivable		(5,804)		(1,500)	
Foreign exchange (gains)/losses		(24)		(143)	
Net cash (outflow)/inflow from operating activities			(39,935)		(9,674)
Cash flows from investing activities:					
Acquisitions of financial instruments		(86,262)		(66,477)	
Proceeds from sale of financial instruments		94,464		65,006	
Interest received		2,810		1,454	
(Increase)/Decrease in deposits with credit institutions		(113)		111	
Central fund loan		(766)		-	
Increase in overseas deposits		(7,816)		(4,819)	
Foreign exchange (gains)/losses		2,911		(1,663)	
Net cash (outflow)/inflow from investing activities			5,228		(6,388)
Cash flow from financing activities:					
Transfer to members in respect of underwriting participations		40,600		(4,240)	
Open year cash calls made		-		47,393	
Foreign exchange gain on distribution		-		(523)	
Net cash inflow/(outflow) from financing activities			40,600		42,630
Net increase in cash and cash equivalents			5,893		26,568
Cash and cash equivalents at 1 January			114,081		87,370
Effect of exchange rate changes on cash and cash equivalents			23		143
Cash and cash equivalents at 31 December	18		119,997		114,081

The notes on pages 19 to 55 form an integral part of these financial statements.

Notes (forming part of the financial statements)

1. Basis of preparation

Syndicate 1301 ('the Syndicate') comprises a group of members of the Society of Lloyd's that underwrites insurance business in the London Market.

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

The financial statements have been prepared on the historical cost basis, except for financial assets which have been recorded at fair value through the statement of profit or loss.

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

As permitted by FRS 103 the Syndicate has continued to apply the accounting policies that existed prior to this standard for its insurance contracts.

The Syndicate has elected to apply paragraph 6.3 of FRS 103 to claims development triangles where the Syndicate need not disclose information that occurred earlier than five years before the end of the first financial year in which this FRS applies, building up to 10 years of development with the introduction of each future period.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

2. Use of judgments and estimates

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

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

Technical Provisions

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

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

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate Managing Agent's in-house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of

Notes (continued)

2. Use of judgments and estimates (continued)

volatility arises from projections, estimates may be based in part on output from rating and other models of business accepted and assessments of underwriting conditions.

In arriving at the level of claims provisions a management margin is applied over and above the actuarial best estimate. Further information about the risk that the provision for claims outstanding could be materially different from the ultimate cost of claims settlement is included in note 4.

Estimates of future premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue recorded in the financial statements. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

Fair value of financial assets determined using valuation techniques

Where the fair value of financial assets recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or other mathematical models. The inputs from these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. For fixed-income and asset-backed securities the judgments include considerations for liquidity risk, credit risk, and prepayment rates.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations of specific industries and market liquidity. Discount rates are influenced by risk-free interest rates and credit risk.

Changes in the assumptions about these factors could affect the reported fair value of the financial instruments.

3. Significant accounting policies

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

Insurance Contracts

Product classifications

Insurance contract are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Notes (continued)

3. Significant accounting policies (continued)

Premiums written

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. Additional or return premiums are treated as a re-measurement of the initial premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Written premiums include an estimate for pipeline premiums (i.e. premiums written but not reported to the Company by the reporting date) relating only to those underlying contracts of insurance where the period of cover has commenced prior to the reporting date. The most significant assumption in this estimate is that prior year experience will be consistent with current experience.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

Managing Agent profit commission

The managing agent does not charge profit commission.

Fee and commission income

Insurance policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods.

Claims

Claims include all claims occurring during the year, whether reported or not, related internal and external claims management costs that have been determined by an apportionment of employment costs, and any adjustments to claims outstanding from previous years.

Internal claims handling costs, including remuneration costs of the claims department, are reclassified from administrative expenses and included within claims incurred.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Technical Provisions

Technical provisions comprise claims outstanding, provisions for unearned premiums and provisions for unexpired risk.

Claims provisions

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

Full provision is made on an individual case basis for the estimated cost of claims notified but not settled by the balance sheet date after taking into account handling costs and settlement trends. A provision for claims

Notes (continued)

3. Significant accounting policies (continued)

incurred but not reported (IBNR) is established from statistical analysis undertaken by the Syndicate's actuaries. The methods used and the estimates made are reviewed regularly.

Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

In calculating the estimated cost of unpaid claims the Syndicate uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of current claims will be consistent with past experience.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to change when compared with the cost of previously settled claims including:

- changes in Syndicate processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movement in industry benchmarks

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Syndicate has regard to claim circumstances as reported, and information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are assessed separately where appropriate, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of the large claims.

The provision for claims outstanding is based on information available at the balance sheet date and is estimated to give a result within a normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where assumptions over claims inflation may alter in future, there is a contingent liability in respect of this uncertainty. Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to collectability.

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

Anticipated salvage and subrogation recoveries are calculated on an individual case basis. The level of recovery estimated is set on the basis of information which is currently available, including potential outstanding claims advices and case law. Salvage and subrogation recoveries are included in claims incurred in the income statement.

The liability is not discounted for the time value of money.

Notes (continued)

3. Significant accounting policies (continued)

Provision for unearned premiums

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

Unearned reinsurance premiums are those proportions of reinsurance 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.

Provision for unexpired risks

Provision is made for unexpired risks arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies (after the deduction of any deferred acquisition costs). The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and unexpired claims provisions.

Deferred acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, the renewal of existing insurance contracts and the deferral of other costs directly related and incremental to successful acquisition of a new or renewed insurance contract, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

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

The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset. Amortisation is reported in the technical account.

Commissions receivable on outwards reinsurance contracts are amortised over the term of the outwards reinsurance premiums and deferred to the extent that they are attributable to outwards reinsurance premiums unearned as at the balance sheet date.

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.

Notes (continued)

3. Significant accounting policies (continued)

Insurance receivables

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

The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss. Insurance receivables are derecognised 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 paid or payable less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

Financial Investments

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* (as adopted for use in the EU) to account for all of its financial instruments.

Classification

The Syndicate classifies its financial assets into the following categories: Redeemable fixed interest securities, deposits with credit institutions and shares and other variable yield securities. All of these assets are classified as fair value through profit and loss.

The Syndicate determines the classification of its financial assets on initial recognition.

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.

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

Redeemable debt securities and other fixed-income securities are classified as fair value through profit or loss and are initially measured at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

Notes (continued)

3. Significant accounting policies (continued)

Deposits with credit institutions are also classified at fair value through profit or loss and are held at cost as the best measure for fair value. These typically consist of callable on-demand deposits with very short maturities, which are not always held to maturity, and cash letters of credit (LOCs).

Shares and other variable yield securities and units in unit trusts consist of collective investment schemes and private equity investments. These are also designated on initial recognition as an asset to be measured at fair value with fair value changes recognised in profit or loss account at subsequent reporting periods. Realised gains and losses are also recognised through profit and loss account.

Offsetting

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

Cash and cash equivalents

Cash and cash equivalents includes cash at bank and in hand as well as short-term deposits with credit institutions. These consist of collateralised cash LOCs with a restriction of one month or less and highly liquid short-term investments with maturity of less than 90 days from the date of acquisition.

Cash at bank and in hand on the statement of financial position includes only cash and balances at central banks and loans and advances to banks repayable on demand.

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

Investment return

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

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been allocated to the technical account in respect of actual investment return on investments supporting the general insurance technical provisions and member balances. Any investment returns on investments that relate to undistributed profits on closed years remain in the non-technical account.

Financial liabilities

The Syndicate's financial liabilities consist of insurance creditors, intercompany balances and trade payables.

All financial liabilities are recognised initially at fair value. Intercompany balances are repayable on demand and are typically settled within one year. Intercompany balances are subsequently measured at amortised cost should they remain unsettled over a year. A financial liability is derecognised when the obligation under the liability is discharged or expires.

Notes (continued)

3. Significant accounting policies (continued)

Foreign currencies

The Syndicate's functional currency and its presentation currency are GBP.

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Syndicate's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historic cost are translated to the functional currency using the exchange rate at the date of the transaction.

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

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.

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

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

Pension costs

StarStone Group operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate as incurred and are included within net operating expenses.

Notes (continued)

4. Risk and capital management

Introduction and overview

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

Risk management framework

The Board of Directors of the Managing Agent has overall responsibility for the establishment and oversight of the Syndicate's risk management framework. The Board has established a Risk Committee to oversee the operation of the Syndicate's risk management framework and to review and monitor the management of the risks to which the Syndicate is exposed. The Risk Committee has delegated oversight of the management of aspects of insurance risks to the StarStone Underwriting and Reserving Committees, which are responsible for developing and monitoring insurance risk management policies, and the management of aspects of financial risks to the StarStone Investment Committee, which is responsible for developing and monitoring financial risk management policies.

The Risk Committee reports regularly to the Board of Directors on its activities. The StarStone Underwriting and Reserving Committees and the StarStone Investment Committee report regularly to the Risk Committee on their activities.

The risk management policies are established to identify and analyse the risks faced by the Syndicate, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Management of insurance risk

A key component of the management of underwriting risk for the Syndicate is a disciplined underwriting strategy that is focused on delivering the business plan, which sets out targets for volume, pricing, line sizes and retention by class of business. Product pricing is designed to incorporate appropriate premiums for each type of assumed risk. The underwriting strategy includes underwriting limits on the Syndicate's total exposure to specific risks together with limits on geographical and industry exposures. The aim is to ensure a well-diversified book is maintained with no over exposure in any one geographical region.

Contracts can contain a number of features which help to manage the underwriting risk such as the use of deductibles, or capping the maximum permitted loss, or number of claims (subject to local regulatory and legislative requirements)

The Syndicate makes use of reinsurance to mitigate the risk of incurring significant losses linked to one event or catastrophe, including excess of loss and quota share reinsurance. Where an individual exposure is deemed surplus to the Syndicate's appetite additional facultative reinsurance is also purchased.

The StarStone Underwriting and Reserving Committees oversees the management of reserving risk. The use of proprietary and standardised modelling techniques, internal and external benchmarking, and the review of claims development are all instrumental in mitigating reserving risk.

The Managing Agent's in-house actuaries perform a reserving analysis on a quarterly basis liaising closely with underwriters, claims and reinsurance technicians. The aim of this exercise is to produce a probability-weighted average of the expected future cash outflows arising from the settlement of incurred claims. These projections include an analysis of claims development compared to the previous 'best estimate' projections. The output of the reserving analysis is reviewed by external consulting actuaries.

Notes (continued)

4. Risk and capital management (continued)

Management of insurance risk (continued)

The StarStone Underwriting and Reserving Committees perform a comprehensive review of the projections, both gross and net of reinsurance. Following this review the StarStone Underwriting and Reserving Committees make recommendations to the Risk Committee and the Managing Agent's Board of Directors of the amount of claims provisions to be established.

Concentration of insurance risk

The Syndicate's exposure to insurance risk is well diversified. The following table provides an analysis of the geographical breakdown of its written premiums by class of business.

Year 2019	Accident and Health	Marine, aviation and transport	Fire and other damage to property	Third party liability	Miscellaneous	Reinsurance	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£000
UK	-	258	856	3	199	367	1,683
France	1	(12)	(679)	-	-	10	(680)
Germany	-	(10)	(1)	-	-	166	155
Other Europe	(42)	607	376	60	604	4,417	6,022
US	(186)	2,097	6,579	296	255	3,808	12,849
Other	9,746	36,758	23,452	12,578	6,418	66,424	155,376
Total	9,519	39,698	30,583	12,937	7,476	75,192	175,405

Year 2018	Accident and Health	Marine, aviation and transport	Fire and other damage to property	Third party liability	Miscellaneous	Reinsurance	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£000
UK	73	115	1,511	41	342	718	2,800
France	27	(3)	1,791	3	10	25	1,853
Germany	-	50	113	15	-	66	244
Other Europe	340	2,981	528	184	1,224	2,703	7,960
US	(15)	831	19,616	3,999	264	6,431	31,126
Other	9,830	56,927	35,913	14,425	9,761	77,677	204,533
Total	10,255	60,901	59,472	18,667	11,601	87,620	248,516

The Other category includes policies with worldwide risk exposures.

Notes (continued)

4. Risk and capital management (continued)

Sensitivity to insurance risk

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

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

	2019		2018	
	5 per cent increase	5 per cent decrease	5 per cent increase	5 per cent decrease
	£'000	£'000	£'000	£'000
Accident and health	(370)	370	(256)	256
Marine, aviation and transport	(5,891)	5,891	(6,882)	6,882
Fire and other damage to property	(3,443)	3,443	(3,710)	3,710
Third party liability	(2,146)	2,146	(1,754)	1,754
Miscellaneous	(278)	278	(153)	153
Total	(12,128)	12,128	(12,755)	12,755

Financial risk

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

Credit risk

Credit risk is the risk of financial loss to the Syndicate if a counterparty fails to discharge a contractual obligation.

The Syndicate is exposed to credit risk in respect of the following:

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

Notes (continued)

4. Risk and capital management (continued)

Credit risk (continued)

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

Management of credit risk

The Syndicate's credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty. Financial assets are graded according to current credit ratings issued by rating agencies such as Standard and Poor's. The Syndicate has a policy of investing mainly in government issued and government backed debts. The Syndicate does not currently invest new monies in speculative grade assets.

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

The Syndicate's exposure to intermediaries and reinsurance counterparties is monitored by the individual business units as part of their credit control processes. All intermediaries must meet minimum requirements established by the Syndicate. The credit ratings and payment histories of intermediaries are monitored on a regular basis.

The Syndicate assesses the creditworthiness of all reinsurers by reviewing public rating information and by internal investigations. The impact of reinsurer default is regularly assessed and managed accordingly.

Exposure to credit risk

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

Notes (continued)

4. Risk and capital management (continued)

Exposure to credit risk (continued)

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

Year 2019 Total	AAA £'000	AA £'000	A £'000	BBB £'000	<BBB £'000	Not rated £'000	Total £'000
Financial investments							
Shares and other variable yield securities and units in unit trusts	32,278	12,851	43,488	12,403	9,017	4,561	114,598
Debt securities and other fixed income securities	13,783	6,526	6,699	4,304	-	-	31,312
Loans with credit institutions	-	-	766	-	-	-	766
Deposits with credit institutions	-	-	2,058	-	-	-	2,058
Overseas deposits	9,042	4,723	3,400	989	822	-	18,976
Reinsurers' share of claims outstanding	-	18,701	110,877	-	-	37	129,615
Debtors arising out of direct insurance operations	-	-	-	-	-	34,097	34,097
Debtors arising out of reinsurance operations	-	2,721	17,739	-	-	9	20,469
Cash at bank and in hand	-	-	5,399	-	-	-	5,399
Other debtors and accrued interest	-	-	-	-	-	6,252	6,252
Total	55,103	45,522	190,426	17,696	9,839	44,956	363,542

Year 2018 Total	AAA £'000	AA £'000	A £'000	BBB £'000	<BBB £'000	Not rated £'000	Total £'000
Financial investments							
Shares and other variable yield securities and units in unit trusts	2,327	1,866	74,450	21,146	-	9,234	109,023
Debt securities and other fixed income securities	97	16,638	9,277	6,149	-	6,844	39,005
Loans with credit institutions	-	-	-	-	-	-	-
Deposits with credit institutions	-	-	2,024	-	-	-	2,024
Overseas deposits	5,348	1,207	876	1,278	-	2,798	11,507
Reinsurers' share of claims outstanding	-	11,917	41,677	3,941	-	76,325	133,860
Debtors arising out of direct insurance operations	-	-	-	-	-	112,617	112,617
Debtors arising out of reinsurance operations	-	-	-	-	-	37,841	37,841
Cash at bank and in hand	-	-	5,058	-	-	-	5,058
Other debtors and accrued interest	-	-	-	-	-	4,866	4,866
Total	7,772	31,628	133,362	32,514	-	250,525	455,801

Notes (continued)

4. Risk and capital management (continued)

Exposure to credit risk (continued)

At 31 December 2019, the largest concentration of credit risk in the Syndicate's debt security portfolio was in governments bonds amounting to £14.0 million (2018: £18.9 million).

The Syndicate has concentrations in its debt securities portfolio through its holdings of structured securities (including mortgage backed securities). The Syndicate does not have any investments with exposure to peripheral Eurozone countries.

Financial assets that are past due or impaired

The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date.

These debtors have been individually assessed for impairment by considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties. An analysis of the carrying amounts of past due or impaired debtors is presented in the table below. The debtors arising from reinsurance operations excludes accepted reinsurance debtors of £31.2 million (2018: £26.2 million).

Year 2019	Debtors arising from direct insurance operations £'000	Debtors arising from reinsurance operations £'000
Past due but not impaired financial assets:		
Past due by:		
Up to 3 months	9,246	-
Three to Six Months	4,336	-
Six Months to one year	7,034	-
Greater than one year	4,663	-
Past due but not impaired financial assets	25,279	-
Impaired financial assets	-	-
Gross value of past due and impaired financial assets	25,279	-
Less: individually assessed impairment allowances	-	-
Net carrying value of past due and impaired financial assets	25,279	-
Neither past due nor impaired financial assets	34,097	20,469
Net carrying value	59,376	20,469

Notes (continued)

4. Risk and capital management (continued)

Financial assets that are past due or impaired (continued)

Year 2018	Debtors arising from direct insurance operations £'000	Debtors arising from reinsurance operations £'000
Past due but not impaired financial assets:		
Past due by:		
Up to 3 months	8,385	985
Three to Six Months	4,127	-
Six Months to one year	10,340	57
Greater than one year	6,981	1,941
Past due but not impaired financial assets	29,833	2,983
Impaired financial assets	-	-
Gross value of past due and impaired financial assets	29,833	2,983
Less: individually assessed impairment allowances	-	-
Net carrying value of past due and impaired financial assets	29,833	2,983
Neither past due nor impaired financial assets	112,617	37,841
Net carrying value	142,450	40,824

Liquidity risk

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

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

Management of liquidity risk

The Syndicate's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Syndicate's reputation.

Notes (continued)

4. Risk and capital management (continued)

Management of liquidity risk (continued)

The Syndicate's approach to managing its liquidity risk is as follows:

- Forecasts are prepared and revised on a regular basis to predict cash outflows from insurance contracts over the short, medium and long term;
- Assets purchased by the Syndicate are required to satisfy specified marketability requirements;
- The Syndicate maintains cash and liquid assets to meet daily calls on its insurance contracts;
- The Syndicate regularly reviews its contingency funding plans to ensure that adequate liquid financial resources are in place to meet obligations as they fall due in the event of reasonably foreseeable abnormal circumstances.

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

Year 2019	Carrying amount	Total cash flows	Undiscounted net cash flows			
			Less than 1 year	1-2 years	2-5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	114,598	114,598	114,598	-	-	-
Debt securities	31,312	31,312	1,707	2,614	25,662	1,329
Deposits with credit institutions	2,824	2,824	2,824	-	-	-
Overseas deposits	18,976	18,976	18,976	-	-	-
Reinsurers share of technical provisions	147,323	147,323	46,731	38,498	47,715	14,379
Debtors and accrued interest	117,271	117,271	117,267	4	-	-
Cash at bank and in hand	5,399	5,399	5,399	-	-	-
Total assets	437,703	437,703	307,502	41,116	73,377	15,708
Technical provisions	454,377	454,377	191,475	104,825	128,988	29,089
Deposits received from reinsurers	40,342	40,342	40,342	-	-	-
Creditors	45,344	45,344	45,344	-	-	-
Total liabilities	540,063	540,063	277,161	104,825	128,988	29,089

Notes (continued)

4. Risk and capital management (continued)

Management of liquidity risk (continued)

Year 2018	Carrying amount	Total cash flows	Undiscounted net cash flows			
			Less than 1 year	1-2 years	2-5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	109,023	109,023	109,023	-	-	-
Debt securities	39,005	39,005	931	1,883	31,397	4,794
Deposits with credit institutions	2,024	2,024	2,024	-	-	-
Overseas deposits	11,507	11,507	11,507	-	-	-
Reinsurers share of technical provisions	185,620	185,620	27,580	36,088	99,783	22,169
Debtors and accrued interest	214,338	214,338	214,247	91	-	-
Cash at bank and in hand	5,058	5,058	5,058	-	-	-
Total assets	566,575	566,575	370,370	38,062	131,180	26,963
Technical provisions	508,522	508,522	81,280	135,653	233,690	57,899
Creditors	165,215	165,215	165,215	-	-	-
Total liabilities	673,737	673,737	246,495	135,653	233,690	57,899

In the above tables, the majority of debt securities, are included in the '2-5 years' column. In practice cash could be realised through the sale of the Syndicate's investments in debt securities. The disclosure does not take account of premiums received from new business written which can be used to pay claims arising.

Market risk

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

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

Management of market risks

For each of the major components of market risk the Syndicate has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of major risk and the exposure of the Syndicate at the reporting date to each major risk are addressed on pages 36 to 38.

Notes (continued)

4. Risk and capital management (continued)

Interest rate risk

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

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

Currency risk

The Syndicate writes business primarily in Sterling, Euro and US dollar and is therefore exposed to currency risk arising from fluctuations in the exchange rates of Sterling against these currencies. The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled.

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

Year 2019	GBP £'000	EUR £'000	USD £'000	CAD £'000	AUD £'000	Total £'000
Financial investments						
Shares and other variable yield securities and units in unit trusts	1,320	38,945	62,459	11,874	-	114,598
Debt securities and other fixed income securities	9,676	-	21,636	-	-	31,312
Loans/Deposits with credit institutions	766	-	2,058	-	-	2,824
Overseas deposits	5,353	-	1,829	2,811	8,983	18,976
	17,115	38,945	87,982	14,685	8,983	167,710
Reinsurers' share of technical provisions	6,146	12,123	122,208	3,504	3,342	147,323
Insurance and reinsurance receivables	8,689	(21,926)	118,635	(1,130)	6,751	111,019
Cash at bank and in hand	1,356	1,914	678	-	1,451	5,399
Other assets	2,751	2,534	19,989	663	2,183	28,120
Total assets	36,057	33,590	349,492	17,722	22,710	459,571
Technical provisions	27,417	49,870	350,596	10,046	16,448	454,377
Deposits received from reinsurers	-	-	40,342	-	-	40,342
Insurance and reinsurance payables	(7,916)	(161)	44,350	1,039	4,766	42,078
Other creditors	5,148	334	2,376	374	64	8,296
Total liabilities	24,649	50,043	437,664	11,459	21,278	545,093
Net assets/(liabilities)	11,408	(16,453)	(88,172)	6,263	1,432	(85,522)

Notes (continued)

4. Risk and capital management (continued)

Currency risk (continued)

Year 2018	GBP £'000	EUR £'000	USD £'000	CAD £'000	AUD £'000	Total £'000
Financial investments						
Shares and other variable yield securities and units in unit trusts	4,602	43,122	49,293	12,006	-	109,023
Debt securities and other fixed income securities	11,345	-	27,660	-	-	39,005
Loans/Deposits with credit institutions	-	-	2,024	-	-	2,024
Overseas deposits	4,018	-	1,297	2,534	3,658	11,507
	19,965	43,122	80,274	14,540	3,658	161,559
Reinsurers' share of technical provisions	10,590	17,822	148,845	4,463	3,900	185,620
Insurance and reinsurance receivables	10,216	42,635	145,437	2,206	8,978	209,472
Cash at bank and in hand	1,951	297	972	-	1,838	5,058
Other assets	4,397	4,587	21,744	1,310	2,194	34,232
Total assets	47,119	108,463	397,272	22,519	20,568	595,941
Technical provisions	32,464	72,223	374,869	13,544	15,422	508,522
Deposits received from reinsurers	-	-	-	-	-	-
Insurance and reinsurance payables	(3,150)	37,514	119,588	3,559	5,807	163,318
Other creditors	7,711	1,521	7,746	673	117	17,768
Total liabilities	37,025	111,258	502,203	17,776	21,346	689,608
Net assets/(liabilities)	10,094	(2,795)	(104,931)	4,743	(778)	(93,667)

Notes (continued)

4. Risk and capital management (continued)

Sensitivity analysis to market risks

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

	2019 Profit or loss for the year £'000	2018 Profit or loss for the year £'000
Interest rate risk		
+ 50 basis points shift in yield curves	(1,330)	(1,263)
- 50 basis points shift in yield curves	1,330	1,263
Currency risk		
10 percent increase in GBP/euro exchange rate	1,496	254
10 percent decrease in GBP/euro exchange rate	(1,828)	(311)
10 percent increase in GBP/US dollar exchange rate	8,016	9,539
10 percent decrease in GBP/US dollar exchange rate	(9,797)	(11,659)
Market price risk		
5 percent increase in market prices	7,678	4,142
5 percent decrease in market prices	(7,678)	(4,142)

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

A 50 basis point increase (or decrease) in yield curves and a 5% increase (or decrease) in investment market prices have been selected on the basis that these are considered to be reasonably possible changes in these risk variables over the following year.

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

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

Notes (continued)

4. Risk and capital management (continued)

Operational risk

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. The Managing Agent seeks to manage this risk through the use of detailed procedure manuals and a structured programme of compliance testing of processes and systems.

Group risk

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

Regulatory risk

The Managing Agent is required to comply with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Lloyd's requirements include minimum standards and those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to a regulatory change. The Managing Agent monitors regulatory developments and assesses their impact on agency policy and procedures. In addition, the agency carries out a compliance monitoring programme.

Capital management

Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly, the capital requirement in respect of Syndicate 1301 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.

Notes (continued)

4. Risk and capital management (continued)

Lloyd's capital setting process (continued)

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicates on which it is participating but not other members' shares. Accordingly, the capital requirements that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the proportion of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2019 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), assets held and managed within a Syndicate (funds in Syndicate), or as the member's share of the members' balances on each Syndicate on which it participates. Accordingly, all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the balance sheet on page 16, represent resources available to meet members' and Lloyd's capital requirements.

5. Analysis of underwriting result

An analysis of the underwriting result before investment return and profit/(loss) on foreign exchange is presented in the table below:

Year 2019	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance						
Accident and health	9,519	9,470	(7,901)	(3,562)	(1,198)	(3,191)
Marine, aviation and transport	39,698	50,578	(48,995)	(15,907)	1,622	(12,702)
Fire and other damage to property	30,583	45,834	(40,810)	(13,050)	2,632	(5,394)
Third party liability	12,937	15,892	(37,837)	(2,854)	8,471	(16,328)
Miscellaneous	7,476	7,529	(4,974)	(826)	(1,848)	(119)
	100,213	129,303	(140,517)	(36,199)	9,679	(37,734)
Reinsurance	75,192	77,352	(48,871)	(25,996)	(8,160)	(5,675)
Total	175,405	206,655	(189,388)	(62,195)	1,519	(43,409)

Notes (continued)

5. Analysis of underwriting result (continued)

Year 2018	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Direct insurance						
Accident and health	10,255	9,124	(5,471)	(3,153)	(1,705)	(1,205)
Marine, aviation and transport	60,901	62,104	(79,882)	(15,014)	(2,564)	(35,356)
Fire and other damage to property	59,472	53,675	(53,890)	(13,155)	(4,990)	(18,360)
Third party liability	18,667	15,058	(49,751)	(1,629)	13,290	(23,032)
Miscellaneous	11,601	6,652	(5,113)	(1,577)	(1,248)	(1,286)
	160,896	146,613	(194,107)	(34,528)	2,783	(79,239)
Reinsurance	87,620	83,296	(62,430)	(23,009)	(13,064)	(15,207)
Total	248,516	229,909	(256,537)	(57,537)	(10,281)	(94,446)

No gains or losses were recognised in profit or loss during the year on buying reinsurance (2018: nil).

The gross premiums written for direct insurance by geographical risk exposure is presented in the table below:

	2019	2018
	£'000	£'000
United Kingdom	1,316	2,082
Other European Union Member States	2	5,886
US	9,041	24,695
Other countries	89,854	128,233
Total gross premiums written	100,213	160,896

The Other category includes policies with worldwide risk exposures.

Notes (continued)

6. Claims

Adverse movements of £18.5 million (2018: £22.1 million adverse) in the past year's provision for claims outstanding, net of expected reinsurance recoveries, are included in claims incurred, net of reinsurance. These arose in respect of the following classes of business:

	2019 £'000	2018 £'000
Accident and health	(2,056)	(791)
Marine, aviation and transport	(5,266)	(7,969)
Fire and other damage to property	56	(6,178)
Third party liability	(16,126)	(1,816)
Miscellaneous	(583)	(239)
Reinsurance	5,492	(5,102)
	(18,483)	(22,095)

7. Net operating expenses

	2019 £'000	2018 £'000
Acquisition costs:		
Brokerage and commissions	44,796	52,720
Other acquisition costs	9,619	9,161
	54,415	61,881
Change in deferred acquisition costs	(6,257)	3,032
Administrative expenses	16,153	24,634
Members' standard personal expenses	2,595	4,561
Reinsurance commissions and profit participation	(4,711)	(36,571)
Net operating expenses	62,195	57,537

Total written commissions for direct insurance business for the year amounted to £40.5 million (2018: £40.6million).

The majority of administrative expenses are incurred by the UK services company and are recharged to the Syndicate in line with Group policy. As the Syndicate increases the amount of premium written and earned, costs recharged to the Syndicate increase. Also included in administrative expenses is the Syndicate's charge for share based remuneration costs which vary according to the share price of Enstar Group Limited. During the year, the Enstar Group Limited share price has increased.

The member's standard personal expenses are included within administrative expenses and include Lloyd's subscriptions, New Central Fund contributions and Managing Agent's fees.

Notes (continued)

7. Net operating expenses (continued)

Administrative expenses include:

	2019 £'000	2018 £'000
Auditor's remuneration:		
fees payable to the Syndicate's auditor for the audit of these financial statements	30	30
fees payable to the Syndicate's auditor for the audit of regulatory returns	285	306
fees payable to the Syndicate's auditor and its associates in respect of other services pursuant to legislation	160	160

8. Key management personnel compensation

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

	2019 £'000	2018 £'000
Directors' emoluments	679	1,006
Contribution to pension schemes	49	31
Total	<u>728</u>	<u>1,037</u>

No other compensation was payable to key management personnel.

The active underwriter received the following aggregate remuneration charged to the Syndicate and included within directors' emoluments above.

	2019 £'000	2018 £'000
Emoluments	<u>214</u>	<u>325</u>

9. Staff numbers and costs

All staff are employed by Enstar (EU) Limited. The average number of persons employed by Enstar (EU) Limited, but working for the Syndicate during the year, analysed by category, was as follows:

	2019	2018
Administration and finance	36	29
Underwriting	43	38
Claims	12	11
Total	<u>91</u>	<u>78</u>

Notes (continued)

9. Staff numbers and costs (continued)

The following amounts were recharged by Enstar (EU) Limited through the managing agency to the Syndicate in respect of payroll costs:

	2019 £'000	2018 £'000
Wages and salaries	11,871	14,577
Social security costs	1,636	1,725
Other pension costs	810	1,066
Other	357	650
	14,674	18,018

10. Investment return

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

	2019 £'000	2018 £'000
Investment income:		
Interest and dividend income	1,886	2,050
Realised gains	1,098	50
Unrealised gains on investments	5,104	578
Investment expenses and charges:		
Investment management expenses, including interest	(19)	(21)
Losses on the realisation of investments	(155)	(625)
Unrealised losses on investments	(2,110)	(532)
Investment return transferred to the technical account from the non-technical account	(5,804)	(1,500)
Total investment return	-	-

The Syndicate's focus is on liquidity and the preservation of capital. The investment policy is to invest predominantly in high quality, short dated bonds. The maturity profile of the portfolio reflects the short tail nature of the underwriting commitments, the currency mix is matched to that of the net liabilities and there is no exposure to equities.

Notes (continued)

10. Investment return (continued)

The total income, expenses, net gains or losses, including changes in fair value, recognised on all financial assets and financial liabilities comprises the following:

	2019 £'000	2018 £'000
Financial assets at fair value through profit or loss	3,937	(529)
Financial assets at amortised cost:		
Interest income	1,886	2,050
Impairment losses on debtors	-	-
Financial liabilities at amortised cost:		
Interest expense	-	-
Investment management expenses, excluding interest	(19)	(21)
Total investment return	5,804	1,500

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

	2019 £'000	2018 £'000
Average amount of Syndicate funds available for investment during the year		
Sterling	20,194	23,868
Euro	42,139	37,258
US dollar	36,273	37,482
Canadian dollar	3,398	3,850
Australian dollar	7,965	3,167
Total funds available for investment, in sterling	109,969	105,625
Total investment return	5,804	1,500
Annual investment yield		
Sterling	1.79%	0.15%
Euro	7.66%	-0.25%
US dollar	4.43%	3.64%
Canadian dollar	9.15%	4.43%
Australian dollar	3.70%	0.64%
Total annual investment yield, in sterling	5.28%	1.42%

Notes (continued)

11. Financial investments

	Carrying value		Cost	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	114,598	109,023	113,012	109,023
Debt securities and other fixed income securities	31,312	39,005	31,758	39,280
Government and supranational securities	14,042	18,945	14,245	18,915
Asset backed securities	-	-	-	-
Mortgage backed instruments	4,602	2,679	4,627	2,637
Corporate bonds	12,668	17,381	12,886	17,728
Loans and deposits with credit institutions	2,824	2,024	2,824	2,024
Overseas deposits as investments	18,976	11,507	18,976	11,507
Total financial investments	167,710	161,559	166,570	161,834

The table below presents an analysis of financial investments by their measurement classification.

	2019	2018
	£'000	£'000
Financial assets measured at fair value through profit or loss	50,288	50,512
Financial assets measured at amortised cost	117,422	111,047
Total financial investments	167,710	161,559

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

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

Notes (continued)

11. Financial investments (continued)

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

2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable yield securities and units in unit trusts	46,419	68,179	-	114,598
Debt securities and other fixed income securities	-	31,312	-	31,312
Loans and deposits with credit institutions	2,824	-	-	2,824
Overseas deposits	4,698	14,278	-	18,976
Total	53,941	113,769	-	167,710

2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable yield securities and units in unit trusts	109,023	-	-	109,023
Debt securities and other fixed income securities	36,326	2,679	-	39,005
Loans and deposits with credit institutions	-	2,024	-	2,024
Overseas deposits	8,727	2,780	-	11,507
Total	154,076	7,483	-	161,559

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

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

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

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

The fair values for all securities in the fixed maturity investments portfolio are independently provided by the investment accounting service providers, investment managers and investment custodians, each of which utilise internationally recognised independent pricing services.

Notes (continued)

11. Financial investments (continued)

Enstar Group record the unadjusted price provided by the investment accounting service providers, investment managers or investment custodians and validate this price through a process that includes, but is not limited to:

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

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

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

12. Debtors arising out of direct insurance operations

	2019	2018
	£'000	£'000
Amounts due from intermediaries:		
Due within one year	59,372	142,418
Due after one year	4	32
	59,376	142,450

The movement in debtors arising out of direct insurance operations is due to a change in classification of balances to creditors arising out of direct insurance operations. There is no impact on the net assets of the Syndicate.

13. Debtors arising out of reinsurance operations

	2019	2018
	£'000	£'000
Amounts due within one year	51,642	66,964
Amounts due after one year	1	58
	51,643	67,022

The movement in debtors arising out of reinsurance operations is due to a change in classification of balances to creditors arising out of reinsurance operations. There is no impact on the net assets of the Syndicate.

Notes (continued)

14. Deferred acquisition costs

	2019	2018
	£'000	£'000
Balance at 1 January	29,366	24,292
Incurred costs deferred	44,796	52,720
Amortisation	(50,964)	(47,555)
Effect of movements in exchange rates	(1,330)	(91)
Balance at 31 December	21,868	29,366

15. Claims development

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2019 in all cases.

Pure underwriting year - Gross	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Estimate of ultimate gross claims										
at end of underwriting year	29.6	26.2	50.6	49.6	62.4	70.2	117.3	98.7	53.5	
one year later	56.1	52.6	84.6	86.9	106.3	142.6	233.6	179.2		
two years later	62.3	53.7	81.6	86.2	116.3	160.9	257.0			
three years later	58.8	52.4	80.7	83.1	127.2	166.8				
four years later	58.7	52.7	81.4	90.1	138.7					
five years later	58.9	52.3	80.0	89.6						
Six years later	59.0	53.2	84.2							
Seven years later	58.7	54.4								
Eight years later	58.7									
Less gross claims paid	58.0	52.6	75.3	75.5	93.0	132.3	156.4	68.9	1.3	
Gross ultimate claims reserve	0.7	1.8	8.9	14.1	45.7	34.5	100.6	110.3	52.2	368.8
Gross ultimate claims reserve for 2010 and prior years										3.3
Gross claims reserves										372.1

Notes (continued)

15. Claims development (continued)

Pure underwriting year - Net	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Estimate of ultimate net claims										
at end of underwriting year	24.6	25.1	47.7	49.1	53.7	64.9	76.4	62.0	47.6	
one year later	51.3	51.5	77.6	80.6	96.2	133.5	142.2	104.8		
two years later	56.1	52.8	72.8	80.4	103.2	147.7	153.2			
three years later	52.3	51.6	69.8	78.1	110.4	151.1				
four years later	52.1	51.8	70.4	83.6	119.1					
five years later	52.2	51.5	69.3	83.5						
Six years later	52.3	51.7	72.3							
Seven years later	52.0	52.8								
Eight years later	51.9									
Less net claims paid	51.6	51.0	66.5	72.7	87.8	122.9	102.5	40.2	1.2	
Net ultimate claims reserve	0.3	1.8	5.8	10.8	31.3	28.2	50.7	64.6	46.4	239.9
Net ultimate claims reserve for 2010 and prior years										2.6
Net claims reserves										242.5

Notes (continued)

16. Technical provisions

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

	2019			2018		
	Gross provisions £'000	Reinsurance assets £'000	Net £'000	Gross provisions £'000	Reinsurance assets £'000	Net £'000
Incurred claims outstanding:						
Claims notified	198,039	(53,960)	144,079	168,351	(32,514)	135,837
Claims incurred but not reported	190,910	(79,900)	111,010	105,109	(35,596)	69,513
Balance at 1 January	388,949	(133,860)	255,089	273,460	(68,110)	205,350
Change in prior year provisions	31,620	(13,137)	18,483	35,579	(13,484)	22,095
Expected cost of current year claims	157,768	(52,941)	104,827	220,958	(83,738)	137,220
Claims paid during the year	(191,246)	64,675	(126,571)	(153,350)	35,609	(117,741)
Effect of movements in exchange rates	(14,905)	5,648	(9,257)	12,302	(4,137)	8,165
Balance at 31 December	372,186	(129,615)	242,571	388,949	(133,860)	255,089
Claims notified	215,336	(76,258)	139,078	198,039	(53,960)	144,079
Claims incurred but not reported	156,850	(53,357)	103,493	190,910	(79,900)	111,010
Balance at 31 December	372,186	(129,615)	242,571	388,949	(133,860)	255,089
Unearned premiums						
Balance at 1 January	119,573	(51,760)	67,813	101,823	(40,576)	61,247
Premiums written during the year	175,405	(31,933)	143,472	248,516	(115,680)	132,836
Premiums earned during the year	(206,655)	64,559	(142,096)	(229,909)	107,502	(122,407)
Effect of movements in exchange rate	(6,132)	1,426	(4,706)	(857)	(3,006)	(3,863)
Balance at 31 December	82,191	(17,708)	64,483	119,573	(51,760)	67,813

Notes (continued)

17. Creditors

(i) Creditors arising out of direct insurance operations

	2019	2018
	£'000	£'000
Due within one year	13,361	55,471
Due after one year	-	-
	13,361	55,471

(ii) Creditors arising out of reinsurance operations

	2019	2018
	£'000	£'000
Due within one year	28,717	107,847
Due after one year	-	-
	28,717	107,847

Creditors arising out of reinsurance operations include £16.6m (2018: £94.8m) due to related undertakings. Other creditors include £1.8m (2018: £1.9m) due to related undertakings.

The movement in creditors arising out of direct insurance operations and reinsurance operations is due to a change in classification of balances to creditors arising out of direct insurance operations and reinsurance operations. There is no impact on the net assets of the Syndicate.

18. Cash and cash equivalents

	2019	2018
	£'000	£'000
Short term deposits with credit institutions	114,598	109,023
Cash at bank and in hand	5,399	5,058
Total cash and cash equivalents	119,997	114,081

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

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries. The funds are required in order to protect policyholders in overseas markets and enable the Syndicate to operate in those markets. The access to those funds is restricted and the Syndicate cannot influence the investment strategy.

Notes (continued)

19. Related parties

StarStone Insurance Holdings Limited, a company incorporated in Bermuda, is the immediate parent company. Enstar Group Limited, a company incorporated in Bermuda, is the ultimate parent company and ultimate controlling party.

SGL No. 1 Limited is a corporate member within the Enstar Group which owns 100% of the capacity in the Syndicate.

KaylaRe is a wholly owned subsidiary of Enstar Group Limited. The Syndicate has a quota share agreement with KaylaRe Ltd for the 2017 and 2018 underwriting year of accounts, in which KaylaRe Ltd reinsures 35% of business written by the Syndicate.

During the year, the Syndicate ceded £6.5m (2018: £79.7m) of outward reinsurance premiums with KaylaRe. The recoveries (including ceded ULAE) as at the end of the year was £32.7m (2018: £109.3m). The Syndicate has not remitted any funds in respect of premiums (net of commission) to KaylaRe during the year and has an outstanding balance of £4.9m in respect of the net amount due from KaylaRe (2018: £16.4m).

StarStone Insurance SE (SISE) is a company domiciled in Lichtenstein that operates under the StarStone umbrella underwriting insurance and reinsurance business from London and its branches across Europe. The 2019 year-end balance due from SISE in respect of recoveries is £1.0m (2018: £1.6m).

StarStone Insurance Services Limited (SISL), a company domiciled in the United Kingdom, is a wholly owned subsidiary of StarStone Insurance Bermuda Limited (SIBL). SISL is an approved Lloyd's coverholder and acts as a coverholder for the Syndicate. The Company also provides services to SUL to perform Syndicate activities for and behalf of the corporate member, for which costs are incurred and re-charged to the Syndicate. During the year, SISL charged the Syndicate £0.5m (2018: £0.9m) in commissions and £24.0m (2018: £5.6m) in recharged expenses. At the balance sheet date, the Syndicate owed SISL £0.1m (2018: £0.5m). All expenses from SISL are recharged to the Syndicate via StarStone Underwriting Limited (SUL).

StarStone US Intermediaries Inc (SUII), a company domiciled in the United States of America, is a wholly owned subsidiary of StarStone Insurance Bermuda Limited (SIBL). SUII is an approved Lloyd's coverholder and acts as a coverholder for the Syndicate. During the year, SUII charged the Syndicate £0.2m (2018: £0.1m) in commissions. No balance was due to SUII at the balance sheet date.

The Syndicate entered into a managing general agent (MGA) agreement with Objective Underwriting Limited in 2017, a company domiciled in Hong Kong, to underwrite Marine, P&I, and Specie and Fine Art in China. This agreement ended on 1 May 2019. During the year £4.1m (2018: £7.8m) of gross premiums was written by Objective Underwriting Limited. At the balance sheet date, the Syndicate was owed £0.3m (2018: £0.5m) with respect to advanced commissions paid.

Notes (continued)

19. Related parties (continued)

Enstar (EU) Limited, a company domiciled in the United Kingdom, is a wholly owned subsidiary of Enstar Group Limited, a company incorporated in Bermuda. (EEUL) is a service company which employs all UK StarStone Group staff including underwriters, claims and reinsurance staff. EEUL recharged the Syndicate £0.7m (2018: £18.5m) in re-charged expenses. No balance was due to EEUL at the balance sheet date.

J Wardrop is a non-executive director of Ark Syndicate Management Limited ("Ark") which manages Syndicates 3902 and 4020. During the year the Syndicate wrote £0.4m and £2.8m of premiums lead by Syndicates 3902 and 4020 respectively. The Syndicate is also due £0.5m from Syndicate 4020 with respect to reinsurance recoveries and paid £0.4m in respect of reinsurance premiums during the year.

E Gilmour is a non-executive director of Antares Managing Agency Limited ("Antares") which manages Syndicates 1274. During the year the Syndicate wrote £2.6m of premiums lead by 1274. The Syndicate paid £0.2m in respect of reinsurance premiums during the year.

The Syndicate is supported by SGL No.1 Limited, who provided 100% of its underwriting capacity for the 2019 underwriting year of account.

During the year transactions have been entered into between the Syndicate and the managed Syndicate within Enstar Group companies (Atrium managed Syndicate 609). Any such related party transactions are entered into by the Syndicate on a commercial basis.

20. Foreign exchange rates

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

	2019		2018	
	Year-end rate	Average rate	Year-end rate	Average rate
Euro	1.18	1.14	1.11	1.13
US dollar	1.33	1.28	1.27	1.34
Canadian dollar	1.72	1.69	1.74	1.73
Australian dollar	1.89	1.84	1.81	1.79

21. Funds at Lloyd's

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

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

Notes (continued)

22. Members' balances

During the period the Syndicate received contribution to losses of £40.6m (2018: £4.2m profit distribution) from its corporate members as follows: £16.0m from StarStone Corporate Capital 1 Ltd, £24.6m from SGL No. 1 Limited.

23. Ultimate Parent Company

StarStone Insurance Holdings Limited, a company incorporated in Bermuda, is the immediate parent company. Enstar Group Limited, a company incorporated in Bermuda, is the ultimate parent company and ultimate controlling party.

Copies of the consolidated financial statements of Enstar Group Limited can be obtained from The Secretary, Enstar Group Limited, Windsor Place, 3rd Floor, 22 Queen Street, Hamilton, HM 11 Bermuda.