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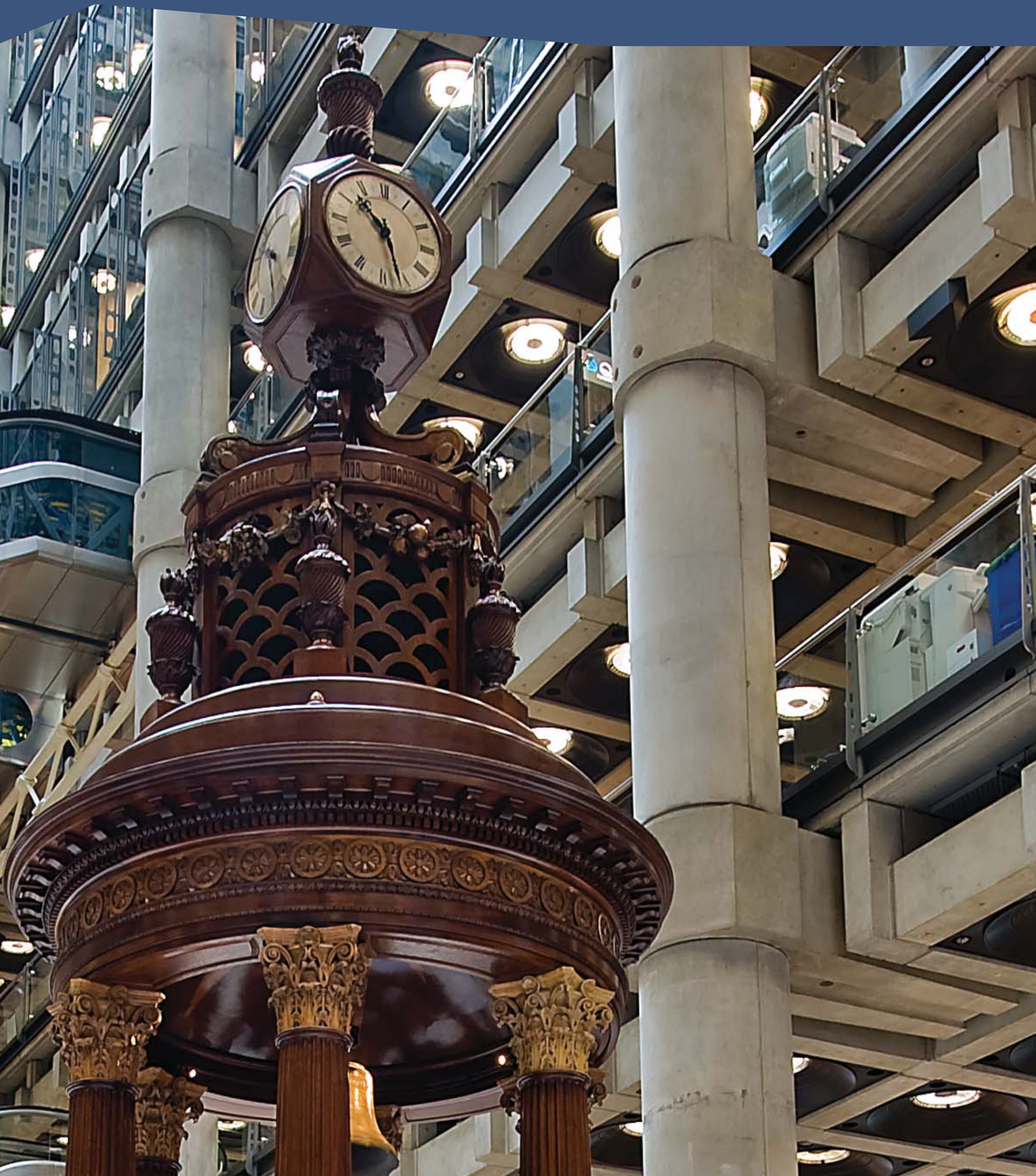
Argenta

Argenta Syndicate Management Limited
Syndicate 2121

Report, Annual Accounts and Underwriting Year Accounts

as at 31 December 2022



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Contents of Report and Accounts

Managing Agent's Report

The directors of Argenta Syndicate Management Limited ("ASML"), a company registered in England and Wales, present their report for the year ended 31 December 2022.

The annual accounts are 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 ("the 2008 Regulations").

A separate set of underwriting year accounts has been prepared on the traditional three year accounting basis in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). These relate to the 2019 year of account that was left open as at 31 December 2021, and the 2020 year of account for the three years to 31 December 2022, both of which have been reinsured to close as at 31 December 2022.

The financial reporting framework that has been applied is United Kingdom Generally Accepted Accounting Practice ("UK GAAP") including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102") and Financial Reporting Standard 103 'Insurance Contracts' ("FRS 103").

Principal activity

There has been no change during the year to the syndicate's principal activity which continues to be the transaction of general insurance and reinsurance business.

Overview of business

Based in London, the syndicate operates within the Lloyd's of London ("Lloyd's") insurance market and through a service company, Argenta Underwriting Asia Pte Ltd ("AUA") on the Lloyd's Asia platform in Singapore. AUA has branch offices in Australia, one located in the central business district of Sydney and the other located in Tuggerah, north of Sydney. The Tuggerah branch operates as a managing general agent predominantly in the New South Wales region, underwriting a niche property account.

As a result of the decision to close the office in China for the 2022 year of account, the syndicate's exposure to Chinese domiciled reinsurance business through the dedicated underwriting division of Lloyd's Insurance Company (China) Limited ("LICCL") based in Shanghai is now running-off. During the year it was also decided to cease underwriting from the service company office in Singapore; further details are provided later in this report.

Syndicate 2121 continues to underwrite a well balanced portfolio of both insurance and reinsurance business across a broad selection of marine and non-marine classes. The overall balance of the syndicate has been materially enhanced with the introduction in 2020 of a sizeable portfolio of casualty business, moving the current split to roughly two-thirds short-tail and one-third long-tail.

The portfolio underwritten can be broken down into seven main areas, as follows:

- Property (including terrorism, UK commercial combined and transportation)
- Energy (offshore, utilities and liability)
- Marine (hull and war, liability, cargo and specie)
- Specialty (political risks, cyber, warranty and indemnity)
- Worldwide treaty
- Casualty
- Financial lines.

Overall the portfolio has a worldwide spread and comprises business assumed through single risk writings, reinsurance treaties, Lloyd's market consortia and coverage provided through third party delegated underwriting authorities.

Overview of business *continued*

The largest book of business in the syndicate remains the direct and facultative property account, built around a number of long-standing relationships with managing general agents from around the world, with a particular focus on the USA. This is supplemented with a modest open-market book of predominantly small commercial and homeowners' business. A UK commercial combined book for small to medium sized enterprises that, along with property lines, gives coverage for both employers' and public liability risks, is also underwritten. The overall property account continues to grow with the AUA office in Sydney underwriting Australasian property and business interruption business via delegated authorities, through third party coverholders and open-market risks. Additionally the syndicate continues to write a relatively modest sized worldwide property treaty account split between catastrophe excess of loss and a small book of risk excess business.

The syndicate's energy book offers a wide range of cover including utilities, exploration and production, and distribution risks. Downstream refining exposures, however, are not underwritten. The marine book consists of the traditional Lloyd's classes including a small book of hull (that is now in run-off due to the closure of the Singaporean book), cargo, specie, war, fine art and liability exposures, both in conjunction with physical damage lines and on a standalone basis.

A book of cyber business is underwritten, predominantly through participation on Lloyd's approved consortia, London Market binding authorities and a quota share reinsurance arrangement of a long-established writer of the class.

The political risks account covering contract frustration, credit and political risks continues to grow, albeit at a modest pace.

The casualty book of business gained momentum in 2020 with the arrival of an established team of well-respected underwriters. Since then the book has grown to a point where it now accounts for around a third of the overall gross premium income written by the syndicate.

The syndicate continues to grow with a stamp capacity for 2023 of £800 million up from £660 million in 2022. This remains in line with the ASML strategic growth objectives for Syndicate 2121, adding new lines of business that are able to deliver against profit expectations as well as growing organically when the time is right. This strategy is expected to continue and will always be subject to market conditions, with any growth being achieved through either recruitment of high quality underwriters with a proven track record, or through the support of market consortia or other such joint ventures that offer the opportunity to partner with class leading profitable expertise.

Review of underwriting activities

During what proved to be an extraordinary year, the syndicate faced major geopolitical instability, a cost of living crisis and economic turmoil in the financial markets. Mother Nature was in no mood to be left out either, joining in with a severely damaging storm devastating parts of Florida in August 2022 and closing the year with a "once in a generation" winter storm affecting 200 million people in the US. Ultimately the impact of the war in the Ukraine will take many years to fully understand and that uncertainty will live on for a while longer. The economic turmoil and cost of living crisis caused by, inter alia, Russia's aggression was made worse by announcements emanating from the British government. Once again the effects of this short period of financial instability in the UK will have a long-lasting impact on an already stretched economy as the country strives to deal with rampant inflation made worse by a severely limited supply of goods, a knock-on effect of the Covid-19 pandemic; global energy insecurity as a result of the war in the Ukraine; and all made worse by a worldwide economic downturn with materially higher borrowing costs.

Review of underwriting activities *continued*

The thought of a war on mainland Europe was something most people had consigned to the opening decades of the 20th Century, but sadly this returned with a vengeance in February 2022 with Russia's unprovoked invasion and continued aggression against the Ukraine. From that moment on, society has had to deal with the fall-out of this brutality. The effects are wide-ranging within the insurance market with multiple classes of business being called upon to help restore a semblance of order where needed. For example, without a carefully crafted insurance scheme the supply of grain from ports in the Black Sea would not have reached those reliant upon imported Ukrainian grain to survive. As mentioned in the opening comments, the long-term effects of Russia's hostility will take many years to unwind. The Argenta managed syndicates, however, are well placed to deal with these challenges and ultimately the opportunities ahead.

Category 4 Hurricane Ian hit the west coast of Florida on 28 September 2022 with sustained wind speeds of around 155 mph, just a few miles an hour short of the threshold for it to be classified as a maximum Category 5 storm on the Saffir-Simpson scale. Hurricane Ian was an extremely powerful weather system and, according to numerous estimates of the insured damage, will result in around US$50 to US$65 billion worth of claims. Sadly the sheer scale and power of the winds also meant that this hurricane was classified as the most deadly to hit Florida since 1935. Once again the insurance industry has been called upon to help rebuild infrastructure, buildings and ultimately people's lives as residents and businesses in the affected areas work to regain an element of normality.

As a result of these events, including the impact of inflation on the syndicate's liabilities, 2022 has been a tough year, full of extraordinary challenges, and it is pleasing to report that, despite all of those challenges, the syndicate is able to declare a small profit for the year of £9.4 million with a combined ratio of 99.0%.

The table below summarises the capacity, premium volumes and performance of Syndicate 2121 for 2022 alongside comparative numbers for 2021. Other than in respect of capacity, the numbers shown are on an annually accounted basis. The table is followed by further detailed comments in relation to each of the years on an annually accounted basis and also on an underwriting year of account basis.

Key performance indicators	*2022*	*2021*
Capacity (underwriting year)	£660 million	£600 million
Premiums written gross of commission	£776 million	£655 million
Net premiums earned	£507 million	£367 million
Profit for the year	£9.4 million	£9.8 million
Claims ratio (net)	59%	57%
Combined ratio	99%	98%

2019 year of account

This year remained open beyond its usual point of closing, affected by Covid-19 and the associated business interruption (BI) claims, particularly from Australia. It was reported last year that there were still a number of ongoing legal issues to be resolved before finality was reached and it is pleasing to report that during 2022 the Australian courts handed down positive decisions such that the 2019 year can now be closed. Disappointingly the challenges faced by this year of account mean that this year is closing with a loss of 10.1% of capacity.

Review of underwriting activities *continued*

2020 year of account

This year of account was also impacted by the Covid-19 pandemic. The scale of that impact, however, was relatively modest when compared to the 2019 and 2018 years of account. The year has run-off reasonably well and it is now possible to close the year with a small profit of 1.7% of capacity.

2021 year of account

Due to the timing of the awful events in the Ukraine, the majority of the syndicate's allocated loss reserves are sitting within the 2021 year of account. The year was also affected by an unusual run of natural peril losses; winter storm Uri in February 2021 hit Texas with snow and a severe freeze that caused around US$15 billion of damage, setting the year up for a run of extraordinary elemental peril losses. In August 2021 Hurricane Ida, the second most powerful storm to hit Louisiana after Hurricane Katrina of 2005, hammered 25 parishes of the state and caused an estimated loss of between US$35 billion and US$40 billion. The year finished with a bout of very late tornadoes in the US mid-west and a wildfire in Denver in late December. As a result of this extraordinary loss activity the forecast for the year is a result in the range of 6% to (4%) of capacity.

2022 year of account

The syndicate's exposure to the ongoing war in the Ukraine was limited to a handful of contracts. The syndicate began declining all business with a Russian nexus the moment Russia began amassing more of its troops on the border of the Ukraine in late December 2021 and early January 2022. From that moment on the intention was to cap, and over time remove, exposure to anything with a direct or remote exposure to Russia, the Ukraine and Belarus. This strong course of action served the syndicate well with the majority of exposed business having run-off by the 4th quarter of 2022.

As mentioned earlier, the long-term effects of Russia's aggression will not become apparent for many years. The short-term effects, however, made worse by Hurricane Ian, are plain to see; the market has hardened dramatically in most product lines. The (re)insurance markets' reaction to unprecedented loss events, such as World Trade Centre in 2001 and the extraordinary run of hurricanes (Katrina, Rita, Wilma) hitting the US in 2005, has been seen before. This time, however, it is looking very different. After those events there was a tide of incoming capital that looked to take advantage of the hardening market conditions. This meant the scale of hardening was ultimately limited and relatively short-lived. This time, however, the tide is going out with capacity leaving the (re)insurance market. Those in the market with a long memory are comparing the situation to that of 1992, after Hurricane Andrew decimated the Tri-County area of Florida. Back then capital was in very short supply and reinsurance availability collapsed just as demand increased materially. At the time of writing this report it is difficult to say with any confidence exactly how 2023 will compare to 1993. Suffice to say the expectation is that the current hard market conditions will last a while longer than those of recent years.

During 2022 the syndicate continued to benefit from the positive trading conditions across most product lines. The most material change during the year for the syndicate was that the Board of ASML decided to stop underwriting from its Singapore office in August 2022, thereby meaning that the 2023 year of account will be the first year since 2008 that the syndicate will not have any exposure to business written by Singapore. It was a difficult decision to make, closing a long-established operation, but it was driven by the mediocre performance of business from the region and the lack of strategic opportunities to put this on a long-term profitable footing. It will be necessary to ensure there is an orderly run-off of the remaining exposures written in that region.

Review of underwriting activities *continued*

Singapore aside, the syndicate has seen plenty of opportunities to consolidate and grow its business in 2022. The risk adjusted rate change (RARC), meaning the full effect of rate change from not only premium, but also terms and conditions taking into account any change in underlying exposures, was a healthy 8.9% in 2022 on top of 12.4% in 2021 and 12.6% in 2020. A further material acceleration and increase in RARC at syndicate level as a result of the impacts on the (re)insurance markets of the previously mentioned challenges, is fully expected.

Trading conditions for 2023

The syndicate business plan was prepared in the summer of 2022 and presented to Lloyd's on 1 September 2022. A modest expectation with regard to RARC increases was built into this plan, with 2022 seeing a continued increase in rates across most lines. So far the business seen for 2023 would suggest that as a result of the late season impact of Hurricane Ian, on top of an already difficult year, rates will increase more than expected and more quickly. Last year the comment was made that:

> "The overall market conditions can best be described as good in most areas. The changing physical, social and economic environments, however, mean that we cannot become complacent and take our foot off the gas when it comes to achieving premium increases. These are necessary to maintain profitability whilst dealing with climate change and inflationary issues, along with driving forward with the improvement in terms and conditions of the policies we issue."

That statement remains true and is therefore worth repeating again in this year's report. During 2023 the syndicate will enjoy the benefits of a hard market with a foot still firmly planted on the gas pedal to ensure the syndicate is well placed to return a profit in the ever changing social, economic and environmental conditions.

The plan for 2023 is to write £855 million of gross premium income. During 2022 the value of sterling dropped significantly against the US dollar. As a result of that rate of exchange movement, income measured in sterling increased by around 10%. Almost half of the growth in gross written premium planned from 2022 to 2023, therefore, is being driven by Lloyd's premium income monitoring rates of exchange.

The syndicate's appetite for catastrophe exposure remains consistent with that adopted in previous years and the risk metrics for major US and international perils are expected to remain in line with previous years at a whole account level. The syndicate continues to purchase a comprehensive reinsurance programme for all relevant lines of business.

Finally, and as in previous years, further new classes of business will continue to be considered but only where they complement the syndicate's existing portfolio and provide for either the recruitment of individuals or teams who offer experience, expertise and a proven track record, or through the further support of leading market practitioners on Lloyd's approved consortia arrangements.

Environmental, social and governance strategy

Environmental strategy

ASML seeks to protect the environment and to address through its actions, the challenges presented by climate change, energy demands, scarcity of resources, pollution and waste. It will work with its clients and other stakeholders to develop solutions to these environmental challenges. ASML aims to become a net zero business by 2050, across all of its products and investments. Operationally, ASML seeks to be net zero by 2030. In areas where this is not possible to achieve, ASML will seek to engage in projects that support carbon neutrality. These objectives align with the expectations of both Lloyd's and ASML's intermediate parent company, Hannover Rück SE ("Hannover Re").

Environmental, social and governance strategy *continued*

Social strategy

ASML also recognises its social responsibilities and the importance of its contribution to improving social outcomes for all. In doing so, ASML will take action through its initiatives in human rights, health, safety and wellbeing, diversity and inclusion and through its community engagement work. ASML seeks to maintain a strong ethical foundation in all of its activities, acting with integrity, treating all people with respect and taking care to avoid any business which may have an adverse impact on human rights. Examples of the types of business avoided include forced labour, land grabbing or resettlement of indigenous communities and controversial weapons.

ASML also provides a safe and healthy working environment, recognising the importance of the health and wellbeing of its staff. ASML is committed to working towards creating a more diverse business, promoting equality of opportunity for all its people and empowering people from all backgrounds to develop their talents within Argenta. ASML's community engagement aims to support, at a community level, its diversity and inclusion initiatives and to contribute with its time and resources to improving the lives and opportunities of those around it.

Governance strategy

Argenta Holdings Limited ("AHL") sets policies and directions for the Group companies, with each subsidiary responsible for the development and implementation of their detailed plans, appropriate for their business and for meeting their specific legal, regulatory and compliance obligations.

ASML maintains a robust governance structure, in which its Environmental, Social and Governance (ESG) Strategy is embedded at all levels, with clear lines of accountability across its business. This enables ASML to meet its strategic objectives and regulatory obligations. The ASML Board retains responsibility for the development of the ESG Framework and Strategy and oversight of its implementation with regular monitoring delegated to sub-committees of the Board.

Day to day responsibility for implementation of the ESG Strategy rests with the Executive Committee and the Active Underwriter, Finance Director and the Risk Management & Compliance Director as appropriate.

As part of the development of its ESG governance, the Board and senior management will identify the most effective metrics and management information which enables the Board to measure delivery of the ESG Strategy and the degree of ESG integration within the business and to also ensure that ASML can meet its current and future reporting obligations.

ASML business structure

ASML is the Lloyd's managing agency subsidiary of AHL, a private company with diversified interests in the Lloyd's insurance market. AHL is wholly owned by Hannover Re whose immediate parent undertaking is Talanx AG, a leading global insurance group. Hannover Re has for some time supported Syndicate 2121 as both a traditional reinsurer and with the provision of capital.

As the managing agency of Syndicate 2121, ASML has maintained a strategy of steadily growing the syndicate with capacity increasing from £340 million in 2019 to £800 million in 2023. The growth strategy is achieved by the selective addition over the years of new classes of business to complement the existing portfolio as well as continued organic growth in a number of areas.

ASML business structure *continued*

The syndicate underwrites a broad cross section of classes including marine, property, energy and utility on predominantly a short tail basis; and financial lines, casualty, marine and energy liability and elements of the UK insurance and specialty classes with longer tail characteristics. The syndicate underwrites business on a global basis from London and via the Australian branch of a Singapore based service company, AUA. Until late 2021 the syndicate also underwrote business from China by way of participating on the Lloyd's China Platform in Shanghai through a division of LICCL. It also underwrote business from Singapore via AUA until August 2022.

ASML also manages a Special Purpose Arrangement, Syndicate 6134, which operates alongside Syndicate 2121. Syndicate 6134, sponsored and capitalised by the Hannover Re group, underwrites quota share reinsurances of specific classes of business written by Syndicate 2121 as the host syndicate. Syndicate 2121 retains at least 10% of the business introduced by the sponsor.

A strategy of growth has also been adopted in respect of Syndicate 6134. This temporarily spiked for the 2020 year of account when the syndicate underwrote gross net written premium of £112.6 million following the introduction of the new casualty team in Syndicate 2121. This decreased to £75.3 million for the 2021 year of account before increasing to £81.4 million for the 2022 year of account. For the 2023 year of account the expectation is that Syndicate 6134 will underwrite £99.6 million of gross net written premium.

Syndicate 2121 receives an overriding commission in respect of these arrangements. The quota share contracts are being underwritten on a funds withheld basis although amounts may be advanced if needed to enable Syndicate 6134 to finance its standalone obligations.

Directors

John LP Whiter – *Non-executive Chairman*
Nicholas J Moore – *Managing Director*
Andrew J Annandale – *Managing Director (resigned 31 December 2022)*
Graham K Allen – *Finance Director*
Sven Althoff – *Non-executive Director*
Ian Burford – *Underwriting Director and Active Underwriter Syndicates 2121 and 6134*
Carol-Ann Burton – *Risk Management and Compliance Director and Company Secretary*
Alan E Grant – *Non-executive Director (resigned 29 June 2022)*
Nigel S Meyer – *Non-executive Director (appointed 30 January 2023)*
Gary A Powell – *Non-executive Director*
Jens Schäfermeier – *Non-executive Director*
David J Thompson – *Claims Director*

Risk management

As an underwriting business Syndicate 2121 is exposed to a variety of financial and non-financial risks. These risks, which shape the risk management strategy adopted by ASML, are integral to the capital setting process that is undertaken to ensure there is an appropriate level of capital held in respect of the insurance liabilities to which Syndicate 2121 is exposed. The Own Risk and Solvency Assessment ("ORSA") undertaken in respect of Syndicate 2121 reflects the risk profile of the business as well as the business strategy. Risks are managed through the risk management framework in order to ensure that the risk profile of the business is fully understood and can be monitored against the agreed risk appetite. Further information in respect of this is also disclosed in Note 22 to the Annual Accounts.

ASML is committed to risk management as an integral part of management and governance best practice, and has developed a risk management strategy to protect the financial and non-financial assets of Syndicate 2121 and to minimise its losses and liabilities.

The risks to the business are grouped under various categories, each of which is the subject of a risk policy that sets out ASML's approach to the management of the risk in conjunction with the overarching risk management framework and risk strategy. ASML groups risks into the following key categories:

Insurance risk

Insurance risk is the risk that arises from the inherent uncertainties in the occurrence, amount and timing of insurance liabilities. The underwriting profile of Syndicate 2121 is such that it is likely that claims will arise on the business underwritten. An expected level of claims in relation to attritional, large and catastrophe type losses has, therefore, been included in the business planning process. Other mitigating measures, in the form of internal controls, are used to preserve the syndicate's performance by limiting the exposure to wider underwriting, claims and reserving risks, such as:

- Adverse catastrophe loss experience;
- Adverse large and attritional loss experience;
- Poor or inappropriate risk selection;
- Inadequate reinsurance placement; and
- Final claims costs deviating materially from estimated earned reserves due to the inherent variability of the business.

ASML manages these risks against an agreed risk appetite. The framework of systems and controls is designed to reduce the likelihood of such risks occurring and to mitigate their impact, as far as possible, on the overall business of the syndicate.

Operational risk

Operational risk is defined as the risk of loss resulting from the workforce or inadequate or failed internal processes or systems or from external events. Control procedures are used to proactively address the risks associated with ASML's business processes, systems and other resources that might otherwise be detrimental to overall performance. Business continuity is considered key and ASML has developed a plan that provides for the syndicate to be operational within a 48 hour period in the event that its current offices are no longer available.

The retention of key staff is also fundamental to the success of the business and the strategy adopted by ASML is designed to ensure that the terms and conditions offered to employees, as part of their overall remuneration package, remain competitive with the rest of the London market insurance industry.

As a regulated business, ASML is fully aware of its regulatory obligations to the UK Financial Conduct Authority ("FCA"), the Prudential Regulation Authority ("PRA"), Lloyd's, the Monetary Authority of Singapore ("MAS") and other overseas regulators. The procedures adopted by ASML in this regard rigorously monitor compliance with the regulatory standards and, through continuous assessment, highlight any developments that might impact the business.

Risk management *continued*

Capital risk

Capital risk is defined as the risk to the syndicate of losses arising from inappropriate levels or sources of capital. Syndicate 2121 is supported by third party capital providers whose ongoing support is important to the syndicate continuing to trade forward. ASML is committed to the controlled growth of the syndicate and discussions with current and prospective capital providers are an ongoing process.

Liquidity risk

Liquidity risk is the risk that the syndicate will not have sufficient available cash resources to be able to meet its liabilities as they fall due. The liquidity of the syndicate is influenced by a number of factors that have the potential to arise from across the business. Management information is used to enable the effective monitoring of the liquidity risk framework in line with the agreed procedures and governance arrangements. Robust procedures are in place for the monitoring of cash flow and effective credit control. Claims activity is closely scrutinised and the movement of existing claims is reported at regular intervals.

Credit risk

Credit risk is inherent to the business conducted with brokers, coverholders, reinsurers and other counterparties. The potential for losses arising from a counterparty failing to fulfil its contracted payment obligations is managed by strict control procedures. Aged debt in respect of the payment of premiums and reinsurance recoveries is closely monitored and actively managed. The ASML third party management group approves the brokers, coverholders and reinsurers with which the syndicate may conduct its business. There is no appetite to deal with counterparties who have not been approved.

Financial market risk

Financial market risk is concerned with the loss resulting from adverse movements in the financial markets. The risks are partly mitigated by following a predominantly fixed income investment strategy designed to mitigate exposure to potential losses from movement in exchange rates, interest rates or inflation. The business has a low appetite for market risk and as such there is a requirement to hold only high grade fixed income investments with a minimum average portfolio credit quality target of ‘AA-’, cash and high quality short term instruments. ASML may also invest in listed, highly diversified collective investment schemes, absolute return funds or funds of hedge funds, which serve to mitigate the impact of movements in the wider investment market. ASML also periodically seeks to match assets with liabilities in the syndicate’s principal reporting currencies to the extent that funds permit.

Emerging risk

In addition to monitoring the individual risk categories outlined above, ASML has in place an emerging risks process to review risks that may impact the business in the future, and to ensure that any such risks are understood and mitigated where possible.

Conduct risk

ASML defines conduct risk as any activities undertaken by the business that give rise to poor customer outcomes and has in place a mechanism for identifying, monitoring, reporting and mitigating its exposure to conduct related issues. This includes monitoring and reporting on a wide range of conduct management information and risk appetite metrics to the ASML board, risk framework and compliance committee and product oversight group.

Investment managers and policy

During 2022 Insight Investment Management (Global) Limited ("Insight") has been responsible for investing the large majority of the syndicate's US dollar assets within a fixed income portfolio. The syndicate's Canadian dollar assets in the regulated trust funds are managed by Lloyd's treasury within a fixed income portfolio. The returns achieved on these portfolios are measured with reference to appropriate benchmarks.

Surplus funds that are held in addition to these portfolios are invested in a combination of unitised liquidity funds and bank deposits.

Insight

The gross US dollar fixed income portfolio return was 0.7%, which was below the target benchmark of 3.2%. However, given the effects the war in Ukraine had on global food and energy prices that contributed to US inflation peaking at 9.1% in June and the subsequent response by the Federal Reserve ('the Fed') to aggressively hike interest rates from 0.25% to 4.5%, achieving a positive return for 2022 has been a good outcome.

As a result of the rapid increase in US interest rates during the early part of the year and with the expectation that rates could rise beyond 5%, credit spreads widened significantly during the first half of the year. During the latter part of the year credit spreads rebounded as markets priced in a reduced interest rate hiking trajectory than had previously been feared as signs emerged that inflation was cooling. This has reduced the unrealised mark to market losses that the fixed income portfolios suffered during the early part of the year. Market sentiment suggests that the Fed will continue to raise interest rates during the first half of 2023, with rates peaking around 5%. The outlook for investment markets in 2023 at present is a less volatile journey, although unexpected geopolitical events remain a concern. Insight report on 2022 as follows:

> "The 2022 year was exceptionally weak for fixed income investments with global bonds falling into a bear market for the first time in 70 years. Against this backdrop, the portfolios underperformed the cash benchmark.
>
> Central banks mis-read the scale of the inflation problem. Inflation rose to levels not seen since the 1970s and policy makers scrambled to raise rates in an attempt to curb inflation. The tightening cycle looks set to continue and has been aggressive by most historic comparisons. During the year, economic uncertainty focused on two issues:
>
> 1) Inflation – In the face of the policy response there is a clear expectation that inflation will reduce but the question remains whether it will settle at a structurally higher level than was the case pre-Covid. In addition, there is a risk that a wage / price spiral may develop that would require an even more aggressive policy response.
>
> 2) Growth – The control of inflation requires demand and supply to be brought into closer balance, so the purpose of tighter monetary policy is to slow growth. However, the extent to which growth is slowing varies by country and depends on complex issues such as, energy price sensitivity and whether households are using their excess savings buffer built up over the pandemic to help alleviate near-term stresses. The US has consistently shown economic resilience whereas the growth backdrop in the UK and mainland Europe has been much weaker.
>
> These inflation and growth concerns have arisen from heightened geopolitical tension; driven by Russia's invasion of Ukraine and ongoing tensions between the West and China. Beijing's support for Moscow, and its posturing towards Taiwan, were obvious touchpoints but China's internal struggles in managing a property sector crisis and a zero-Covid policy have added to the challenging macro environment.

Investment managers and policy *continued*

Looking forward, the US has passed peak inflation and data elsewhere points in the same direction but the trajectory down from here is important. Negative growth dynamics are already in play, but the extent of the likely slowdown is currently unclear. There are notable growth divergences within both developed and emerging markets. In the UK and Eurozone, recession appears inevitable, whereas in the US it remains a possibility that it will be avoided. China's growth outlook appears brighter after its zero-Covid policy U-turn; however, the cost of capital has risen substantially and the effects of higher inflation, policy tightening, and geopolitical uncertainty are likely to impact growth and earnings in 2023."

Lloyd's treasury

The Canadian dollar portfolio return was a loss of 0.2%, which was better than the benchmark, which was a loss of 0.5% for the calendar year. Lloyd's treasury report on 2022 as follows:

"Over the year, the outperformance against the benchmark came from both the yield curve and credit positioning of the fund. This year has been an exceptionally turbulent year for risk assets, driven by unprecedented interest rate volatility, a consequence of central banks' actions marking the end of over a decade long low interest rate environment, and the war in Ukraine. This led to the investment grade sector generating negative returns. Credit spreads widened significantly during the first few quarters of the year but benefitted from an exceptionally strong rally into year-end from the position seen in October.

Canadian government bonds sold off in Q4, however the moves were relatively tame compared to the rest of the year. The Bank of Canada increased rates by 50 basis points at each of their October and December meetings taking interest rates to 4.25%. The 2-year and 5-year yield on the Canadian government bonds moved 28 and 8 basis points higher pushing the yields to 4.05% and 3.41% respectively at year-end.

The duration positions on the Canadian dollar portfolios were maintained below benchmark but increased towards the end of the year. The strategy continues to be to invest following significant weekly moves higher in yields and/or only on maturities to benefit from higher yields. At the end of the year, the overall duration position was marginally shorter than the 2-year benchmark. Market expectation that inflation would start moving lower in Q4 came to fruition, which saw some Central Bankers acknowledging they were getting close to their terminal rates. In the short-term, our expectation is that front-end rates could move a little higher from current levels as the market debates the terminal rates across major economies. Central banks could decide to lift rates beyond these levels. The number one priority for central banks is to bring inflation down and as they are less concerned about economic growth conditions this could create hard landings in some economies. Our duration position going forward will be driven by levels in the front-end but also the market's over or under-pricing of potential future rate increases. Opportunities are present in SSA bonds (semi-sovereign, supranationals and agency) that trade over 50 basis points above their respective government benchmark securities.

The environment for fixed income investment credit for 2023 remains solid, given the attractive yield levels, sound corporate fundamentals, and the expectation that rate volatility will decline from the highs seen in 2022; however, concerns surrounding the geopolitical outlook, economic growth and recession risk remain. Despite these risks, the landscape for credit remains strong for high quality securities and spreads should ultimately tighten once rate hikes plateau and recessionary risk has been fully priced into markets."

Custodians

Citibank and RBC Investor & Treasury Services have acted as the syndicate's custodians in relation to the fixed income portfolios held with Insight and Lloyd's treasury.

Investment objectives

The overall objective during the year was to target a return, over the long term, of 3m LIBOR plus 1% and remain 99.5% confident of not underperforming LIBOR by more than 5% over a three-year rolling period. The US dollar return for 2022 underperformed the long-term target, which was 3.6%, although it must be recognised that this was an extremely difficult year for the fixed income asset class as interest rates were increased aggressively by central banks in an attempt to curb inflation, which resulted in credit spreads widening significantly. It is expected that the 2023 calendar year is likely to be a less volatile year for bond markets as central banks near the peak of their hiking cycle, although investment markets remain sensitive to both economic and geopolitical events. The investment objective was recently modified to target a return over the long term of the secured overnight financing rate (SOFR) plus 126bps or remain 99.5% confident of not underperforming SOFR plus 26bs by more than 6% over a three-year rolling period.

Investment performance

Funds for investment were primarily held in US dollars. The investment return for the year and the average funds available for investment were as follows:

Average amount of syndicate funds available for investment during the year:

	2022	*2021*
	'000	*'000*
United States dollars	526,880	372,879
Sterling and other currencies	119,918	81,399
Canadian dollars	91,701	64,602
Euros	41,176	28,937
Combined in sterling	637,559	414,803
Net aggregate investment return for the calendar year in sterling	3,401	288

Net calendar year investment yield:	*2022*	*2021*
United States dollars	0.8%	(0.2%)
Sterling and other currencies	0.0%	1.1%
Canadian dollars	0.1%	0.0%
Euros	0.0%	(0.6%)
Combined in sterling	0.5%	0.1%

Research and development

The syndicate has not participated in any research and development activity during the year.

Disclosure of information to the auditors

In the case of each of the persons who are directors of the managing agent at the time the report is approved:

- So far as the director is aware, there is no relevant audit information, being information needed by the syndicate's auditors in connection with the auditors' report, of which the auditors are unaware; and
- Having made enquiries of fellow directors of the agency and the syndicate's auditors, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

Independent auditors

PricewaterhouseCoopers LLP ("PwC") continue to act as the auditors of the syndicate annual accounts and underwriting year accounts, and also as the auditors of ASML. Lloyd's approval for this arrangement under the relevant provisions of the Audit Arrangements Byelaw (No. 7 of 1988) was granted following notification to syndicate members and their non-objection to the arrangement. Notice is hereby given that it is intended to continue with this arrangement unless objections to this proposal are received from syndicate members. Any such objection should be made in writing to the registered office of ASML, within 21 days of receipt of this statement.

Under the 2008 Regulations, the auditors are deemed reappointed in subsequent years if there is no objection. PwC has signified its willingness to continue in office as the independent auditors to the syndicate and it is proposed that the appointment remains in force.

Annual general meeting of syndicate members

In accordance with the provisions of the 2008 Regulations, it is not intended to hold an annual general meeting of the members of Syndicate 2121, unless objections to this proposal or to the deemed reappointment of the auditors are received from syndicate members. Any such objection should be made in writing to the registered office of ASML, within 21 days of receipt of this statement.

Nicholas J Moore
Managing Director

Approved by the board of Argenta Syndicate Management Limited on 24 February 2023.

SYNDICATE

2121

ANNUAL ACCOUNTS 2022

Statement of Managing Agent's Responsibilities

The managing agent is responsible for preparing the syndicate annual account in accordance with applicable law and regulation.

The 2008 Regulations require the managing agent to prepare syndicate annual accounts as at 31 December each year in accordance with UK accounting standards and applicable law (UK(GAAP)). The syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate at that date and its profit or loss for that year.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the notes to the syndicate annual accounts;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the syndicate annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume the syndicate will do so.

The managing agent is responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is also responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations.

The managing agent is responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of syndicate annual accounts may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Members of Syndicate 2121

Report on the audit of the syndicate annual accounts

Opinion
In our opinion, 2121's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Report, Annual Accounts and Underwriting Year Accounts (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2022; Income Statement: Technical Account – General Business, Income Statement: Non-Technical Account, the Statement of Cash Flows, and the Statement of Changes in Members' Balances for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the syndicate annual accounts* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 4, we have provided no non-audit services to the syndicate in the period under audit.

Conclusions relating to going concern
Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue as a going concern for a period of at least twelve months from when the syndicate annual accounts are authorised for issue.

In auditing the syndicate annual accounts, we have concluded that the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the syndicate's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Managing Agent with respect to going concern are described in the relevant sections of this report.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Managing Agent's Report, we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Managing Agent's Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2022 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts
As explained more fully in the Statement of Managing Agent's Responsibilities, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for 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.

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts
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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to claims outstanding and estimated premium income. Audit procedures performed by the engagement team included:

- discussions with the Board, management and compliance function of the Managing Agent, including consideration of known or suspected instances of fraud and non-compliance with laws and regulations;
- reviewing relevant meeting minutes, including those of the Board and Audit Committee of the Managing Agent, and correspondence with regulatory authorities, including Lloyd's of London, Prudential Regulation Authority and the Financial Conduct Authority;
- testing and challenging where appropriate the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the estimation of claims outstanding and the estimation of estimated premium income;
- identifying and testing journal entries, particularly journal entries with unusual account combinations, or postings by unexpected users, journal entries posted in seldom used accounts and created after ledger close; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- certain disclosures of Managing Agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Alexis Gish (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2023

Income Statement: Technical account – general business

for the year ended 31 December 2022

	Notes	2022 £'000	2022 £'000	2021 £'000	2021 £'000
Earned premiums, net of reinsurance					
Gross premiums written	2	776,419		654,917	
Outward reinsurance premiums		(257,476)		(251,486)	
Net premiums written		518,943		403,431	
Change in the provision for unearned premiums					
Gross amount		(10,569)		(30,002)	
Reinsurers' share		(1,764)		(6,679)	
Change in the net provision for unearned premiums		(12,333)		(36,681)	
Earned premiums, net of reinsurance			506,610		366,750
Allocated investment return transferred from the non-technical account	8		3,401		288
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(283,462)		(243,523)	
Reinsurers' share		110,005		97,857	
Net claims paid		(173,457)		(145,666)	
Change in the provision for claims					
Gross amount		(164,640)		(102,487)	
Reinsurers' share		39,776		37,460	
Change in the net provisions for claims		(124,864)		(65,027)	
Claims incurred, net of reinsurance			(298,321)		(210,693)
Net operating expenses	4		(203,327)		(147,098)
Balance on the technical account for general business			8,363		9,247

All items relate only to continuing operations.

Income Statement: Non-technical account

for the year ended 31 December 2022 continued

	Notes	*2022* *£'000*	*2021* *£'000*
Balance on the general business technical account		8,363	9,247
Investment income	8	10,223	3,744
Net unrealised losses on investments	8	(6,269)	(3,044)
Investment expenses and charges	8	(553)	(412)
Allocated investment return transferred to the general business technical account		(3,401)	(288)
Exchange gains		1,028	583
Profit for the financial year		9,391	9,830

There is no other comprehensive income in the accounting period other than that dealt with in the technical and non-technical accounts. Accordingly, a separate statement of comprehensive income has not been presented.

Statement of Changes in Members' Balances

for the year ended 31 December 2022

	Notes	*2022* *£'000*	*2021* *£'000*
At 1 January		(54,028)	(86,124)
Profit for the financial year		9,391	9,830
Members' agents' fees		(1,292)	(1,534)
Cash calls made from members' personal reserve funds	14	42,695	23,800
Unearned profit on closed year	14	276	–
At 31 December		(2,958)	(54,028)

Statement of Financial Position

as at 31 December 2022

	Notes	2022 £'000	2022 £'000	Restated 2021 £'000	Restated 2021 £'000
ASSETS					
Investments					
Financial investments	9		626,613		399,026
Deposits with ceding undertakings			2,124		1,341
Reinsurers' share of technical provisions					
Provision for unearned premiums	10	102,544		95,231	
Claims outstanding	10	390,750		319,353	
			493,294		414,584
Debtors					
Debtors arising out of direct insurance operations	11	195,489		152,980	
Debtors arising out of reinsurance operations	12	175,334		112,485	
Other debtors		4,875		501	
			375,698		265,966
Cash and other assets					
Cash at bank and in hand		41,877		35,105	
Other assets	13	91,239		77,875	
			133,116		112,980
Prepayments and accrued income					
Accrued interest		158		24	
Deferred acquisition costs	10	98,476		85,361	
Other prepayments and accrued income		4,218		2,920	
			102,852		88,305
TOTAL ASSETS			1,733,697		1,282,202

Statement of Financial Position

as at 31 December 2022 continued

	Notes	2022 £'000	2022 £'000	Restated 2021 £'000	Restated 2021 £'000
MEMBERS' BALANCES AND LIABILITIES					
Members' balances			(2,958)		(54,028)
Technical provisions					
Provision for unearned premiums	10	349,596		310,178	
Claims outstanding	10	963,993		731,072	
			1,313,589		1,041,250
Creditors					
Creditors arising out of direct insurance operations	15	12,002		11,910	
Creditors arising out of reinsurance operations	16	370,749		252,762	
Other creditors		5,850		2,066	
			388,601		266,738
Accruals and deferred income	17		34,465		28,242
TOTAL MEMBERS' BALANCES AND LIABILITIES			1,733,697		1,282,202

The syndicate annual accounts on pages 23 to 68 were approved by the Board of Argenta Syndicate Management Limited on 24 February 2023 and were signed on its behalf by

Nicholas J Moore
Managing Director

Statement of Cash Flows

for the year ended 31 December 2022

	Notes	2022 £'000	Restated 2021 £'000
Profit on ordinary activities		9,391	9,830
Increase/(decrease) in unearned premiums and outstanding claims		179,568	133,952
(Increase)/decrease in reinsurers' share of unearned premiums and outstanding claims		(39,854)	(31,449)
(Increase)/decrease in debtors		(81,399)	(48,133)
Increase/(decrease) in creditors		96,723	83,353
Investment return		(3,401)	(288)
Movements in other assets/liabilities		(4,264)	(3,001)
Exchange differences		(5,516)	(2,563)
Net cash inflow/(outflow) from operating activities		151,248	141,701
Investing activities			
Investment income received		7,756	3,283
Purchases of debt and equity instruments		(484,024)	(229,745)
Sales of debt and equity instruments		341,917	119,597
Purchases of derivatives		(159,339)	(72,457)
Sales of derivatives		162,112	72,837
(Increase)/decrease in overseas deposits		(11,279)	(21,171)
(Increase)/decrease in deposits with ceding undertakings		(693)	(1,286)
Net cash inflow/(outflow) from investing activities		(143,550)	(128,942)
Financing activities			
Cash calls made from members' personal reserve funds		42,695	23,800
Members' agents' fee advances		(1,292)	(1,534)
Net cash inflow/(outflow) from financing activities		41,403	22,266
Increase/(decrease) in cash and cash equivalents		49,101	35,025
Cash and cash equivalents at 1 January		93,348	60,300
Exchange differences on opening cash and cash equivalents		6,323	(1,977)
Cash and cash equivalents at 31 December	18	148,772	93,348

Notes to the Accounts

1. Accounting policies

1.1 Statement of compliance

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

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

1.2 Basis of preparation

The financial statements for the year ended 31 December 2022 were approved for issue by the board of directors on 24 February 2023.

The financial statements are prepared in sterling which is the functional and presentational currency of the syndicate and rounded to the nearest £'000.

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

1.3 Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the year-end date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The syndicate's key sources of estimation uncertainty are as follows:

Insurance contract technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some types of policies, claims IBNR form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. The provision for claims outstanding is based on the estimated ultimate cost of all claims notified but not settled by the year-end date assessed on an individual case basis, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims IBNR at the year-end date based on statistical methods.

1. Accounting policies *continued*

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

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premiums. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premiums on a basis other than time apportionment.

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 being 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 and derivatives determined using valuation techniques

Where the fair values of financial assets and financial liabilities recorded on 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 mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk and model inputs such as estimated future cash flows based on management's best estimates and discount 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 in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

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

Further details are given in note 22.

1.4 Significant accounting policies

Financial investments

As permitted by FRS 102, the syndicate has elected to apply the recognition and measurement provisions of sections 11 and 12 in full to account for all of its financial instruments.

Financial assets and financial liabilities are recognised when the syndicate becomes a party to the contractual provisions of the instrument.

1. **Accounting policies** *continued*

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Derivative financial instruments

The syndicate uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The syndicate does not hold or issue derivative financial instruments for speculative purposes. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less, net of outstanding bank overdrafts.

Fair value of financial assets

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

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

See note 9 for details of financial instruments classified by fair value hierarchy.

Impairment of financial assets

For financial assets not held at fair value through profit or loss, the syndicate assesses at each reporting date whether the financial asset or group of financial assets is impaired. The syndicate first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

1. Accounting policies *continued*

Derecognition of financial assets

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

- The rights to the cash flows from the asset have expired; or
- The syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement and either (a) the syndicate has transferred substantially all the risks and rewards of the asset; or (b) the syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial liabilities

The syndicate's financial liabilities include trade and other payables, borrowings, insurance payables and derivative financial instruments, where applicable. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in investment return in the profit or loss.

Derivative financial liabilities are subsequently measured at fair value through profit or loss. A financial liability is derecognised when the obligation under the liability is discharged or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in profit or loss.

1. Accounting policies *continued*

Investment return

Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Interest income is recognised on a time proportionate basis taking into account effective interest yield.

Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered in detail under the accounting policy for financial investments.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated members' balance is made from the non-technical account to the technical account. Investment return related to non-insurance business and members' balance is attributed to the non-technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Insurance contracts – product classification

Insurance contracts are those contracts when the syndicate (the insurer/reinsurer) has accepted significant insurance risk from another party (the policyholder/reinsured) by agreeing to compensate the policyholder/reinsured if a specified uncertain future event (the re/insured event) adversely affects the policyholder/reinsured. As a general guideline, the syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the re/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.

Any separable embedded derivatives within an insurance contract are separated and accounted for in accordance with sections 11 and 12 of FRS102 unless the embedded derivative is itself an insurance contract (i.e. the derivative is not separated if the policyholder benefits from the derivative only when the insured event occurs).

Gross premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a remeasurement of the initial premium. Gross written premiums are stated 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 syndicate 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 current experience will be consistent with prior year experience.

1. Accounting policies *continued*

Under some policies, written premiums are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. Where written premiums are subject to a reduction, a remeasurement taking account of such a reduction is made as soon as there is an obligation to the policyholder.

Reinsurance premiums

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

Under some policies, reinsurance premiums payable are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is recognised as soon as there is an obligation to the reinsurer.

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

Profit commission

Profit commission is charged by the managing agent at a standard rate of 15% of the profit on a year of account basis subject to the operation of a deficit clause; the profit commission standard rate increases from 15% to 17.5% if an average profit measure exceeds 7.5% of capacity. This is charged to the syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months, although the managing agent may receive payments on account of anticipated profit commissions in line with interim profits released to members.

Claims

Claims include all claims occurring during the year, whether reported or not; related internal and external claims handling costs that are directly related to the processing and settlement of claims; a reduction for the value of salvage and other recoveries; and any adjustments to claims outstanding from previous years.

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 risks.

Claims outstanding

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the

1. Accounting policies *continued*

expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

Provisions for unearned premiums

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

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

Unexpired risks

A liability adequacy provision (the unexpired risks provision) is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date is expected to exceed the provision for unearned premiums, net of deferred acquisition costs.

The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available at the reporting date, after offsetting surpluses and deficits arising on products which are managed together. Investment income is taken into account in calculating the provision.

At 31 December 2022 and 31 December 2021 the syndicate did not have an unexpired risks provision.

Deferred acquisition costs

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

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

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

The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement.

Commissions receivable on outwards reinsurance contracts are deferred and amortised over the same period in which the related gross premiums are earned.

1. Accounting policies *continued*

Reinsurance assets

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

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

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2022 or 2021.

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

Insurance receivables

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

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Insurance payables

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

Foreign currencies

The syndicate's functional currency and presentational currency is sterling. Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions or at an approximate average rate.

Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items denominated in a foreign currency, measured at fair value, are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded in the non-technical account.

1. **Accounting policies** *continued*

Taxation

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

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

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

Pension costs

Pension contributions relating to a defined contribution scheme and charged to the syndicate are included within net operating expenses.

2. **Particulars of business written**

Type of business

An analysis of the technical account balance before investment return is set out below:

2022	*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	(261)	(430)	96	60	(480)	(754)
Motor (other classes)	12,295	11,931	(5,117)	(5,859)	(1,392)	(437)
Marine, aviation and transport	43,647	44,085	(16,827)	(17,753)	(4,842)	4,663
Energy	54,930	51,840	(14,261)	(18,312)	(11,954)	7,313
Fire and other damage to property	203,021	195,791	(80,254)	(70,777)	(16,741)	28,019
Third party liability	243,612	246,336	(173,602)	(93,647)	7,306	(13,607)
Pecuniary loss	22,196	24,217	(7,543)	(6,693)	(7,190)	2,791
	579,440	573,770	(297,508)	(212,981)	(35,293)	27,988
Reinsurance acceptances:						
Fire and other damage to property	82,210	83,697	(87,108)	(17,801)	(6,050)	(27,262)
Marine, aviation and transport	33,370	34,810	(24,855)	(11,402)	(311)	(1,758)
Energy	25,141	21,896	(9,510)	(5,737)	(1,312)	5,337
Casualty	56,258	51,677	(29,121)	(15,460)	(6,439)	657
	196,979	192,080	(150,594)	(50,400)	(14,112)	(23,026)
	776,419	765,850	(448,102)	(263,381)	(49,405)	4,962

2. Particulars of business written *continued*

2021

	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	(345)	275	(756)	(242)	566	(157)
Motor (other classes)	6,557	7,849	(3,330)	(4,066)	(837)	(384)
Marine, aviation and transport	43,108	43,756	(34,578)	(16,141)	38	(6,925)
Energy	39,987	37,552	(24,123)	(10,991)	(3,651)	(1,213)
Fire and other damage to property	165,059	167,409	(60,010)	(56,427)	(33,978)	16,994
Third party liability	213,146	196,050	(108,941)	(69,162)	(18,099)	(152)
Pecuniary loss	22,474	21,427	(10,281)	(5,942)	(2,960)	2,244
	489,986	474,318	(242,019)	(162,971)	(58,921)	10,407
Reinsurance acceptances:						
Fire and other damage to property	68,490	65,945	(48,141)	(16,208)	(11,439)	(9,843)
Marine, aviation and transport	34,189	30,718	(27,579)	(9,546)	7,596	1,189
Energy	17,044	16,312	(6,733)	(4,430)	(220)	4,929
Casualty	45,208	37,622	(21,538)	(10,493)	(3,314)	2,277
	164,931	150,597	(103,991)	(40,677)	(7,377)	(1,448)
	654,917	624,915	(346,010)	(203,648)	(66,298)	8,959

All premiums were concluded in the UK.

*Net operating expenses shown in the income statement include an amount of £60.1 million (2021: £56.6 million) in respect of commissions on outward reinsurance that have been set off from the gross operating expenses but are included in the reinsurance balance above.

Geographical analysis by destination

	Gross written premiums	
	2022	*2021*
	£'000	*£'000*
UK	279,401	236,642
EU	53,816	32,787
Other	443,202	385,488
	776,419	654,917

3. Movement in prior year's provision for claims outstanding

An overall deterioration of £7.4 million on prior years' provisions was experienced during the year. Deteriorations of £3.1 million on energy, £13.3 million on third party liability and £6.0 million on reinsurance accepted were partially offset by improvements of £3.0 million on marine, aviation and transport, £4.7 million on fire and other damage to property and £6.8 million on pecuniary loss.

(2021: An overall improvement of £5.0 million on prior years' provisions was experienced during the year. Improvements of £0.9 million on motor, £16.9 million on fire and other damage to property and £2.2 million on pecuniary loss were partially offset by deteriorations of £6.0 million on third party liability, £2.5 million on energy, £3.3 million on reinsurance acceptances and £3.0 million on marine, aviation and transport.)

4. Net operating expenses

	2022 £'000	2021 £'000
Acquisition costs	248,868	189,453
Change in deferred acquisition costs	(6,094)	(7,518)
Administrative expenses	20,607	21,713
Gross operating expenses	263,381	203,648
Reinsurance commissions	(62,051)	(52,085)
Change in deferred reinsurance commissions	1,997	(4,465)
Net operating expenses	203,327	147,098

Administrative expenses include:

	2022 £'000	2021 £'000
Auditors' remuneration – audit of the syndicate accounts	327	273
– other services pursuant to regulations and Lloyd's byelaws	216	202
Members' standard personal expenses	9,024	8,288

Total commissions for direct insurance accounted for in the year amounted to £182.9 million (2021: £132.7 million).

Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission.

5. Staff numbers and costs

The following amounts were recharged to the syndicate in respect of staff costs:

	2022 £'000	2021 £'000
Wages and salaries	18,324	16,186
Social security costs	2,530	2,237
Other pension costs	1,241	1,136
	22,095	19,559

The average number of employees employed by the managing agency but working for the syndicate during the year was as follows:

	2022 Number	2021 Number
Administration and finance	15	15
Underwriting	45	41
Underwriting support	41	39
Claims	15	14
	116	109

The staff numbers exclude employees providing services by way of a cross charge from other group companies.

Notes to the Accounts

continued

6. Emoluments of the directors of ASML and the active underwriter

ASML charged the syndicate the following amounts in respect of emoluments paid to its directors, including the active underwriter of the syndicate:

	2022	*2021*
	£'000	*£'000*
Emoluments	1,919	1,760

No advances or credits granted by ASML to any of its directors subsisted during the year.

7. Active underwriter emoluments

The following aggregate remuneration was charged to the syndicate in respect of individuals in the role of the active underwriter:

	2022	*2021*
	£'000	*£'000*
Emoluments	374	282

8. Investment return

	2022	*2021*
	£'000	*£'000*
Income from other financial investments	10,078	4,892
Net gains/(losses) on realisation of investments		
– designated at fair value through profit or loss	145	(1,148)
Total investment income	10,223	3,744
Net unrealised losses on investments		
– designated at fair value through profit and loss	(6,269)	(3,044)
Investment expenses and charges	(553)	(412)
Total investment return	3,401	288

9. Financial investments

	31 December 2022		
	Carrying value	*Purchase price*	*Listed*
	£'000	*£'000*	*£'000*
Shares and other variable yield securities and units in unit trusts			
– designated at fair value through profit or loss	114,379	114,379	62,482
Debt securities and other fixed income securities			
– designated at fair value through profit or loss	472,562	477,116	–
Participation in investment pools	39,429	39,501	–
Deposits with credit institutions held at fair value	–	–	–
Loans secured by mortgages held at fair value	–	–	–
Derivative assets held at fair value	243	–	–
	626,613	630,996	62,482

	31 December 2021		
	Carrying value	*Purchase price*	*Listed*
	£'000	*£'000*	*£'000*
Shares and other variable yield securities and units in unit trusts			
– designated at fair value through profit or loss	65,090	65,090	37,676
Debt securities and other fixed income securities			
– designated at fair value through profit or loss	298,994	301,844	–
Participation in investment pools	34,942	34,966	–
Deposits with credit institutions held at fair value	–	–	–
Loans secured by mortgages held at fair value	–	–	–
Derivative assets held at fair value	–	–	–
	399,026	401,900	37,676

The shares and other variable yield securities and units in unit trusts relate to holdings in highly diversified collective investment schemes.

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

There have been no day one profits recognised in respect of financial instruments designated at fair value through profit or loss.

The syndicate's investment managers are permitted to directly purchase derivative financial instruments (interest rate futures) to hedge the syndicate's interest rate risks. These derivatives are classified as trading instruments.

9. Financial investments *continued*

The following table shows financial investments including overseas deposits (note 13) recorded at fair value analysed between the three levels in the fair value hierarchy.

31 December 2022	*Level 1* *£'000*	*Level 2* *£'000*	*Level 3* *£'000*	*Total* *£'000*
Shares and other variable yield securities and units in unit trusts	106,548	–	7,831	114,379
Debt securities and other fixed income securities	–	472,562	–	472,562
Participation in investment pools	1	39,428	–	39,429
Loans, deposits with credit institutions and derivatives	243	–	–	243
Overseas deposits	19,681	71,558	–	91,239
	126,473	583,548	7,831	717,852

31 December 2021	*Level 1* *£'000*	*Level 2* *£'000*	*Level 3* *£'000*	*Total* *£'000*
Shares and other variable yield securities and units in unit trusts	57,259	–	7,831	65,090
Debt securities and other fixed income securities	–	298,994	–	298,994
Participation in investment pools	6	34,936	–	34,942
Loans, deposits with credit institutions and derivatives	–	–	–	–
Overseas deposits	11,054	66,821	–	77,875
	68,319	400,751	7,831	476,901

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

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

9. Financial investments *continued*

Included in the level 3 category are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor based on available market data. Therefore, unobservable inputs would reflect the syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs would be developed based on the best information available, which might include the syndicate's own data.

The asset in the level 3 category is a syndicate loan with Lloyd's introduced in 2019, as part of Lloyd's capital structure, with further tranches added in 2020.

10. Technical provisions

Claims outstanding

		2022	
	Gross	*Reinsurers' share*	*Net*
	£'000	*£'000*	*£'000*
At 1 January	731,072	(319,353)	411,719
Claims incurred in current underwriting year	180,405	(73,492)	106,913
Claims incurred in prior underwriting years	267,697	(76,289)	191,408
Claims paid during the year	(283,462)	110,005	(173,457)
Foreign exchange	68,281	(31,621)	36,660
At 31 December	963,993	(390,750)	573,243

		2021	
	Gross	*Reinsurers' share*	*Net*
	£'000	*£'000*	*£'000*
At 1 January	632,132	(282,762)	349,370
Claims incurred in current underwriting year	160,664	(57,286)	103,378
Claims incurred in prior underwriting years	185,346	(78,031)	107,315
Claims paid during the year	(243,523)	97,857	(145,666)
Foreign exchange	(3,547)	869	(2,678)
At 31 December	731,072	(319,353)	411,719

Notes to the Accounts

continued

10. Technical provisions *continued*

Provision for unearned premiums

	2022 Gross £'000	2022 Reinsurers' share £'000	2022 Net £'000
At 1 January	310,178	(95,231)	214,947
Premiums written in the year	776,419	(257,476)	518,943
Premiums earned in the year	(765,850)	259,240	(506,610)
Foreign exchange	28,849	(9,077)	19,772
At 31 December	349,596	(102,544)	247,052

	2021 Gross £'000	2021 Reinsurers' share £'000	2021 Net £'000
At 1 January	281,632	(102,483)	179,149
Premiums written in the year	654,917	(251,486)	403,431
Premiums earned in the year	(624,915)	258,165	(366,750)
Foreign exchange	(1,456)	573	(883)
At 31 December	310,178	(95,231)	214,947

Deferred acquisition costs

	2022 £'000	2021 £'000
At 1 January	85,361	78,261
Change in deferred acquisition costs	6,094	7,518
Foreign exchange	7,021	(418)
At 31 December	98,476	85,361

11. Debtors arising out of direct insurance operations

	2022 £'000	Restated 2021 £'000
Amounts falling due within one year – intermediaries	195,489	152,980
Amounts falling due after one year – intermediaries	–	–
	195,489	152,980

12. Debtors arising out of reinsurance operations

	2022	2021
	£'000	£'000
Amounts falling due within one year	175,328	112,475
Amounts falling due after one year	6	10
	175,334	112,485

13. Other assets

	2022	2021
	£'000	£'000
Overseas deposits		
Amounts advanced in the following locations as a condition of carrying on business there:		
Illinois, USA	825	592
Australia	38,408	36,930
Canada	11,673	8,295
South Africa, Switzerland and other countries	40,333	32,058
	91,239	77,875

14. Reconciliation of members' balances

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

Cash calls made from members' personal reserve funds relate to collections of £23,789,000 and £18,906,000 in respect of the 2019 and 2018 years of account respectively. (2021: collection of £23,800,000 in respect of the 2018 year of account).

There was a small unearned profit at closure on the 2018 year of account that reduced the cash call required.

15. Creditors arising out of direct insurance operations

		Restated
	2022	2021
	£'000	£'000
Amounts falling due within one year	12,002	11,910
Amounts falling due after one year	–	–
	12,002	11,910

16. Creditors arising out of reinsurance operations

	2022	*2021*
	£'000	*£'000*
Amounts falling due within one year	240,959	105,214
Amounts falling due after one year	129,790	147,548
	370,749	252,762

17. Accruals and deferred income

Accruals and deferred income includes £27.8 million (2021: £23.5 million) in respect of deferred reinsurance commissions.

18. Cash and cash equivalents

	2022	*2021*
	£'000	*£'000*
Cash at bank and in hand	41,877	35,105
Short-term deposits with financial institutions	106,895	58,243
	148,772	93,348

The syndicate holds £106.9 million (2021: £58.2 million) of highly liquid assets. An amount of £106.5 million (2021: £57.2 million) is held in unitised money market funds that provide daily liquidity, with the remaining £0.4 million (2021: £1.0 million) held in cash within the overseas deposits by Lloyd's (note 13).

19. Off balance sheet items

The syndicate has not been party to an arrangement which is not reflected in its statement of financial position, where material risks or benefits arise for the syndicate.

20. Related parties

Argenta Holdings Ltd

ASML manages Syndicates 2121 and 6134 and is a wholly owned subsidiary of AHL, which owns 100% of the voting and economic rights of ASML. AHL is regarded by ASML as its immediate parent and is also the parent undertaking of the smallest group to consolidate the financial statements of ASML. Copies of the financial statements for AHL can be obtained from Companies House.

AHL is wholly owned by Hannover Re. The parent undertaking of Hannover Re is Talanx AG which holds a 50.2% interest in the company. The principal shareholder in Talanx AG is HDI Haftpflichtverband der Deutschen Industrie V.a.G. ("HDI") which holds 78.9% of Talanx AG's issued share capital.

AHL and its related parties provide certain underwriting, administrative, accounting, human resources, information technology, risk management, compliance and internal audit services to ASML. These services are provided on a non-profit making basis by way of inter-group cross charges and direct salary charges.

20. Related parties *continued*

Argenta Tax & Corporate Services Ltd ("ATCSL"), an AHL group company, provides taxation services to the syndicate. Fees are agreed on a commercial basis and the profit to ATCSL generated from providing these services is, as in 2021, less than £1,000.

AUA, a subsidiary of AHL, is a service company approved by Lloyd's and the MAS to operate on the Lloyd's Asia platform. AUA also holds a licence granted by the Australian Securities and Investments Commission and has two branch offices approved by Lloyd's in Australia. Syndicate 2121 uses this service company as a coverholder to bind risks on its behalf. Such services relating to business written in Singapore are provided at cost plus a small profit margin of 5% mainly for tax purposes. The total value of the margin is less than £100,000 (2021: £100,000). The commission retained by AUA for business underwritten by the Australian branch is, at most, 28.5% of gross premium, which is in line with other Australian facilities currently supported by the syndicate. The commission charged in Australia covers original acquisition costs, branch office expenses and processing costs. The total commissions payable were £12.3 million (2021: £12.0 million).

On 5 August 2022 the Board of ASML decided to place the business written in Singapore into run-off. The future structure under which the Australian operations will continue is currently under review.

Mr Graham Allen, Mr Sven Althoff and Mr John Whiter are directors of AHL. Mr Andrew Annandale was a director of AHL, AUA and ATCSL until his retirement from these boards on 31 December 2022. Mr Ian Maguire was a director of ASML, AHL and AUA until his resignation on 7 May 2021. Mr Nicholas Moore was appointed to the board of AHL with effect from 28 July 2022 and Mr Allen was appointed to the board of AUA with effect from 5 December 2022. Ms Carol-Ann Burton is a director of ATCSL.

Other than by virtue of directorship fees, salaries and other related remuneration in respect of their employment by either AHL or its related parties none of the directors, officers or related parties concerned, derive any personal benefit from the arrangements that exist.

Business transactions

Hannover Re

Hannover Re and certain of its subsidiaries and joint ventures have, in the past, provided and are likely to provide in the future, traditional types of reinsurance protection to Syndicate 2121.

Syndicate 2121 has in the past, and may in the future, provide insurance or reinsurance cover to Hannover Re and its subsidiaries.

ASML manages a Special Purpose Arrangement, Syndicate 6134 to operate alongside Syndicate 2121 as the host syndicate. Syndicate 6134 is sponsored and capitalised by the Hannover Re group through its corporate member Inter Hannover (No.1) Ltd ("IH1").

Syndicate 6134 writes quota share reinsurances across specific classes of business within the underwriting capability of the host syndicate. In 2018 these included elements of the property, terrorism, specialty, cyber and political risks accounts. In 2019 this was extended to include elements of the marine hull and war, marine and energy liability, marine cargo and marine specie accounts. This was further extended in 2020 with casualty treaty as well as financial lines business consisting of professional indemnity, financial institutions, and SME specialty liability accounts, being added. The estimated ultimate gross net written premium of Syndicate 6134 for the 2021 year of account it is £75.3 million, for the 2022 year of account it is £81.4 million and for the 2023 year of account the expectation is that the gross net written premium will be £99.6 million.

Notes to the Accounts
continued

20. Related parties *continued*

Syndicate 2121 charges Syndicate 6134 an overriding commission in relation to these arrangements. For the 2018, 2019, 2020, 2021 and 2022 years of account, other than in respect of political risks business, this commission is charged at a rate of between 5% and 11% of gross net written premium. In respect of political risks the overrider is charged at a rate of 30% of gross written premium although Syndicate 6134 is not charged its share of original acquisition costs for this class. The commission charged is in line with similar facilities currently operating in the Lloyd's market.

At 31 December 2022 creditors included an amount of £219.7 million (2021: £156.5 million) owed to Syndicate 6134.

All such business underwritten and reinsurances purchased have in the past been, and will continue to be, transacted on an arm's length commercial basis with no personal benefit derived by the directors, officers or related parties concerned, other than by virtue of directorship fees, salaries and related remuneration in respect of their employment or by virtue of any increase in capital value arising on shareholdings.

ASML Directors

Mr John Whiter was chairman of Piiq Risk Partners Ltd (formerly PSE Partners Ltd and before that Ed Broking (London) Ltd), a Lloyd's broker, until his resignation on 31 March 2022. Mr Whiter was also chairman of Ed Broking Group Ltd until his resignation on 31 March 2022.

Mr Alan Grant was a director of Thomas Miller Holdings Ltd and Thomas Miller Specialty Holdings Ltd until his resignation on 7 July 2021. He was also a director of Thomas Miller Specialty Underwriting Agency Ltd, a Lloyd's coverholder until his resignation on 25 February 2021. He was also a director of Oneglobal Broking Ltd, a Lloyd's broker. Mr Grant resigned from the board of ASML on 29 June 2022.

Mr Sven Althoff is a member of the Executive Board of Hannover Re and a director of other Hannover Re group companies. He was appointed a director of HDI Global Speciality SE ("HGS") on 20 May 2022.

Mr Jens Schäfermeier is the managing director of the property and casualty division within Hannover Re.

The above entities may in the past have transacted business with syndicates managed by ASML and may do so in the future. Any such business, however, has been and will continue to be, conducted on an arm's length commercial basis with no involvement, either directly or indirectly, from the individuals above.

Other than directorship fees, salaries and other related remuneration and any increase in capital value arising on shareholdings, no personal benefit is derived by the individuals concerned from these arrangements.

Mr Grant and Mr Paul Hunt, a director of ASML until his resignation on 30 June 2021, benefitted from fees paid in respect of independent review services that they carried out on sections of Syndicate 2121's book of business. It is a regulatory requirement that such reviews are performed by individuals who are separate from the day-to-day underwriting of the specific classes of business under review and have the necessary skills and experience to fulfil the independent review obligations. Mr Grant ceased to provide independent review services following his resignation from the ASML Board.

ASML

Total fees payable to ASML in respect of services provided to the syndicate amounted to £5.0 million (2021: £4.5 million). Profit commission is only due on closure of the year of account although managing agents may receive payments on account of anticipated profit commissions in line with interim profits released to members. During 2022, no profit commission (2021: £Nil) was due to ASML. There were no creditors at the year-end in respect of profit commission due to ASML (2021: £Nil).

In addition to this, £25.7 million (2021: £22.6 million) was recharged by ASML for expenses paid on behalf of the syndicate. Creditors at the year-end include amounts due to ASML of £1.2 million (2021: £1.0 million).

20. Related parties *continued*

Capital support for Syndicate 2121

Hannover Re has supported Syndicate 2121 for the 2018 to 2020 years of account by way of a pro-rata participation agreement with Dynastic Underwriting Ltd (“DUL”) in respect of 100% of the member’s participation. On 1 July 2020 Hannover Re acquired the entire issued share capital of DUL from Anglo Japanese Investment Co Ltd. HGS, a subsidiary of Talanx AG, supported Syndicate 2121 for the 2022 year of account by way of a pro-rata participation agreement with Argenta Underwriting No. 9 Ltd in respect of 100% of the member’s participation.

For a fee, Hannover Re provides capital support to Argenta Underwriting No. 3 Ltd for the 2018 to 2023 years of account and Argenta Underwriting No. 2 Ltd for the 2022 and 2023 years of account by way of excess participation agreements.

IH1, a wholly owned subsidiary of the Hannover Re group, participates on Syndicate 2121 for the open years of account. It is also participating on the 2023 year of account.

Mr Annandale was a director of Argenta Private Capital Limited (“APCL”), a subsidiary of AHL, until his retirement on 31 December 2022. Mr Moore was appointed as a director of APCL on 31 December 2022. APCL allocates capacity to Syndicate 2121 for all the open years of account. It has also allocated capacity to Syndicate 2121 in respect of the 2023 year of account.

Mr Annandale was a director of the following corporate members that are or were subsidiaries of AHL:

Argenta Underwriting No. 2 Limited (“AU2”) (resigned 31 December 2022)
Argenta Underwriting No. 3 Limited (“AU3”) (resigned 31 December 2022)
Argenta Underwriting No. 8 Limited (“AU8”) (resigned 28 February 2019)
Argenta Underwriting No. 9 Limited (“AU9”) (resigned 31 December 2022)
Argenta Underwriting No. 10 Limited (“AU10”) (resigned 31 December 2022)

On 10 April 2019 Mr Allen was appointed as a director of all the above corporate members, apart from AU8 which was sold to a third party in February 2019. On 31 December 2022, Mr Moore was appointed as a director of the above corporate members, apart from AU8. Messrs Annandale and Allen were also appointed directors of IH1 and DUL with effect from 18 January 2021. Mr Annandale resigned from both IH1 and DUL on 31 December 2022 and Mr Moore was appointed as a director of IH1 on the same date.

AU2, AU3 and AU9 participated on Syndicate 2121 for the open years of account. AU8 participated on the 2018 and 2019 years of account. AU10 participated on the 2018 to 2021 years of account. AU2 and AU3 are participating on the 2023 year of account.

Other than by virtue of directors’ fees, salaries and other related remuneration in respect of their employment and any increase in capital value arising on shareholdings, none of the directors, officers or related parties concerned derive any personal benefits from the arrangements that exist.

For the 2022 and prior years of account all capital providers who underwrite on Syndicate 2121 are charged managing agency fees and profit commission on a standard basis, apart from where the charges are less advantageous, as disclosed in the Register of Underwriting Agency Charges.

There are no other transactions or arrangements to be disclosed.

21. Funds at Lloyd's

In case syndicate assets prove insufficient to meet members' underwriting liabilities, every member is required to hold additional capital at Lloyd's which is held in trust and known as Funds at Lloyd's ("FAL").

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. FAL is not hypothecated to any specific syndicate participation by a member and therefore, there are no specific funds available to a syndicate which can be precisely identified as its capital. As such, no amount has been shown in these annual accounts by way of FAL. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

22. Risk management

(a) Governance framework

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

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

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

(b) Capital management objectives

Capital framework at Lloyd's

Lloyd's is a regulated undertaking and subject to the supervision of the PRA under the Financial Services and Markets Act 2000.

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

Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2121 is not disclosed in these financial statements.

22. Risk management *continued*

Lloyd's capital setting process

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

A syndicate may comprise one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. For a member participating on a single syndicate, its SCR is determined by the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate a credit for diversification is included to reflect the spread of risk. The credit given is consistent with determining a SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies an uplift to the member's SCR to determine the overall level of capital required. This is known as the member's 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 2022 was 35% (2021: 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 ("FAL"), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates (the latter being adjusted to reflect their value on a Solvency II basis).

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 27, represent resources available to meet members' and Lloyd's capital requirements.

(c) Insurance risk

(1) General

The principal risk the syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the syndicate is to ensure that sufficient reserves are available to cover these liabilities. References to insurance business should, as appropriate, be understood to include the equivalent reinsurance business underwritten by the syndicate.

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

22. Risk management *continued*

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

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

The syndicate principally issues the following types of general insurance contracts: fire and other damage to property; marine, aviation and transport; energy; and third party liability. Risks usually cover twelve months duration.

The most significant risks arise from natural disasters, terrorist activities, cyber attacks, large risk losses and adverse attritional claims experience. For longer tail claims that take some years to settle, there is also inflation risk.

The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the syndicate. The syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account where appropriate when estimating insurance contract liabilities.

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

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the syndicate's risk appetite as agreed by the ASML board. The overall aim currently is to restrict the impact of a single Realistic Disaster Scenario (RDS) on a gross of reinsurance basis to less than 80% of the sum of the ECA and business plan profit, and less than 30% on a net of reinsurance basis. The reinsurance counterparty exposure is managed such that the exposure to, for instance, a single 'A' rated reinsurer is estimated not to exceed 10% of the total recoverable amount for the programme. The board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

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

22. Risk management *continued*

As a further guide to the level of catastrophe exposure written by the syndicate, the following table shows forecast claims arising from various hypothetical catastrophe events for the 2023 year.

These include Realistic Disaster Scenario (RDS) events, as well as annual aggregate losses in respect of natural catastrophe events that would be expected to occur once every 30 years (30-year loss).

Figures are consistent with the 2023 Syndicate Business Forecast (SBF) approved by Lloyd's, therefore are based on expected risk exposures estimated for the 2023 year.

Catastrophe event	*Estimated gross loss £m*	*Estimated final net loss £m*
30-year loss – Whole world natural catastrophe	208	110
30-year loss – US windstorm	133	65
Cyber – Ransomware contagion	66	43
30-year loss – US & Canada earthquake	48	27
Cyber – Major data security breach	35	26

The table below sets out the concentration of outstanding claim liabilities and unearned premiums by type of contract:

	31 December 2022		*31 December 2021*	
	Gross liabilities £'000	*Net liabilities £'000*	*Gross liabilities £'000*	*Net liabilities £'000*
Direct insurance:				
Accident and health	3,473	1,686	3,914	2,195
Motor (other classes)	9,240	5,595	6,724	4,805
Marine, aviation and transport	64,662	47,149	62,605	48,122
Energy	74,668	63,399	71,621	53,857
Fire and other damage to property	262,270	179,260	249,884	160,986
Third party liability	500,838	276,983	359,926	188,303
Pecuniary loss	47,600	20,404	39,669	16,508
	962,751	594,476	794,343	474,776
Reinsurance acceptances:				
Fire and other damage to property	149,444	95,900	104,151	61,693
Marine, aviation and transport	65,286	46,132	57,820	42,284
Motor	12,400	7,585	9,434	5,282
Energy	34,245	26,805	21,979	18,611
Casualty	89,463	49,397	53,523	24,020
	350,838	225,819	246,907	151,890
	1,313,589	820,295	1,041,250	626,666

22. Risk management *continued*

The geographical concentration of the outstanding claim liabilities and unearned premiums is noted below. The disclosure is based on the domicile of counterparties. The analysis is not expected to be materially different if based on the countries in which the risks are situated.

	31 December 2022		*31 December 2021*	
	Gross liabilities £'000	*Net liabilities £'000*	*Gross liabilities £'000*	*Net liabilities £'000*
United Kingdom	554,422	357,702	413,428	259,529
EU	61,574	39,387	30,814	19,166
USA	403,536	230,303	261,155	144,041
Canada	59,443	37,495	29,026	16,426
Other	234,614	155,408	306,827	187,504
	1,313,589	820,295	1,041,250	626,666

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of claims indemnity costs, claims handling costs and claims inflation for each underwriting year. For more recent years of account, 'a priori' loss ratio selections are also key assumptions in determining the reserves, which are themselves based on historical experience as well as judgements to reflect current underwriting conditions.

Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one–off occurrence; changes in market factors; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include the occurrence of large losses, delays in settlement and changes in foreign currency rates.

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, the result and members' balances. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in each assumption, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non–linear.

22. Risk management *continued*

31 December 2022	*Change in assumptions*	*Impact on gross liabilities £'000*	*Impact on net liabilities £'000*	*Impact on result £'000*	*Impact on members' balance £'000*
'A priori' loss ratios	+5%	30,760	18,905	(19,694)	(19,694)
Incurred claims development patterns	Recede development by 1 month	21,659	14,127	(14,620)	(14,620)

31 December 2021	*Change in assumptions*	*Impact on gross liabilities £'000*	*Impact on net liabilities £'000*	*Impact on result £'000*	*Impact on members' balance £'000*
'A priori' loss ratios	+5%	21,944	12,815	(13,795)	(13,795)
Incurred claims development patterns	Recede development by 1 month	18,775	12,204	(13,180)	(13,180)

The method used for deriving sensitivity information and the significant assumptions are the same for both periods.

Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at 31 December 2022.

In setting claims provisions the syndicate gives consideration to the probability and magnitude of future adverse experience. Due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

22. Risk management *continued*

Gross insurance contract outstanding claims provision as at 31 December 2022:

Underwriting year	*Before 2013*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Estimate of cumulative claims incurred:												
At end of underwriting year		63.4	50.5	67.9	72.7	127.6	131.9	120.0	179.7	177.2	184.9	
12 months later		125.2	112.6	146.0	178.8	230.8	316.2	345.7	364.7	415.1		
24 months later		127.5	112.8	158.3	203.2	274.0	369.4	354.0	396.3			
36 months later		123.4	106.8	163.9	223.6	274.4	361.9	339.6				
48 months later		122.8	112.3	165.7	221.4	285.6	377.0					
60 months later		119.2	111.9	162.0	228.8	299.4						
72 months later		117.6	111.7	163.1	223.8							
84 months later		116.5	110.9	162.3								
96 months later		116.6	109.0									
108 months later		114.4										
Current estimate of cumulative claims incurred		114.4	109.0	162.3	223.8	299.4	377.0	339.6	396.3	415.1	184.9	
Cumulative payments to date		110.5	107.0	150.8	194.7	240.1	301.8	245.4	184.9	110.9	25.1	
Gross outstanding claims provision at 31 December 2022 per the statement of financial position	13.4	3.9	2.0	11.5	29.1	59.3	75.2	94.2	211.4	304.2	159.8	964.0

22. Risk management *continued*

Net insurance contract outstanding claims provision as at 31 December 2022:

Underwriting year	*Before 2013*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Estimate of cumulative claims incurred:												
At end of underwriting year		58.4	46.8	51.6	59.9	69.3	87.9	75.1	89.7	113.7	109.5	
12 months later		117.2	104.0	121.9	130.5	176.7	199.5	220.3	188.7	278.5		
24 months later		118.8	105.0	127.9	147.5	198.2	227.6	226.2	219.3			
36 months later		114.9	99.4	129.2	152.8	196.5	229.6	226.6				
48 months later		112.1	101.7	130.1	151.7	203.4	236.6					
60 months later		111.9	101.0	127.7	154.9	200.2						
72 months later		109.9	100.9	128.2	153.0							
84 months later		109.3	100.2	128.0								
96 months later		109.4	98.9									
108 months later		108.5										
Current estimate of cumulative claims incurred		108.5	98.9	128.0	153.0	200.2	236.6	226.6	219.3	278.5	109.5	
Cumulative payments to date		104.7	97.2	119.7	137.7	171.8	186.1	155.5	115.9	85.0	20.6	
Net outstanding claims provision at 31 December 2022 per the statement of financial position	8.3	3.8	1.7	8.3	15.3	28.4	50.5	71.1	103.4	193.5	88.9	573.2

The estimate of cumulative claims incurred on an underwriting year will increase whilst premium continues to be earned. This will naturally give rise to an increase in incurred claims in the period up to 24 months beyond the underwriting year.

Russia-Ukraine and Covid-19

Syndicate 2121 has material exposure to losses arising from the Russia-Ukraine conflict and Covid-19 pandemic. This increases the uncertainty of the syndicate's total reserves but does not increase that uncertainty significantly beyond the normal range of uncertainty for the liabilities of an insurance carrier at this stage of development.

22. Risk management *continued*

(d) Financial risk

(1) Credit risk

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

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

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

- Net exposure limits are set for each investment counterparty or syndicate of counterparties, with minimum credit quality requirements at a portfolio level.

- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set by the third party management group and are subject to regular reviews. At each reporting date management performs an assessment of creditworthiness of reinsurers, ascertaining a suitable allowance for impairment.

- Guidelines determine when to obtain collateral and guarantees.

- The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

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

22. Risk management *continued*

31 December 2022	*Neither past due nor impaired £'000*	*Past due £'000*	*Impaired £'000*	*Total £'000*
Financial investments				
– Debt securities and other fixed income securities	472,562	–	–	472,562
– Shares and other variable yield securities and units in unit trusts	114,379	–	–	114,379
– Participation in investment pools	39,429	–	–	39,429
– Loans secured by mortgages	–	–	–	–
– Derivative assets	243	–	–	243
– Deposits with credit institutions	–	–	–	–
Deposits with ceding undertakings	2,124	–	–	2,124
Reinsurers' share of claims outstanding	390,750	–	–	390,750
Debtors arising out of insurance operations	300,195	70,628	–	370,823
Other debtors	4,875	–	–	4,875
Cash at bank and in hand	41,877	–	–	41,877
Overseas deposits	91,239	–	–	91,239
	1,457,673	70,628	–	1,528,301

22. Risk management *continued*

31 December 2021 Restated	*Neither past due nor impaired £'000*	*Past due £'000*	*Impaired £'000*	*Total £'000*
Financial investments				
– Debt securities and other fixed income securities	298,994	–	–	298,994
– Shares and other variable yield securities and units in unit trusts	65,090	–	–	65,090
– Participation in investment pools	34,942	–	–	34,942
– Loans secured by mortgages	–	–	–	–
– Derivative assets	–	–	–	–
– Deposits with credit institutions	–	–	–	–
Deposits with ceding undertakings	1,341	–	–	1,341
Reinsurers' share of claims outstanding	319,353	–	–	319,353
Debtors arising out of insurance operations	188,402	77,063	–	265,465
Other debtors	501	–	–	501
Cash at bank and in hand	35,105	–	–	35,105
Overseas deposits	77,875	–	–	77,875
	1,021,603	77,063	–	1,098,666

Assets that are past due but not impaired include amounts relating to binding authority business as at 31 December 2022. The past due amounts have principally been in arrears for less than 3 months from the reporting date.

22. Risk management *continued*

The table below provides information regarding the credit risk exposure of the syndicate at 31 December 2022 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Insurance and other debtors have been excluded from the table as these are generally not rated.

31 December 2022	*AAA* *£'000*	*AA* *£'000*	*A* *£'000*	*BBB* *£'000*	*<BBB* *£'000*	*Not rated* *£'000*	*Total* *£'000*
Shares and other variable yield securities and units in unit trusts	79,820	–	–	–	–	34,559	114,379
Debt securities and other fixed income securities	279,888	15,595	134,695	42,384	–	–	472,562
Participation in investment pools	23,925	6,151	5,586	3,766	–	1	39,429
Loans secured by mortgages	–	–	–	–	–	–	–
Deposits with credit institutions	–	–	–	–	–	–	–
Overseas deposits	35,302	8,638	4,884	4,871	14,835	22,709	91,239
Derivative assets	243	–	–	–	–	–	243
Deposits with ceding undertakings	–	–	2,050	–	–	74	2,124
Reinsurers' share of claims outstanding	–	57,059	331,038	–	–	2,653	390,750
Cash at bank and in hand	–	–	41,877	–	–	–	41,877
Total credit risk	419,178	87,443	520,130	51,021	14,835	59,996	1,152,603

22. Risk management *continued*

31 December 2021	*AAA* *£'000*	*AA* *£'000*	*A* *£'000*	*BBB* *£'000*	*<BBB* *£'000*	*Not rated* *£'000*	*Total* *£'000*
Shares and other variable yield securities and units in unit trusts	49,041	–	–	–	–	16,049	65,090
Debt securities and other fixed income securities	16,995	199,042	56,838	26,119	–	–	298,994
Participation in investment pools	15,656	11,787	3,947	3,341	–	211	34,942
Loans secured by mortgages	–	–	–	–	–	–	–
Deposits with credit institutions	–	–	–	–	–	–	–
Overseas deposits	29,269	9,151	4,756	4,984	18,344	11,371	77,875
Derivative assets	–	–	–	–	–	–	–
Deposits with ceding undertakings	–	–	1,275	–	–	66	1,341
Reinsurers' share of claims outstanding	–	38,100	275,800	–	–	5,453	319,353
Cash at bank and in hand	–	–	35,105	–	–	–	35,105
Total credit risk	110,961	258,080	377,721	34,444	18,344	33,150	832,700

Maximum credit exposure

It is the syndicate's policy to maintain accurate credit ratings across its portfolio of investments and reinsurance counterparties.

Credit ratings are provided regularly by the syndicate's investment managers and are subject to regular review to ensure any counterparty risk is in line with the syndicate's risk appetite and complies with the specified investment guidelines. The management of the syndicate's investments is largely outsourced to professional investment managers who are given clearly defined credit, concentration and asset parameters within which they can operate. Specific provisions are included within the investment guidelines around notification of any credit breaches which would result in action being taken to rectify the position, subject to materiality.

22. Risk management *continued*

(2) Liquidity risk

Liquidity risk is the risk that the syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out flows and expected reinsurance recoveries.

The following policies and procedures are in place to mitigate the syndicate's exposure to liquidity risk:

- A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

- Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.

Maturity profiles

The table below summarises the maturity profile of the syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and gross outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

	0–1 year £'000	*1–3 years £'000*	*3–5 years £'000*	*Over 5 years £'000*	*Total £'000*
31 December 2022					
Outstanding claim liabilities	363,249	337,007	135,214	128,523	963,993
Other	258,811	129,790	–	–	388,601

	0–1 year £'000	*1–3 years £'000*	*3–5 years £'000*	*Over 5 years £'000*	*Total £'000*
31 December 2021					
Outstanding claim liabilities	297,065	254,505	95,330	84,172	731,072
Other	178,152	147,547	–	–	325,699

22. Risk management *continued*

(3) Financial market risk

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

a. Currency risk;

b. Interest rate risk; and

c. Equity price risk.

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

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

(a) Currency risk

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

The syndicate's functional currency is sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in euros, Australian dollars, US dollars and Canadian dollars. The syndicate seeks to mitigate the risk by regularly seeking to match the estimated foreign currency denominated liabilities with assets denominated in the same currency.

22. Risk management *continued*

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

Converted £'000	*UK £*	*US $*	*CAD $*	*AUS $*	*EUR €*	*OTH*	*Total*
31 December 2022							
Total assets	138,932	1,174,300	103,851	154,320	111,101	51,193	1,733,697
Total liabilities	(213,216)	(1,171,465)	(77,567)	(143,090)	(114,924)	(16,393)	(1,736,655)
Net assets	(74,284)	2,835	26,284	11,230	(3,823)	34,800	(2,958)

Converted £'000	*UK £*	*US $*	*CAD $*	*AUS $*	*EUR €*	*OTH*	*Total*
Restated							
31 December 2021							
Total assets	143,056	809,992	70,501	144,729	74,481	39,443	1,282,202
Total liabilities	(199,078)	(836,312)	(52,416)	(144,643)	(83,787)	(19,994)	(1,336,230)
Net assets	(56,022)	(26,320)	18,085	86	(9,306)	19,449	(54,028)

The non-sterling denominated net assets of the syndicate may lead to a reported loss or gain should exchange rates fluctuate.

In part, foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the syndicate may also choose to utilise options on foreign currency derivatives to mitigate the risk of reported losses due to changes in foreign exchange rates. The degree to which options are used is dependent on the prevailing cost versus the perceived benefit to members' value from reducing the chance of a reported loss due to changes in foreign currency exchange rates.

22. Risk management *continued*

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on the result of a percentage change in the relative strength of sterling against the value of the main settlement currencies simultaneously. The analysis is based on the information as at 31 December 2022.

	Impact on result	
	2022	*2021*
	£'000	*£'000*
Sterling weakens:		
10% against other currencies	4,292	(2,639)
20% against other currencies	9,657	(5,937)
Sterling strengthens:		
10% against other currencies	(3,511)	2,159
20% against other currencies	(6,438)	3,958

(b) Interest rate risk

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

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

The syndicate has no significant concentration of interest rate risk.

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

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on the result of the effects of changes in interest rates on financial assets and liabilities for items recorded at fair value through profit and loss.

22. Risk management *continued*

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

	Impact on result	
	2022	*2021*
	£'000	*£'000*
Changes in variables:		
+50 basis points	(2,772)	(1,262)
-50 basis points	2,817	1,343

The method used for deriving sensitivity information and the significant variables are the same for both periods.

(c) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The syndicate's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The financial market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector and market, and careful and planned use of derivative financial instruments.

There is no significant concentration of equity price risk.

The analysis below is performed for reasonably possible movements in market indices on financial instruments, with all other variables held constant, showing the impact on the result due to changes in fair value of financial assets and liabilities whose fair values are recorded in the profit and loss account. The correlation of variables will have a significant effect in determining the ultimate impact on equity price risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that movements in these variables are non-linear.

	Impact on result	
	2022	*2021*
	£'000	*£'000*
Changes in variables – market indices:		
S&P 500/FTSE 100 +5%	–	–
S&P 500/FTSE 100 -5%	–	–

The method used for deriving sensitivity information and the significant variables are the same for both periods.

23. Restatement of 2021 financial statements

The table below shows the movements in the statement of financial position and statement of cash flows line items between the 2021 balances previously reported and the restated 2021 comparative amounts.

Statement of Financial Position	*Restated 2021 £'000*	*As reported 2021 £'000*	*Movement 2021 £'000*
ASSETS			
Debtors			
Debtors arising out of direct insurance operations	152,980	211,941	(58,961)
MEMBERS' BALANCES AND LIABILITIES			
Creditors			
Creditors arising out of direct insurance operations	(11,910)	(70,871)	58,961
Statement of Cash Flows			
(Increase)/decrease in debtors	(48,133)	(107,094)	58,961
Increase/(decrease) in creditors	83,353	142,314	(58,961)

The prior period restatements reflect a commensurate reduction in insurance debtors and insurance creditors as previously reported, where offset is appropriate. There is no impact on the previously reported result or members' balances.

The comparative amounts in notes 11, 15 and 22 have also been restated accordingly. There is no impact on any other disclosures within the financial statements.

SYNDICATE

2121

UNDERWRITING YEAR ACCOUNTS

AS AT 31 DECEMBER 2022

2020 YEAR OF ACCOUNT CLOSED

Statement of Managing Agent's Responsibilities

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

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;

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

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

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

The managing agent is responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is also responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the 2008 Regulations.

The managing agent is responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of syndicate underwriting year accounts may differ from legislation in other jurisdictions.

Independent Auditors’ Report to the Members of Syndicate 2121 – 2020 closed year of account

Report on the audit of the syndicate underwriting year financial statements

Opinion

In our opinion, 2121’s syndicate underwriting year financial statements for the 2020 year of account for the 36 months ended 31 December 2022 (the “underwriting year financial statements”):

- give a true and fair view of the state of the syndicate’s affairs as at 31 December 2022 and of its profit and cash flows for the 2020 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd’s Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the underwriting year financial statements included within the Underwriting Year Accounts, which comprise: the Statement of Financial Position as at 31 December 2022; the Income Statement for the 2020 year of account: Technical Account – General Business, the Income Statement for the 2020 year of account: Non-Technical Account, the Statement of Cash Flows, and Statement of Changes in Members’ Balances for the 36 months then ended; and the notes to the underwriting year financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”), including ISA (UK) 800, and The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the *Auditors’ responsibilities for the audit of the underwriting year financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the underwriting year financial statements in the UK, which includes the FRC’s Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation

Without modifying our opinion, we draw attention to note 1.2 of the underwriting year financial statements, which describes the basis of preparation. In particular, as these underwriting year financial statements relate to a closed underwriting year of account, matters relating to going concern are not relevant to these underwriting year financial statements. The underwriting year financial statements are prepared in accordance with a special purpose framework for the specific purpose as described in the *Use of this report* paragraph below. As a result, the underwriting year financial statements may not be suitable for another purpose.

Reporting on other information

The other information comprises all of the information in the Underwriting Year Accounts other than the underwriting year financial statements and our auditors’ report thereon. The Managing Agent is responsible for the other information. Our opinion on the underwriting year financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the underwriting year financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the underwriting year financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the underwriting year financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the underwriting year financial statements and the audit

Responsibilities of the Managing Agent for the underwriting year financial statements

As explained more fully in the Statement of Managing Agent's Responsibilities, the Managing Agent is responsible for the preparation of the underwriting year financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2020 closed year of account. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of underwriting year financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities for the audit of the underwriting year financial statements

Our objectives are to obtain reasonable assurance about whether the underwriting year financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these underwriting year financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the underwriting year financial statements. We also considered those laws and regulations that have a direct impact on the underwriting year financial statements such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the underwriting year financial statements (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to claims outstanding and estimated premium income. Audit procedures performed by the engagement team included:

- discussions with the Board, management and compliance function of the Managing Agent, including consideration of known or suspected instances of fraud and non-compliance with laws and regulations;
- reviewing relevant meeting minutes, including those of the Board and Audit Committee of the Managing Agent, and correspondence with regulatory authorities, including Lloyd's of London, Prudential Regulation Authority and the Financial Conduct Authority;

- testing and challenging where appropriate the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the estimation of claims outstanding and the estimation of estimated premium income;

- identifying and testing journal entries, particularly journal entries with unusual account combinations, or postings by unexpected users, journal entries posted in seldom used accounts and created after ledger close; and

- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the underwriting year financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the underwriting year financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or

- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or

- the underwriting year financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Alexis Gish (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2023

Income Statement for the 2020 year of account: Technical account – general business

closed at the end of the third year at 31 December 2022

	Notes	£'000	Cumulative balance at 31 December 2022 £'000
Syndicate allocated capacity			424,736
Earned premiums, net of reinsurance			
Gross premiums written	2		663,935
Outward reinsurance premiums			(295,428)
			368,507
Reinsurance to close premiums received, net of reinsurance	2		161,263
			529,770
Allocated investment return transferred from the non-technical account	8		1,194
Claims incurred, net of reinsurance			
Gross claims paid		(236,402)	
Reinsurers' share		107,056	
		(129,346)	
Reinsurance to close premiums payable, net of reinsurance	4	(236,552)	
			(365,898)
Net operating expenses	5		(155,052)
Balance on the technical account for general business			10,014

Income Statement for the 2020 year of account: Non-technical account

closed at the end of the third year at 31 December 2022 continued

	Notes	*Cumulative balance at 31 December 2022 £'000*
Balance on the general business technical account		10,014
Investment income	8	5,863
Net unrealised losses on investments	8	(4,301)
Investment expenses and charges	8	(368)
Allocated investment return transferred to the general business technical account		(1,194)
Exchange losses		(2,755)
Result for the 2020 closed year of account		7,259

There is no other comprehensive income in the accounting period other than that dealt with in the technical and non-technical accounts. Accordingly a separate statement of comprehensive income has not been presented.

Statement of Changes in Members' Balances

for the 36 months ended 31 December 2022

	2020 year of account £'000
At 1 January 2020	–
Profit for the 2020 closed year of account	7,259
Members' agents' fees	(1,638)
At 31 December 2022	5,621

Statement of Financial Position

as at 31 December 2022

	Notes	2022 £'000	£'000
ASSETS			
Investments	9		192,492
Deposits with ceding undertakings			1,988
Debtors			
Debtors arising out of direct insurance operations	10	68,501	
Debtors arising out of reinsurance operations	11	68,925	
Other debtors		8,637	
			146,063
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the year of account			189,379
Cash and other assets			
Cash at bank and in hand		10,523	
Other assets	12	47,455	
			57,978
Prepayments and accrued income			1,387
TOTAL ASSETS			589,287
LIABILITIES			
Amounts due to members			5,621
Reinsurance to close premiums payable to close the year of account – gross amounts			412,231
Creditors			
Creditors arising out of direct insurance operations		2,939	
Creditors arising out of reinsurance operations		165,563	
Other creditors		1,076	
			169,578
Accruals and deferred income			1,857
TOTAL LIABILITIES			589,287

The syndicate underwriting year accounts on pages 75 to 104 were approved by the Board of Argenta Syndicate Management Limited on 24 February 2023 and were signed on its behalf by

Nicholas J Moore
Managing Director

Statement of Cash Flows

for the 36 months ended 31 December 2022

	Notes	*2022* *£'000*
Profit on ordinary activities		7,259
Increase in outstanding claims		412,231
Increase in reinsurers' share of outstanding claims		(189,379)
Increase in debtors		(147,418)
Increase in creditors		171,403
Investment return		(1,194)
Net cash inflow from operating activities		252,902
Investing activities		
Investment income received		4,449
Purchase of debt and equity instruments		(369,435)
Sale of debt and equity instruments		207,425
Purchase of derivatives		(98,366)
Sale of derivatives		99,528
Increase in overseas deposits		(50,710)
Increase in deposits with ceding undertakings		(1,988)
Net cash outflow from investing activities		(209,097)
Financing activities		
Members' agents' fee advances		(1,638)
Net cash outflow from financing activities		(1,638)
Increase in cash and cash equivalents		42,167
Cash and cash equivalents at 1 January 2020		–
Cash and cash equivalents at 31 December 2022	13	42,167

Notes to the Accounts

1. Accounting policies

1.1 Statement of compliance

The syndicate underwriting year accounts have been prepared under the 2008 Regulations and in accordance with the Syndicate Accounting Byelaw (No.8 of 2005) and applicable accounting standards in the United Kingdom. FRS 102 and FRS 103 have been applied to the extent that they are relevant for a proper understanding of the underwriting year accounts.

The 2020 year of account has closed and all assets and liabilities have been transferred to the 2021 year of account. The result for the year of account was declared in sterling, having been translated at the prevailing rate of exchange at the balance sheet date. The distribution of the closed year profit will be made in the currency in which it is declared with the exchange risk in respect of this transferring to the capital providers to the syndicate with effect from 31 December 2022. To this extent, the risks that it is exposed to in respect of the reported financial position and financial performance are significantly less than the syndicate annual accounts.

Accordingly, these underwriting year accounts do not have associated risk disclosures as required by section 34 of FRS 102 and section 4 of FRS 103. Full disclosures relating to these risks are provided in the syndicate annual accounts. In addition certain other disclosure requirements under FRS 102 and FRS 103, which include reconciliations of changes in insurance liabilities, reinsurance assets and deferred acquisition costs, have not been provided as the directors believe they are not required for a proper understanding of the underwriting year accounts.

1.2 Basis of preparation

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2020 year of account, which has closed by reinsurance to close at 31 December 2022; consequently the statement of financial position represents the assets and liabilities of the 2020 year of account and the income statement and statement of cash flows reflect the transactions for that year of account during the 36 month period until closure.

The financial statements for the period ended 31 December 2022 were approved for issue by the board of directors on 24 February 2023.

The financial statements are prepared in sterling which is the functional and presentational currency of the syndicate and rounded to the nearest £'000.

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

As each syndicate year of account is a separate annual venture, there are no comparative figures.

1.3 Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the period. However, the nature of

1. Accounting policies *continued*

estimation means that actual outcomes could differ from those estimates. The following are the syndicate's key sources of estimation uncertainty:

Insurance contract technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims IBNR at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and, for some types of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. The provision for claims outstanding is based on the estimated ultimate cost of all claims notified but not settled by the statement of financial position date assessed on an individual case basis, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims IBNR at the statement of financial position date based on statistical methods.

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

Fair value of financial assets and derivatives determined using valuation techniques

Where the fair values of financial assets and financial liabilities recorded on 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 mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk, and model inputs such as estimated future cash flows based on management's best estimates and discount 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 in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Further details are given in the syndicate annual accounts in note 22.

1.4 Significant accounting policies

Financial investments

As permitted by FRS 102, the syndicate has elected to apply the recognition and measurement provisions of section 11 and 12 in full to account for all of its financial instruments.

1. Accounting policies *continued*

Financial assets and financial liabilities are recognised when the syndicate becomes a party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Derivative financial instruments

The syndicate uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The syndicate does not hold or issue derivative financial instruments for speculative purposes. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less, net of outstanding bank overdrafts.

Fair value of financial assets

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

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

See Note 9 for details of financial instruments classified by fair value hierarchy.

Impairment of financial assets

For financial assets not held at fair value through profit or loss, the syndicate assesses at each reporting date whether the financial asset or group of financial assets is impaired. The syndicate first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

1. Accounting policies *continued*

Derecognition of financial assets

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

- The rights to the cash flows from the asset have expired; or
- The syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement and either (a) the syndicate has transferred substantially all the risks and rewards of the asset; or (b) the syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial liabilities

The syndicate's financial liabilities include trade and other payables, borrowings, insurance payables and derivative financial instruments, where applicable. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR method amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in investment return in the profit or loss. Derivative financial liabilities are subsequently measured at fair value through profit or loss. A financial liability is derecognised when the obligation under the liability is discharged or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in profit or loss.

Investment return

Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Interest income is recognised on a time proportionate basis taking into account effective interest yield.

1. **Accounting policies** *continued*

Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered in detail under the accounting policy for financial investments.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated members' balance is made from the non-technical account to the technical account. Investment return related to non-insurance business and members' balance is attributed to the non-technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Overseas deposits are allocated to the year of account as notified by Lloyd's. The returns on other assets arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

Insurance contracts – product classification

Insurance contracts are those contracts when the syndicate (the insurer/reinsurer) has accepted significant insurance risk from another party (the policyholder/reinsured) by agreeing to compensate the policyholder/reinsured if a specified uncertain future event (the re/insured event) adversely affects the policyholder/reinsured. As a general guideline, the syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the re/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.

Any separable embedded derivatives within an insurance contract are separated and accounted for in accordance with sections 11 and 12 of FRS 102 unless the embedded derivative is itself an insurance contract (i.e. the derivative is not separated if the policyholder benefits from the derivative only when the insured event occurs).

Underwriting transactions

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account. Where this is not possible, an amount to meet all known and unknown outstanding liabilities is retained at each year end until an equitable reinsurance to close can be effected.

The reinsurance to close premium and the amounts retained to meet all known and unknown outstanding liabilities

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

1. Accounting policies *continued*

Gross premiums

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

Gross claims

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

Outstanding claims

Outstanding claims comprise amounts set aside for claims notified and IBNR claims. Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters, and previous experience of the cost of settling claims with similar characteristics.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by syndicate staff and reviewed by the auditor's actuarial team. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The provision for claims includes amounts in respect of internal and external claims handling costs. The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the period and the current security rating of the reinsurance companies involved.

The syndicate uses a number of statistical techniques to assist in making the above estimates.

Reinsurance assets

The syndicate cedes insurance risk in the normal course of business for all of its areas of operation. 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.

1. Accounting policies *continued*

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised relating to the 2020 year of account.

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

Insurance receivables

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

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Insurance payables

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

Foreign currencies

The syndicate's functional currency and presentational currency is sterling. Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions or at an approximate average rate.

Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items denominated in a foreign currency, measured at fair value, are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded 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, any UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their member's agent is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

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

1. Accounting policies *continued*

Syndicate operating expenses

Costs incurred by the managing agent in respect of the syndicate are charged to the syndicate and included within the relevant profit and loss account heading. Where expenses do not relate to any specific year of account, they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense. Where expenses are incurred jointly by the managing agent and the syndicate, they are apportioned generally based on time spent, estimated utilisation or head count. The franchise performance and risk management charge, to the extent that this is levied by Lloyd's, is considered to arise solely in respect of the day to day transaction of underwriting business at Lloyd's. This is therefore allocated to managed syndicates based on their written premium in that year. Pension contributions relating to a defined contribution scheme and charged to the syndicate are included within net operating expenses.

Amounts recharged by the managing agent include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

Profit commission

Profit commission is charged by the managing agent at a standard rate of 15% of profit subject to the operation of a deficit clause. The profit commission standard rate increases from 15% to 17.5% if an average profit measure exceeds 7.5% of capacity. No profit commission was chargeable in respect of the 2020 year of account. Where profit commission is charged, it is included within members' standard personal expenses within administrative expenses. Profit commission does not become payable until after the appropriate year of account closes, normally at 36 months, although the managing agent may receive payments on account of anticipated profit commissions in line with interim profits released to members.

2. Particulars of business written

2020 closed year of account after three years

Type of business

An analysis of the technical account balance before investment return is set out below:

	Gross premiums written and earned £'000	*Gross claims incurred £'000*	*Gross operating expenses* £'000*	*Reinsurance balance £'000*	*Total £'000*
Direct insurance:					
Marine, aviation and transport	76,412	(51,597)	(28,674)	8,588	4,729
Fire and other damage to property	196,169	(102,711)	(71,617)	(13,470)	8,371
Third party liability	221,118	(143,819)	(76,513)	(2,920)	(2,134)
Other	25,515	(3,363)	(8,415)	(8,824)	4,913
	519,214	(301,490)	(185,219)	(16,626)	15,879
Reinsurance accepted	305,984	(332,348)	(41,610)	60,915	(7,059)
	825,198	(633,838)	(226,829)	44,289	8,820

Reinsurance acceptances include the reinsurance to close premium of £161,263,000 (net) received from the 2018 year of account.

All premiums were concluded in the UK.

*Net operating expenses shown in the income statement include an amount of £71.8 million in respect of commissions on outward reinsurance that have been set off from the gross operating expenses but are included in the reinsurance balance above.

Geographical analysis by destination

	Gross written premiums £'000
UK	303,739
EU	40,686
Other	480,773
	825,198

3. Analysis of underwriting result

	2018 and prior years of account £'000	*2020 pure year of account £'000*	*Total 2020 year of account £'000*
Technical account balance before allocated investment return and net operating expenses	10,827	153,045	163,872
Acquisition costs and reinsurance commissions	(10,177)	(126,728)	(136,905)
	650	26,317	26,967

No amounts are presented for the 2019 year of account as the 2019 year of account has reinsured into the 2021 year of account at 31 December 2022.

4. Reinsurance to close premiums payable, net of reinsurance

2020 closed year of account after three years	*Reported £'000*	*IBNR £'000*	*Total £'000*
Gross outstandings	163,046	234,390	397,436
Reinsurance recoveries anticipated	(64,609)	(96,275)	(160,884)
	98,437	138,115	236,552

All amounts are stated at the rate of exchange at the date of the transaction or an approximate average rate.

5. Net operating expenses

	2022 £'000
Acquisition costs	208,682
Administrative expenses	18,147
	226,829
Reinsurance commissions	(71,777)
Net operating expenses	155,052

Members' standard personal expenses amounting to £7.4 million are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contributions and managing agent's fees.

6. Staff numbers and costs

The following amounts were recharged to the syndicate in respect of staff costs:

	2022
	£'000
Wages and salaries	14,182
Social security costs	1,924
Other pension costs	1,018
	17,124

The average number of employees working for the syndicate during the period was as follows:

	2022
	Number
Underwriting	40
Underwriting support	38
Claims	12
Administration and finance	14
	104

The staff numbers exclude employees providing services by way of a cross charge from other group companies.

The aggregate remuneration charged to the syndicate in respect of emoluments paid to the directors of ASML and the active underwriter was £1.9 million. This includes £383,000 that relates to the active underwriter.

7. Auditors' remuneration

	2022
	£'000
Audit services	215
Other services pursuant to regulations and Lloyd's byelaws	157
	372

8. Investment return

	2022 £'000
Income from other investments	6,250
Net losses on realisation of investments	(387)
Total investment income	5,863
Net unrealised losses on investments	(4,301)
Investment expenses and charges	(368)
Total investment return	1,194

9. Financial investments

	Market value 2022 £'000
Shares and other variable yield securities and units in unit trusts	
– designated at fair value through profit or loss	38,163
Debt securities and other fixed income securities	
– designated at fair value through profit or loss	144,486
Deposits with credit institutions held at fair value	–
Loans secured by mortgages held at fair value	–
Participation in investment pools	9,769
Derivatives held at fair value	74
	192,492

The shares and other variable yield securities and units in unit trusts relate to holdings in highly diversified collective investment schemes.

There was no material change in fair value for financial instruments held at fair value attributable to own credit risk during the 36 month period.

There have been no day one profits recognised in respect of financial instruments designated at fair value through profit or loss.

9. Financial investments *continued*

By market value, approximately 58% of shares and other variable yield securities and units in unit trusts are listed on a recognised stock exchange.

The syndicate's investment managers are permitted to directly purchase derivative financial instruments (interest rate futures) to hedge the syndicate's interest rate risks. These derivatives are classified as trading instruments.

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

	Level 1	*Level 2*	*Level 3*	*Total*
	£'000	*£'000*	*£'000*	*£'000*
Shares and other variable yield securities and units in unit trusts	31,644	–	6,519	38,163
Debt securities and other fixed income securities	–	144,486	–	144,486
Participation in investment pools	–	9,769	–	9,769
Loans and deposits with credit institutions	–	–	–	–
Overseas deposits	10,237	37,218	–	47,455
Derivatives	74	–	–	74
	41,955	191,473	6,519	239,947

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

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

The level 3 category would include financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor based on available market data. Therefore, unobservable inputs would reflect the syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs would be developed based on the best information available, which might include the syndicate's own data.

The asset in the level 3 category is a syndicate loan with Lloyd's introduced in 2019, as part of Lloyd's capital structure.

10. Debtors arising out of direct operations

	2022 £'000
Amounts falling due within one year – intermediaries	68,501
Amounts falling due after one year – intermediaries	–
	68,501

11. Debtors arising out of reinsurance operations

	2022 £'000
Amounts falling due within one year	68,920
Amounts falling due after one year	5
	68,925

12. Other assets

	2022 £'000
Overseas deposits	
Amounts advanced in the following locations as a condition of carrying on business there:	
Illinois, USA	364
Australia	21,560
Canada	4,593
South Africa, Switzerland and other countries	20,938
	47,455

13. Cash and cash equivalents

	2022 £'000
Cash at bank and in hand	10,523
Short-term deposits with financial institutions	31,644
	42,167

14. Off balance sheet items

The syndicate has not been party to an arrangement which is not reflected in its statement of financial position, where material risks or benefits arise for the syndicate.

15. Related parties

Argenta Holdings Ltd

ASML manages Syndicates 2121 and 6134 and is a wholly owned subsidiary of AHL, which owns 100% of the voting and economic rights of ASML. AHL is regarded by ASML as its immediate parent and is also the parent undertaking of the smallest group to consolidate the financial statements of ASML. Copies of the financial statements for AHL can be obtained from Companies House.

AHL is wholly owned by Hannover Re. The parent undertaking of Hannover Re is Talanx AG which holds a 50.2% interest in the company. The principal shareholder in Talanx AG is HDI Haftpflichtverband der Deutschen Industrie V.a.G. ("HDI") which holds 78.9% of Talanx AG's issued share capital.

AHL and its related parties provide certain underwriting, administrative, accounting, human resources, information technology, risk management, compliance and internal audit services to ASML. These services are provided on a non-profit making basis by way of inter-group cross charges and direct salary charges.

Argenta Tax & Corporate Services Ltd ("ATCSL"), an AHL group company, provides taxation services to the syndicate. Fees are agreed on a commercial basis and the profit to ATCSL generated from providing these services is less than £1,000.

AUA, a subsidiary of AHL, is a service company approved by Lloyd's and the MAS to operate on the Lloyd's Asia platform. AUA also holds a licence granted by the Australian Securities and Investments Commission and has two branch offices approved by Lloyd's in Australia. Syndicate 2121 uses this service company as a coverholder to bind risks on its behalf. Such services relating to business written in Singapore are provided at cost plus a small profit margin of 5% mainly for tax purposes. The total value of the margin for the 2020 year of account is less than £95,000. The commission retained by AUA for business underwritten by the Australian branch is, at most, 28.5% of gross premium, which is in line with other Australian facilities currently supported by the syndicate. The commission charged in Australia covers original acquisition costs, branch office expenses and processing costs. The total commissions payable for the 2020 year of account by Syndicate 2121 were £13.9 million.

On 5 August 2022 the Board of ASML decided not to renew the service company agreement for Singapore and the business written in Singapore is now in run-off.

Mr Graham Allen, Mr Sven Althoff and Mr John Whiter are all directors of AHL. Mr Andrew Annandale was a director of AHL, AUA and ATCSL until his retirement from these boards on 31 December 2022. Mr Ian Maguire was a director of AHL, ASML and AUA until his resignation on 7 May 2021. Ms Carol-Ann Burton is a director of ATCSL. Mr Nicholas Moore was appointed as a director of AHL with effect from 28 July 2022. Mr Graham Allen was appointed as a director of AUA with effect from 5 December 2022.

Other than by virtue of directorship fees, salaries and other related remuneration in respect of their employment by either AHL or its related parties none of the directors, officers or related parties concerned, derive any personal benefit from the arrangements that exist.

Business transactions

Hannover Re

Hannover Re and certain of its subsidiaries and joint ventures have, in the past, provided and are likely to provide in the future, traditional types of reinsurance protection to Syndicate 2121.

Syndicate 2121 has in the past, and may in the future, provide insurance or reinsurance cover to Hannover Re and its subsidiaries.

15. Related parties *continued*

ASML manages Special Purpose Arrangement Syndicate 6134, to operate alongside Syndicate 2121 as the host syndicate. Syndicate 6134 is sponsored and capitalised by the Hannover Re group through its corporate member Inter Hannover (No.1) Ltd ("IH1").

Syndicate 6134 writes quota share reinsurances across specific classes of business within the underwriting capability of the host syndicate. In 2020 these included elements of the property, terrorism, specialty, cyber, political risks, marine hull and war, marine and energy liability, marine cargo and specie, casualty treaty, professional indemnity, financial institutions, and SME specialty liability accounts. The estimated ultimate gross net written premium of Syndicate 6134 for the 2020 year of account is £112.6 million.

Syndicate 2121 charges Syndicate 6134 an overriding commission in relation to these arrangements. For the 2020 year of account, other than in respect of political risks business, this commission is charged at a rate of between 5% and 11% of gross net written premium. In respect of political risks the overrider is charged at a rate of 30% of gross written premium although Syndicate 6134 is not charged its share of original acquisition costs for this class. The commission charged is in line with similar facilities currently operating in the Lloyd's market.

At 31 December 2022 creditors included an amount of £86.4 million owed to Syndicate 6134.

All such business underwritten and reinsurances purchased have in the past been, and will continue to be, transacted on an arm's length commercial basis with no personal benefit derived by the directors, officers or related parties concerned, other than by virtue of directorship fees, salaries and related remuneration in respect of their employment or by virtue of any increase in capital value arising on shareholdings.

ASML Directors

Mr John Whiter was chairman of Piiq Risk Partners Ltd (formerly PSE Partners Ltd and before that Ed Broking (London) Ltd), a Lloyd's broker, until his resignation on 31 March 2022. Mr Whiter was also chairman of Ed Broking Group Ltd until his resignation from this board on 31st March 2022.

Mr Paul Hunt who resigned as a director of ASML on 30 June 2021, was a director of Britannia Steam Ship Insurance Association Ltd until his resignation on 19 December 2020.

Mr Alan Grant, who resigned as a director of ASML on 29 June 2022, was a director of Thomas Miller Holdings Ltd and Thomas Miller Specialty Holdings Ltd until his resignation on 7 July 2021. He was also a director of Thomas Miller Specialty Underwriting Agency Ltd, a Lloyd's coverholder, until his resignation on 25 February 2021. He also became a director of Oneglobal Broking Ltd, a Lloyd's broker, on 14 September 2020.

Mr Sven Althoff is a member of the Executive Board of Hannover Re and a director of other Hannover Re group companies. He was appointed a director of HDI Global Speciality SE ("HGS") on 20 May 2022.

Mr Jens Schäfermeier is the managing director of the property and casualty division within Hannover Re. He was also a director of Apollo Syndicate Management Ltd, a Lloyd's Managing Agent, from his appointment on 29 August 2019 until his resignation on 30 September 2020.

The above entities may in the past have transacted business with syndicates managed by ASML and may do so in the future. Any such business, however, has been and will continue to be, conducted on an arm's length commercial basis with no involvement, either directly or indirectly, from the individuals above.

Other than directorship fees, salaries and other related remuneration, and any increase in capital value arising on shareholdings, no personal benefit is derived by the individuals concerned from these arrangements.

15. Related parties *continued*

Messrs Grant and Hunt benefitted from fees paid in respect of independent review services that they carried out on sections of Syndicate 2121's book of business. It is a regulatory requirement that such reviews are performed by individuals who are separate from the day-to-day underwriting of the specific classes of business under review and have the necessary skills and experience to fulfil the independent review obligations. Mr Grant ceased to provide independent review services following his resignation from the ASML Board.

ASML

Total fees payable to ASML in respect of services provided to the syndicate in respect of its role as managing agent for the 2020 year of account amounted to £3.2 million. No profit commission was payable. Creditors at the period-end included £0.1 million due to ASML in respect of expenses paid on behalf of the 2020 year of account.

Capital support for Syndicate 2121

Hannover Re supported Syndicate 2121 for the 2020 year of account by way of a pro-rata participation agreement with Dynastic Underwriting Ltd ("DUL") in respect of 100% of the member's participation. On 1 July 2020 Hannover Re acquired the entire issued share capital of DUL from Anglo Japanese Investment Co Ltd. HGS, a subsidiary of Talanx AG, supported Syndicate 2121 for the 2022 year of account by way of a pro-rata participation agreement with Argenta Underwriting No. 9 Ltd in respect of 100% of the member's participation.

For a fee, Hannover Re also provides capital support to Argenta Underwriting No. 3 Ltd for the 2020 to 2023 years of account and Argenta Underwriting No. 2 Ltd for the 2022 and 2023 years of account by way of excess participation agreements.

IH1, a wholly owned subsidiary of the Hannover Re group, participates on Syndicate 2121 for the 2020 to 2023 years of account.

Mr Annandale was a director of Argenta Private Capital Limited ("APCL"), a subsidiary of AHL, until his resignation on 31 December 2022. APCL allocates capacity to Syndicate 2121 for the 2020 to 2023 years of account. Mr Nicholas Moore was appointed as a director of APCL with effect from 31 December 2022.

Mr Annandale was a director of the following corporate members that are or were subsidiaries of AHL:

Argenta Underwriting No. 2 Limited ("AU2") (resigned 31 December 2022)
Argenta Underwriting No. 3 Limited ("AU3") (resigned 31 December 2022)
Argenta Underwriting No. 9 Limited ("AU9") (resigned 31 December 2022)
Argenta Underwriting No. 10 Limited ("AU10") (resigned 31 December 2022)

Messrs Allen and Moore were appointed as directors of all the above corporate members on 10 April 2019 and 31 December 2022 respectively. Messrs Annandale and Allen were also appointed directors of IH1 and DUL with effect from 18 January 2021. Mr Annandale resigned from these companies on 31 December 2022. Mr Moore was appointed as a director of IH1 with effect from 31 December 2022.

AU2, AU3 and AU9 participated on Syndicate 2121 for the 2020 to 2022 years of account. AU2 and AU3 are participating on the 2023 year of account. AU10 participated on the 2020 and 2021 years of account.

Other than by virtue of directors' fees, salaries and other related remuneration in respect of their employment and any increase in capital value arising on shareholdings, none of the directors, officers or related parties concerned derive any personal benefits from the arrangements that exist.

For the 2020 and prior years of account all capital providers who underwrite on Syndicate 2121 are charged managing agency fees and profit commission on a standard basis, apart from where the charges are less advantageous, as disclosed in the Register of Underwriting Agency Charges.

There are no other transactions or arrangements to be disclosed.

16. Risk management

(a) Governance framework

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

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

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

(b) Capital management objectives

Capital framework at Lloyd's

Lloyd's is a regulated undertaking and subject to the supervision of the PRA under the Financial Services and Markets Act 2000.

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

Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2121 is not disclosed in these financial statements.

16. Risk management *continued*

Lloyd's capital setting process

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

A syndicate may comprise one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. For a member participating on a single syndicate, its SCR is determined by the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate a credit for diversification is included to reflect the spread of risk. The credit given is consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies an uplift to the member's SCR to determine the overall level of capital required. This is known as the member's 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 the 2020 year of account 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 ("FAL"), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates (the latter being adjusted to reflect their value on a Solvency II basis). Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 27 of the syndicate annual accounts, represent resources available to meet members' and Lloyd's capital requirements.

(c) Insurance risk

The principal risk the syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the syndicate is to ensure that sufficient reserves are available to cover these liabilities. Reference to insurance business should, as appropriate, be understood to include the equivalent reinsurance business underwritten by the syndicate.

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

16. Risk management *continued*

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

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

The syndicate principally issues the following types of general insurance contracts: marine, aviation and transport; fire and other damage to property; energy; and third-party liability. Risks usually cover twelve months' duration.

The most significant risks arise from natural disasters, terrorist activities, cyber attacks, large risk losses and adverse attritional claims experience. For longer tail claims that take some years to settle, there is also inflation risk.

The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the syndicate. The syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account where appropriate when estimating insurance contract liabilities.

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

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the syndicate's risk appetite as agreed by the ASML board. The overall aim currently is to restrict the impact of a single RDS on a gross of reinsurance basis to less than 80% of the sum of the ECA and business plan profit, and less than 30% on a net of reinsurance basis. The reinsurance counterparty exposure is managed such that the exposure to, for instance, a single 'A' rated reinsurer is estimated not to exceed 10% of the total recoverable amount for the programme. The board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

16. Risk management *continued*

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

The 2020 year of account has closed, so no catastrophe exposure written by the syndicate remains in respect of the closing year. A further guide to the level of catastrophe exposure written by the syndicate is in note 22 of the syndicate annual accounts.

Note 22 of the syndicate annual accounts includes analysis for the syndicate overall of the concentration of outstanding claim liabilities and unearned premiums by type of contract and the geographical concentration of the outstanding claim liabilities and unearned premiums.

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of claims indemnity costs, claims handling costs and claims inflation for each underwriting year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence; changes in market factors; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

Claim liabilities are not sensitive to the key assumptions where a year of account has closed and all assets and liabilities have been passed to a subsequent year of account by way of a reinsurance to close. Sensitivities relating to open years of account are included in note 22 of the syndicate annual accounts.

Claims development table

The syndicate annual accounts include tables showing the estimates of cumulative incurred claims, including both claims notified and IBNR for each underwriting year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at 31 December 2022.

In setting claims provisions the syndicate gives consideration to the probability and magnitude of future adverse experience. Due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

16. Risk management *continued*

(d) Financial risk

(1) Credit risk

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

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

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

- Net exposure limits are set for each investment counterparty or syndicate of counterparties with minimum credit quality requirements at a portfolio level.

- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set by the third party management group and are subject to regular reviews. At each reporting date management performs an assessment of creditworthiness of reinsurers, ascertaining a suitable allowance for impairment.

- Guidelines determine when to obtain collateral and guarantees.

- The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

All assets will be assumed by the reinsuring year of account. The syndicate annual accounts include tables showing the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the annually accounted statement of financial position.

The syndicate annual accounts also include a table showing information regarding the credit risk exposure of the syndicate at 31 December 2022 by classifying assets according to Standard & Poor's credit ratings of the counterparties.

16. Risk management *continued*

Maximum credit exposure

It is the syndicate's policy to maintain accurate credit ratings across its portfolio of investments and reinsurance counterparties.

Credit ratings are provided regularly by the syndicate's investment managers and are subject to regular review to ensure any counterparty risk is in line with the syndicate's risk appetite and complies with the specified investment guidelines. The management of the syndicate's investments is largely outsourced to professional investment managers who are given clearly defined credit, concentration and asset parameters within which they can operate. Specific provisions are included within the investment guidelines around notification of any credit breaches which would result in action being taken to rectify the position, subject to materiality.

(2) Liquidity risk

Liquidity risk is the risk that the syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out flows and expected reinsurance recoveries.

The following policies and procedures are in place to mitigate the syndicate's exposure to liquidity risk:

- A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.

Maturity profiles

All liabilities will be assumed by the reinsuring year of account. The syndicate annual accounts include a table that summarises the maturity profile of the syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities.

(3) Financial market risk

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

a. Currency risk;

b. Interest rate risk; and

c. Equity price risk.

16. Risk management *continued*

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

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

(a) Currency risk

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

The syndicate's functional currency is sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in euros, Australian dollars, US dollars and Canadian dollars. The syndicate seeks to mitigate the risk by regularly seeking to match the estimated foreign currency denominated liabilities with assets denominated in the same currency.

The 2020 year of account has closed and the result fixed in sterling. Only the years of account that remain open at 31 December 2022 attract a foreign currency exchange exposure. The syndicate annual accounts include a table that summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date.

In part, foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the syndicate may also choose to utilise options on foreign currency derivatives to mitigate the risk of reported losses due to changes in foreign exchange rates. The degree to which options are used is dependent on the prevailing cost versus the perceived benefit to members' value from reducing the chance of a reported loss due to changes in foreign currency exchange rates.

Sensitivity to changes in foreign exchange rates

The syndicate annual accounts give an indication of the impact on the result of a percentage change in the relative strength of sterling against the value of the main settlement currencies simultaneously based on the information as at 31 December 2022.

16. Risk management *continued*

(b) Interest rate risk

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

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

The syndicate has no significant concentration of interest rate risk.

Insurance liabilities are not discounted and, therefore, are not exposed.

Analysis in note 22 of the syndicate annual accounts is performed for reasonably possible movements in interest rates with all other variables held constant and shows the impact on the result of the effects of changes in interest rates on financial assets and liabilities for items recorded at fair value through profit or loss.

(c) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The syndicate's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The financial market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector and market, and careful and planned use of derivative financial instruments.

There is no significant concentration of equity price risk.

Note 22 in the syndicate annual accounts includes analysis performed for reasonably possible movements in market indices on financial instruments, with all other variables held constant, showing the impact on the result due to changes in fair value of financial assets and liabilities whose fair values are recorded in the profit and loss account. The correlation of variables will have a significant effect in determining the ultimate impact on equity price risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that movements in these variables are non-linear.

SYNDICATE

2121

UNDERWRITING YEAR ACCOUNTS

AS AT 31 DECEMBER 2022

2019 YEAR OF ACCOUNT

CLOSED

Statement of Managing Agent's Responsibilities

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

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt of payment;
- make judgements and accounting estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

The managing agent is responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is also responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the 2008 Regulations.

The managing agent is responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of syndicate underwriting year accounts may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Members of Syndicate 2121 – 2019 closed year of account

Report on the audit of the syndicate underwriting year financial statements

Opinion

In our opinion, 2121's syndicate underwriting year financial statements for the 2019 year of account for the 48 months ended 31 December 2022 (the "underwriting year financial statements"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2022 and of its loss and cash flows for the 2019 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the underwriting year financial statements included within the Underwriting Year Accounts, which comprise: the Statement of Financial Position as at 31 December 2022; the Income Statement for the 2019 year of account: Technical Account – General Business, the Income Statement for the 2019 year of account: Non-Technical Account, the Statement of Cash Flows, and Statement of Changes in Members' Balances for the 48 months then ended; and the notes to the underwriting year financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the underwriting year financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the underwriting year financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation

Without modifying our opinion, we draw attention to note 1.2 of the underwriting year financial statements, which describes the basis of preparation. In particular, as these underwriting year financial statements relate to a closed underwriting year of account, matters relating to going concern are not relevant to these underwriting year financial statements. The underwriting year financial statements are prepared in accordance with a special purpose framework for the specific purpose as described in the *Use of this report* paragraph below. As a result, the underwriting year financial statements may not be suitable for another purpose.

Reporting on other information

The other information comprises all of the information in the Underwriting Year Accounts other than the underwriting year financial statements and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the underwriting year financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the underwriting year financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the underwriting year financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the underwriting year financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the underwriting year financial statements and the audit

Responsibilities of the Managing Agent for the underwriting year financial statements
As explained more fully in the Statement of Managing Agent's Responsibilities, the Managing Agent is responsible for the preparation of the underwriting year financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2019 closed year of account. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of underwriting year financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities for the audit of the underwriting year financial statements
Our objectives are to obtain reasonable assurance about whether the underwriting year financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these underwriting year financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the underwriting year financial statements. We also considered those laws and regulations that have a direct impact on the underwriting year financial statements such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the underwriting year financial statements (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to claims outstanding and estimated premium income. Audit procedures performed by the engagement team included:

- discussions with the Board, management and compliance function of the Managing Agent, including consideration of known or suspected instances of fraud and non-compliance with laws and regulations;
- reviewing relevant meeting minutes, including those of the Board and Audit Committee of the Managing Agent, and correspondence with regulatory authorities, including Lloyd's of London, Prudential Regulation Authority and the Financial Conduct Authority;

- testing and challenging where appropriate the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the estimation of claims outstanding and the estimation of estimated premium income;
- identifying and testing journal entries, particularly journal entries with unusual account combinations, or postings by unexpected users, journal entries posted in seldom used accounts and created after ledger close; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the underwriting year financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the underwriting year financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- the underwriting year financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Alexis Gish (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2023

Income Statement for the 2019 year of account: Technical account – general business

closed at the end of the fourth year at 31 December 2022

	Notes	*Calendar year £'000*	*Cumulative balance at 31 December 2022 £'000*
Syndicate allocated capacity			339,845
Earned premiums, net of reinsurance			
Gross premiums written	2	(8)	454,640
Outward reinsurance premiums		(1,979)	(150,534)
		(1,987)	304,106
Amounts retained to meet all known and unknown outstanding liabilities, net of reinsurance, carried forward		83,148	
Allocated investment return transferred from the non-technical account	8	183	2,963
Claims incurred, net of reinsurance			
Gross claims paid		(32,098)	(232,303)
Reinsurers' share		15,304	84,772
		(16,794)	(147,531)
Reinsurance to close premiums payable, net of reinsurance		(64,692)	(64,692)
			(212,223)
Net operating expenses	5	(2,209)	(127,080)
Balance on the technical account for general business		(2,351)	(32,234)

Income Statement for the 2019 year of account: Non-technical account

closed at the end of the fourth year at 31 December 2022 continued

	Notes	*Calendar year £'000*	*Cumulative balance at 31 December 2022 £'000*
Balance on the general business technical account		(2,351)	(32,234)
Investment income	8	481	2,610
Net unrealised (losses)/gains on investments	8	(246)	573
Investment expenses and charges	8	(52)	(220)
Allocated investment return transferred to the general business technical account		(183)	(2,963)
Exchange gains/(losses)		3,612	(2,018)
Result for the 2019 closed year of account		1,261	(34,252)

There is no other comprehensive income in the accounting period other than that dealt with in the technical and non-technical accounts. Accordingly a separate statement of comprehensive income has not been presented.

Statement of Changes in Members' Balances

for the 48 months ended 31 December 2022

	2019 year of account £'000
At 1 January 2019	–
Loss for the 2019 closed year of account	(34,252)
Members' agents' fees	(1,424)
Cash calls made from members' personal reserve funds	23,789
At 31 December 2022	(11,887)

Statement of Financial Position

as at 31 December 2022

	Notes	2022 £'000	£'000
ASSETS			
Investments	9		68,497
Deposits with ceding undertakings			33
Debtors			
Debtors arising out of direct insurance operations	10	5,093	
Debtors arising out of reinsurance operations	11	28,202	
Other debtors		798	
			34,093
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the year of account			24,275
Cash and other assets			
Cash at bank and in hand		12,504	
Other assets	12	8,482	
			20,986
Prepayments and accrued income			447
TOTAL ASSETS			148,331
LIABILITIES			
Amounts due from members			(11,887)
Reinsurance to close premiums payable to close the year of account – gross amounts			96,221
Creditors			
Creditors arising out of direct insurance operations		1,778	
Creditors arising out of reinsurance operations		11,632	
Other creditors		50,077	
			63,487
Accruals and deferred income			510
TOTAL LIABILITIES			148,331

The syndicate underwriting year accounts on pages 111 to 140 were approved by the Board of Argenta Syndicate Management Limited on 24 February 2023 and were signed on its behalf by

Nicholas J Moore
Managing Director

Statement of Cash Flows

for the 48 months ended 31 December 2022

	Notes	*2022* *£'000*
Loss on ordinary activities		(34,252)
Increase in outstanding claims		96,221
Increase in reinsurers' share of outstanding claims		(24,275)
Increase in debtors		(34,587)
Increase in creditors		64,044
Investment return		(2,963)
Net cash inflow from operating activities		64,188
Investing activities		
Investment income received		3,214
Purchase of debt and equity instruments		(95,454)
Sale of debt and equity instruments		36,731
Purchase of derivatives		(31,834)
Sale of derivatives		32,179
Increase in overseas deposits		(8,733)
Increase in deposits with ceding undertakings		(33)
Net cash outflow from investing activities		(63,930)
Financing activities		
Cash calls received		23,789
Members' agents' fee advances		(1,424)
Net cash inflow from financing activities		22,365
Increase in cash and cash equivalents		22,623
Cash and cash equivalents at 1 January 2019		–
Cash and cash equivalents at 31 December 2022	13	22,623

Notes to the Accounts

1. **Accounting policies**

1.1 Statement of compliance

The syndicate underwriting year accounts have been prepared under the 2008 Regulations and in accordance with the Syndicate Accounting Byelaw (No.8 of 2005) and applicable accounting standards in the United Kingdom. FRS 102 and FRS 103 have been applied to the extent that they are relevant for a proper understanding of the underwriting year accounts.

The 2019 year of account has closed and all assets and liabilities have been transferred to the 2021 year of account. The result for the year of account was declared in sterling, having been translated at the prevailing rate of exchange at the balance sheet date. The collection of the closed year loss will be made in the currency in which it is declared with the exchange risk in respect of this transferring to the capital providers to the syndicate with effect from 31 December 2022. To this extent, the risks that it is exposed to in respect of the reported financial position and financial performance are significantly less than the syndicate annual accounts. Accordingly, these underwriting year accounts do not have associated risk disclosures as required by section 34 of FRS 102 and section 4 of FRS 103. Full disclosures relating to these risks are provided in the syndicate annual accounts. In addition certain other disclosure requirements under FRS 102 and FRS 103, which include reconciliations of changes in insurance liabilities, reinsurance assets and deferred acquisition costs, have not been provided as the directors believe they are not required for a proper understanding of the underwriting year accounts.

1.2 Basis of preparation

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2019 year of account, which has closed by reinsurance to close at 31 December 2022; consequently the statement of financial position represents the assets and liabilities of the 2019 year of account and the income statement and statement of cash flows reflect the transactions for that year of account during the 48 month period until closure.

The financial statements for the period ended 31 December 2022 were approved for issue by the board of directors on 24 February 2023.

The financial statements are prepared in sterling which is the functional and presentational currency of the syndicate and rounded to the nearest £'000.

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

As each syndicate year of account is a separate annual venture, there are no comparative figures.

1.3 Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the period. However, the nature of

1. Accounting policies *continued*

estimation means that actual outcomes could differ from those estimates. The following are the syndicate's key sources of estimation uncertainty:

Insurance contract technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims IBNR at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and, for some types of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. The provision for claims outstanding is based on the estimated ultimate cost of all claims notified but not settled by the statement of financial position date assessed on an individual case basis, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims IBNR at the statement of financial position date based on statistical methods.

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

Fair value of financial assets and derivatives determined using valuation techniques

Where the fair values of financial assets and financial liabilities recorded on 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 mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk, and model inputs such as estimated future cash flows based on management's best estimates and discount 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 in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Further details are given in the syndicate annual accounts in note 22.

1.4 Significant accounting policies

Financial investments

As permitted by FRS 102, the syndicate has elected to apply the recognition and measurement provisions of section 11 and 12 in full to account for all of its financial instruments.

1. Accounting policies *continued*

Financial assets and financial liabilities are recognised when the syndicate becomes a party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Derivative financial instruments

The syndicate uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The syndicate does not hold or issue derivative financial instruments for speculative purposes. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less, net of outstanding bank overdrafts.

Fair value of financial assets

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

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

See Note 9 for details of financial instruments classified by fair value hierarchy.

Impairment of financial assets

For financial assets not held at fair value through profit or loss, the syndicate assesses at each reporting date whether the financial asset or group of financial assets is impaired. The syndicate first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

1. Accounting policies *continued*

Derecognition of financial assets

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

- The rights to the cash flows from the asset have expired; or
- The syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement and either (a) the syndicate has transferred substantially all the risks and rewards of the asset; or (b) the syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial liabilities

The syndicate's financial liabilities include trade and other payables, borrowings, insurance payables and derivative financial instruments, where applicable. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR method amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in investment return in the profit or loss. Derivative financial liabilities are subsequently measured at fair value through profit or loss. A financial liability is derecognised when the obligation under the liability is discharged or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in profit or loss.

Investment return

Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Interest income is recognised on a time proportionate basis taking into account effective interest yield.

1. Accounting policies *continued*

Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered in detail under the accounting policy for financial investments.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated members' balance is made from the non-technical account to the technical account. Investment return related to non-insurance business and members' balance is attributed to the non-technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Overseas deposits are allocated to the year of account as notified by Lloyd's. The returns on other assets arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

Insurance contracts – product classification

Insurance contracts are those contracts when the syndicate (the insurer/reinsurer) has accepted significant insurance risk from another party (the policyholder/reinsured) by agreeing to compensate the policyholder/reinsured if a specified uncertain future event (the re/insured event) adversely affects the policyholder/reinsured. As a general guideline, the syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the re/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.

Any separable embedded derivatives within an insurance contract are separated and accounted for in accordance with sections 11 and 12 of FRS 102 unless the embedded derivative is itself an insurance contract (i.e. the derivative is not separated if the policyholder benefits from the derivative only when the insured event occurs).

Underwriting transactions

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account. Where this is not possible, an amount to meet all known and unknown outstanding liabilities is retained at each year end until an equitable reinsurance to close can be effected.

The reinsurance to close premium and the amounts retained to meet all known and unknown outstanding liabilities

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

1. Accounting policies *continued*

Gross premiums

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

Gross claims

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

Outstanding claims

Outstanding claims comprise amounts set aside for claims notified and IBNR claims. Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters, and previous experience of the cost of settling claims with similar characteristics.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by syndicate staff and reviewed by the auditor’s actuarial team. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The provision for claims includes amounts in respect of internal and external claims handling costs. The reinsurers’ share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the period and the current security rating of the reinsurance companies involved.

The syndicate uses a number of statistical techniques to assist in making the above estimates.

Reinsurance assets

The syndicate cedes insurance risk in the normal course of business for all of its areas of operation. 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.

1. Accounting policies *continued*

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised relating to the 2019 year of account.

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

Insurance receivables

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

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Insurance payables

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

Foreign currencies

The syndicate's functional currency and presentational currency is sterling. Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions or at an approximate average rate.

Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items denominated in a foreign currency, measured at fair value, are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded 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, any UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their member's agent is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

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

1. **Accounting policies** *continued*

Syndicate operating expenses

Costs incurred by the managing agent in respect of the syndicate are charged to the syndicate and included within the relevant profit and loss account heading. Where expenses do not relate to any specific year of account, they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense. Where expenses are incurred jointly by the managing agent and the syndicate, they are apportioned generally based on time spent, estimated utilisation or head count. The franchise performance and risk management charge, to the extent that this is levied by Lloyd's, is considered to arise solely in respect of the day to day transaction of underwriting business at Lloyd's. This is therefore allocated to managed syndicates based on their written premium in that year. Pension contributions relating to a defined contribution scheme and charged to the syndicate are included within net operating expenses.

Amounts recharged by the managing agent include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

Profit commission

Profit commission is charged by the managing agent at a standard rate of 15% of profit subject to the operation of a deficit clause. The profit commission standard rate increases from 15% to 17.5% if an average profit measure exceeds 7.5% of capacity. No profit commission was chargeable in respect of the 2019 year of account. Where profit commission is charged, it is included within members' standard personal expenses within administrative expenses. Profit commission does not become payable until after the appropriate year of account closes, normally at 36 months, although the managing agent may receive payments on account of anticipated profit commissions in line with interim profits released to members.

2. Particulars of business written

2019 closed year of account after four years

Type of business

An analysis of the technical account balance before investment return is set out below:

	Gross premiums written and earned £'000	*Gross claims incurred £'000*	*Gross operating expenses* £'000*	*Reinsurance balance £'000*	*Total £'000*
Direct insurance:					
Marine, aviation and transport	62,317	(44,956)	(21,001)	4,736	1,096
Fire and other damage to property	184,057	(130,953)	(60,385)	(12,001)	(19,282)
Third party liability	94,704	(59,541)	(35,288)	(4,202)	(4,327)
Other	29,975	(15,482)	(9,569)	(2,098)	2,826
	371,053	(250,932)	(126,243)	(13,565)	(19,687)
Reinsurance accepted	83,587	(76,939)	(27,182)	5,024	(15,510)
	454,640	(327,871)	(153,425)	(8,541)	(35,197)

All premiums were concluded in the UK.

*Net operating expenses shown in the income statement include an amount of £26.3 million in respect of commissions on outward reinsurance that have been set off from the gross operating expenses but are included in the reinsurance balance above.

Geographical analysis by destination

	Gross written premiums £'000
UK	168,806
EU	20,899
Other	264,935
	454,640

3. Analysis of underwriting result

No prior years of account closed into the 2019 year of account and therefore the underwriting result relates to the 2019 pure year of account only.

4. Reinsurance to close premiums payable, net of reinsurance

	Reported	*IBNR*	*Total*
	£'000	*£'000*	*£'000*
Gross outstandings	41,314	54,254	95,568
Reinsurance recoveries anticipated	(11,104)	(19,772)	(30,876)
	30,210	34,482	64,692

All amounts are stated at the rate of exchange at the date of the transaction or an approximate average rate.

5. Net operating expenses

	Calendar year	*Cumulative balance at 31 December 2022*
	£'000	*£'000*
Acquisition costs	1,326	137,989
Administrative expenses	637	15,436
	1,963	153,425
Reinsurance commissions	246	(26,345)
Net operating expenses	2,209	127,080

Members' standard personal expenses amounting to £5.5 million are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contributions and managing agent's fees.

6. Staff numbers and costs

The following amounts were recharged to the syndicate in respect of staff costs:

	Calendar year £'000	Cumulative balance at 31 December 2022 £'000
Wages and salaries	550	10,160
Social security costs	97	1,331
Other pension costs	47	729
	694	12,220

The average number of employees working for the syndicate during the period was as follows:

	Calendar year number	Cumulative number at 31 December 2022
Underwriting	1	28
Underwriting support	2	30
Claims	2	11
Administration and finance	1	11
	6	80

The staff numbers exclude employees providing services by way of a cross charge from other group companies.

The aggregate remuneration charged to the syndicate in respect of emoluments paid to the directors of ASML and the active underwriter was £1.7 million. This includes £346,000 that relates to the active underwriter.

7. Auditors' remuneration

	Calendar year £'000	Cumulative balance at 31 December 2022 £'000
Audit services	66	260
Other services pursuant to regulations and Lloyd's byelaws	43	186
	109	446

8. Investment return

	Calendar year £'000	Cumulative balance at 31 December 2022 £'000
Income from other investments	1,061	3,729
Net losses on realisation of investments	(580)	(1,119)
Total investment income	481	2,610
Net unrealised (losses)/gains on investments	(246)	573
Investment expenses and charges	(52)	(220)
Total investment return	183	2,963

9. Financial investments

	Market value 2022 £'000
Shares and other variable yield securities and units in unit trusts	
– designated at fair value through profit or loss	11,431
Debt securities and other fixed income securities	
– designated at fair value through profit or loss	54,348
Deposits with credit institutions held at fair value	–
Loans secured by mortgages held at fair value	–
Participation in investment pools	2,690
Derivatives held at fair value	28
	68,497

The shares and other variable yield securities and units in unit trusts relate to holdings in highly diversified collective investment schemes.

There was no material change in fair value for financial instruments held at fair value attributable to own credit risk during the 48 month period.

There have been no day one profits recognised in respect of financial instruments designated at fair value through profit or loss.

9. Financial investments *continued*

By market value, approximately 58% of shares and other variable yield securities and units in unit trusts are listed on a recognised stock exchange.

The syndicate's investment managers are permitted to directly purchase derivative financial instruments (interest rate futures) to hedge the syndicate's interest rate risks. These derivatives are classified as trading instruments.

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

	Level 1 *£'000*	*Level 2* *£'000*	*Level 3* *£'000*	*Total* *£'000*
Shares and other variable yield securities and units in unit trusts	10,119	–	1,312	11,431
Debt securities and other fixed income securities	–	54,348	–	54,348
Participation in investment pools	–	2,690	–	2,690
Loans and deposits with credit institutions	–	–	–	–
Overseas deposits	1,830	6,652	–	8,482
Derivatives	28	–	–	28
	11,977	63,690	1,312	76,979

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

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

The level 3 category would include financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor based on available market data. Therefore, unobservable inputs would reflect the syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs would be developed based on the best information available, which might include the syndicate's own data.

The asset in the level 3 category is a syndicate loan with Lloyd's introduced in 2019, as part of Lloyd's capital structure.

10. Debtors arising out of direct operations

	2022 £'000
Amounts falling due within one year – intermediaries	5,093
Amounts falling due after one year – intermediaries	–
	5,093

11. Debtors arising out of reinsurance operations

	2022 £'000
Amounts falling due within one year	28,201
Amounts falling due after one year	1
	28,202

12. Other assets

	2022 £'000
Overseas deposits	
Amounts advanced in the following locations as a condition of carrying on business there:	
Illinois, USA	127
Australia	3,906
Canada	1,054
Switzerland and other countries	3,395
	8,482

13. Cash and cash equivalents

	2022 £'000
Cash at bank and in hand	12,504
Short-term deposits with financial institutions	10,119
	22,623

14. Off balance sheet items

The syndicate has not been party to an arrangement which is not reflected in its statement of financial position, where material risks or benefits arise for the syndicate.

15. Related parties

Argenta Holdings Ltd

ASML manages Syndicates 2121 and 6134 and is a wholly owned subsidiary of AHL, which owns 100% of the voting and economic rights of ASML. AHL is regarded by ASML as its immediate parent and is also the parent undertaking of the smallest group to consolidate the financial statements of ASML. Copies of the financial statements for AHL can be obtained from Companies House.

AHL is wholly owned by Hannover Re. The parent undertaking of Hannover Re is Talanx AG which holds a 50.2% interest in the company. The principal shareholder in Talanx AG is HDI Haftpflichtverband der Deutschen Industrie V.a.G. ("HDI") which holds 78.9% of Talanx AG's issued share capital.

AHL and its related parties provide certain underwriting, administrative, accounting, human resources, information technology, risk management, compliance and internal audit services to ASML. These services are provided on a non-profit making basis by way of inter-group cross charges and direct salary charges.

Argenta Tax & Corporate Services Ltd ("ATCSL"), an AHL group company, provides taxation services to the syndicate. Fees are agreed on a commercial basis and the profit to ATCSL generated from providing these services is less than £1,000.

AUA, a subsidiary of AHL, is a service company approved by Lloyd's and the MAS to operate on the Lloyd's Asia platform. AUA also holds a licence granted by the Australian Securities and Investments Commission and has two branch offices approved by Lloyd's in Australia. Syndicate 2121 uses this service company as a coverholder to bind risks on its behalf. Such services relating to business written in Singapore are provided at cost plus a small profit margin of 5% mainly for tax purposes. The total value of the margin for the 2019 year of account is less than £80,000. The commission retained by AUA for business underwritten by the Australian branch is at most 28.5% of gross premium, which is in line with other Australian facilities currently supported by the syndicate. The commission charged in Australia covers original acquisition costs, branch office expenses and processing costs. The total commissions payable for the 2019 year of account by Syndicate 2121 were £14.1 million.

On 5 August 2022 the board of ASML decided not to renew the service company agreement for Singapore and the business written in Singapore is now in run-off.

Mr Graham Allen, Mr Sven Althoff and Mr John Whiter are all directors of AHL. Mr Andrew Annandale was a director of AHL, ATCSL and AUA until his retirement from these boards on 31 December 2022. Mr Ian Maguire was a director of AHL, ASML and AUA until his resignation on 7 May 2021. Ms Carol-Ann Burton is a director of ATCSL. Mr Nicholas Moore was appointed as a director of AHL with effect from 28 July 2022. Mr Graham Allen was appointed as a director of AUA with effect from 5 December 2022.

Other than by virtue of directorship fees, salaries and other related remuneration in respect of their employment by either AHL or its related parties none of the directors, officers or related parties concerned, derive any personal benefit from the arrangements that exist.

Business transactions

Hannover Re

Hannover Re and certain of its subsidiaries and joint ventures have, in the past, provided and are likely to provide in the future, traditional types of reinsurance protection to Syndicate 2121.

Syndicate 2121 has in the past, and may in the future, provide insurance or reinsurance cover to Hannover Re and its subsidiaries.

ASML manages Special Purpose Arrangement Syndicate 6134, to operate alongside Syndicate 2121 as the host syndicate. Syndicate 6134 is sponsored and capitalised by the Hannover Re group through its corporate member Inter Hannover (No.1) Ltd ("IH1").

15. Related parties *continued*

Syndicate 6134 writes quota share reinsurances across specific classes of business within the underwriting capability of the host syndicate. In 2019 these included elements of the property, marine hull and war, marine and energy liability, marine cargo and specie, terrorism, specialty, cyber and political risks accounts. The estimated ultimate gross net written premium of Syndicate 6134 for the 2019 year of account is £33.5 million.

Syndicate 2121 charges Syndicate 6134 an overriding commission in relation to these arrangements. For the 2019 year of account, other than in respect of political risks business, this commission is charged at a rate of between 5% and 11% of gross net written premium. In respect of political risks the overrider is charged at a rate of 30% of gross written premium although Syndicate 6134 is not charged its share of original acquisition costs for this class. The commission charged is in line with similar facilities currently operating in the Lloyd's market.

At 31 December 2022 creditors included an amount of £3.5 million owed to Syndicate 6134.

All such business underwritten and reinsurances purchased have in the past been, and will continue to be, transacted on an arm's length commercial basis with no personal benefit derived by the directors, officers or related parties concerned, other than by virtue of directorship fees, salaries and related remuneration in respect of their employment or by virtue of any increase in capital value arising on shareholdings.

ASML Directors

Mr John Whiter was chairman of Piiq Risk Partners Ltd (formerly PSE Partners Ltd and before that Ed Broking (London) Ltd), a Lloyd's broker, until his resignation on 31 March 2022. He was also chairman of another Lloyd's broker, Ed Broking LLP until November 2019 and a director of Ed Broking Group Ltd until his resignation on 31 March 2022.

Mr Paul Hunt, who resigned as a director of ASML on 30 June 2021, was a director of Britannia Steam Ship Insurance Association Limited until his resignation on 19 December 2020.

Mr Alan Grant, who resigned as a director of ASML on 29 June 2022 was a director of Thomas Miller Holdings Ltd and Thomas Miller Specialty Holdings Ltd until his resignation on 7 July 2021. He was also a director of Thomas Miller Specialty Underwriting Agency Ltd, a Lloyd's coverholder, until his resignation on 25 February 2021. He also became a director of Oneglobal Broking Ltd, a Lloyd's broker, on 14 September 2020.

Mr Sven Althoff is a member of the Executive Board of Hannover Re and a director of other Hannover Re group companies. He was also a director of Apollo Syndicate Management Ltd, a Lloyd's Managing Agent, until his resignation on 7 March 2019. He was appointed a director of HDI Global Speciality SE ("HGS") on 20 May 2022.

Mr Jens Schäfermeier is the managing director of the property and casualty division within Hannover Re. He was also a director of Apollo Syndicate Management Ltd, a Lloyd's Managing Agent, from his appointment on 29 August 2019 until his resignation on 30 September 2020.

The above entities may in the past have transacted business with syndicates managed by ASML and may do so in the future. Any such business, however, has been and will continue to be, conducted on an arm's length commercial basis with no involvement, either directly or indirectly, from the individuals above.

Other than directorship fees, salaries and other related remuneration, and any increase in capital value arising on shareholdings, no personal benefit is derived by the individuals concerned from these arrangements.

15. Related parties *continued*

Messrs Grant and Hunt benefitted from fees paid in respect of independent review services that they carried out on sections of Syndicate 2121's book of business. It is a regulatory requirement that such reviews are performed by individuals who are separate from the day to day underwriting of the specific classes of business under review and have the necessary skills and experience to fulfil the independent review obligations. Mr Grant ceased to provide independent review services following his resignation from the ASML board.

ASML

Total fees payable to ASML in respect of services provided to the syndicate in respect of its role as managing agent for the 2019 year of account amounted to £2.5 million. No profit commission was payable. Creditors at the period-end included £31,000 due to ASML in respect of expenses paid on behalf of the 2019 year of account.

Capital support for Syndicate 2121

Hannover Re supported Syndicate 2121 for the 2019 and 2020 years of account by way of a pro-rata participation agreement with Dynastic Underwriting Ltd ("DUL") in respect of 100% of the member's participation. On 1 July 2020 Hannover Re acquired the entire issued share capital of DUL from Anglo Japanese Investment Co Ltd. HGS, a subsidiary of Talanx AG, supported Syndicate 2121 for the 2022 year of account by way of a pro-rata participation agreement with Argenta Underwriting No. 9 Ltd in respect of 100% of the member's participation.

For a fee, Hannover Re also provides capital support to Argenta Underwriting No. 3 Ltd for the 2019 to 2023 years of account and Argenta Underwriting No. 2 Ltd for the 2022 and 2023 years of account by way of excess participation agreements.

IH1, a wholly owned subsidiary of the Hannover Re group, participates on Syndicate 2121 for the 2019 to 2023 years of account.

Mr Annandale was a director of Argenta Private Capital Limited ("APCL"), a subsidiary of AHL until his resignation on 31 December 2022. APCL allocates capacity to Syndicate 2121 for the 2019 to 2023 years of account. Mr Nicholas Moore was appointed as a director of APCL with effect from 31 December 2022.

Mr Annandale was a director of the following corporate members that are or were subsidiaries of AHL:

Argenta Underwriting No. 2 Limited ("AU2") (resigned 31 December 2022)
Argenta Underwriting No. 3 Limited ("AU3") (resigned 31 December 2022)
Argenta Underwriting No. 8 Limited ("AU8") (resigned 28 February 2019)
Argenta Underwriting No. 9 Limited ("AU9") (resigned 31 December 2022)
Argenta Underwriting No. 10 Limited ("AU10") (resigned 31 December 2022)

Messrs Allen and Moore were appointed as directors of all the above corporate members, apart from AU8 which was sold to a third party in February 2019 on 10 April 2019 and 31 December 2022 respectively. Messrs Annandale and Allen were also appointed directors of IH1 Ltd and DUL with effect from 18 January 2021. Mr Annandale resigned from these companies on 31 December 2022. Mr Moore was appointed as a director of IH1 with effect from 31 December 2022.

AU2, AU3 and AU9 participated on Syndicate 2121 for the 2019 to 2022 years of account. AU2 and AU3 are participating on the 2023 year of account. AU8 participated on the 2019 year of account. AU10 participated on the 2019 to 2021 years of account.

15. Related parties *continued*

Other than by virtue of directors' fees, salaries and other related remuneration in respect of their employment and any increase in capital value arising on shareholdings, none of the directors, officers or related parties concerned derive any personal benefits from the arrangements that exist.

For the 2019 and prior years of account all capital providers who underwrite on Syndicate 2121 are charged managing agency fees and profit commission on a standard basis, apart from where the charges are less advantageous, as disclosed in the Register of Underwriting Agency Charges.

There are no other transactions or arrangements to be disclosed.

16. Risk management

(a) Governance framework

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

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

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

(b) Capital management objectives

Capital framework at Lloyd's

Lloyd's is a regulated undertaking and subject to the supervision of the PRA under the Financial Services and Markets Act 2000.

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

Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2121 is not disclosed in these financial statements.

16. Risk management *continued*

Lloyd's capital setting process

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

A syndicate may comprise one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. For a member participating on a single syndicate, its SCR is determined by the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate a credit for diversification is included to reflect the spread of risk. The credit given is consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies an uplift to the member's SCR to determine the overall level of capital required. This is known as the member's 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 the 2019 year of account 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 ("FAL"), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates (the latter being adjusted to reflect their value on a Solvency II basis). Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 27 of the syndicate annual accounts, represent resources available to meet members' and Lloyd's capital requirements.

(c) Insurance risk

(1) General

The principal risk the syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the syndicate is to ensure that sufficient reserves are available to cover these liabilities. Reference to insurance business should, as appropriate, be understood to include the equivalent reinsurance business underwritten by the syndicate.

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

16. Risk management *continued*

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

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

The syndicate principally issues the following types of general insurance contracts: marine, aviation and transport; fire and other damage to property; energy; and third-party liability. Risks usually cover twelve months' duration.

The most significant risks arise from natural disasters, terrorist activities, cyber attacks, large risk losses and adverse attritional claims experience. For longer tail claims that take some years to settle, there is also inflation risk.

The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the syndicate. The syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account where appropriate when estimating insurance contract liabilities.

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

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the syndicate's risk appetite as agreed by the ASML board. The overall aim currently is to restrict the impact of a single RDS on a gross of reinsurance basis to less than 80% of the sum of the ECA and business plan profit, and less than 30% on a net of reinsurance basis. The reinsurance counterparty exposure is managed such that the exposure to, for instance, a single 'A' rated reinsurer is estimated not to exceed 10% of the total recoverable amount for the programme. The board may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

16. Risk management *continued*

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

The 2019 year of account has closed, so no catastrophe exposure written by the syndicate remains in respect of the closing year. A further guide to the level of catastrophe exposure written by the syndicate is in note 22 of the syndicate annual accounts.

Note 22 of the syndicate annual accounts includes analysis for the syndicate overall of the concentration of outstanding claim liabilities and unearned premiums by type of contract and the geographical concentration of the outstanding claim liabilities and unearned premiums.

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of claims indemnity costs, claims handling costs and claims inflation for each underwriting year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence; changes in market factors; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

Claim liabilities are not sensitive to the key assumptions where a year of account has closed and all assets and liabilities have been passed to a subsequent year of account by way of a reinsurance to close. Sensitivities relating to open years of account are included in note 22 of the syndicate annual accounts.

Claims development table

The syndicate annual accounts include tables showing the estimates of cumulative incurred claims, including both claims notified and IBNR for each underwriting year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at 31 December 2022.

In setting claims provisions the syndicate gives consideration to the probability and magnitude of future adverse experience. Due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

16. Risk management *continued*

(2) Covid-19

Syndicate 2121 has material exposure to losses arising from the Covid-19 pandemic both in the UK and overseas. Uncertainties exist both in respect of the assessment of the initial losses that the syndicate might be obliged to pay and of how these will interact with the syndicate's reinsurance programme. This increases the uncertainty of the syndicate's total reserves but does not increase that uncertainty significantly beyond the normal range of uncertainty for the liabilities of an insurance carrier at this stage of development.

(d) Financial risk

(1) Credit risk

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

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

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Net exposure limits are set for each investment counterparty or syndicate of counterparties with minimum credit quality requirements at a portfolio level.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set by the third party management group and are subject to regular reviews. At each reporting date management performs an assessment of creditworthiness of reinsurers, ascertaining a suitable allowance for impairment.
- Guidelines determine when to obtain collateral and guarantees.
- The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

All assets will be assumed by the reinsuring year of account. The syndicate annual accounts include tables showing the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the annually accounted statement of financial position.

The syndicate annual accounts also include a table showing information regarding the credit risk exposure of the syndicate at 31 December 2022 by classifying assets according to Standard & Poor's credit ratings of the counterparties.

16. Risk management *continued*

Maximum credit exposure

It is the syndicate's policy to maintain accurate credit ratings across its portfolio of investments and reinsurance counterparties.

Credit ratings are provided regularly by the syndicate's investment managers and are subject to regular review to ensure any counterparty risk is in line with the syndicate's risk appetite and complies with the specified investment guidelines. The management of the syndicate's investments is largely outsourced to professional investment managers who are given clearly defined credit, concentration and asset parameters within which they can operate. Specific provisions are included within the investment guidelines around notification of any credit breaches which would result in action being taken to rectify the position, subject to materiality.

(2) Liquidity risk

Liquidity risk is the risk that the syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out flows and expected reinsurance recoveries.

The following policies and procedures are in place to mitigate the syndicate's exposure to liquidity risk:

- A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.

Maturity profiles

All liabilities will be assumed by the reinsuring year of account. The syndicate annual accounts include a table that summarises the maturity profile of the syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities.

(3) Financial market risk

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

a. Currency risk;

b. Interest rate risk; and

c. Equity price risk.

16. Risk management *continued*

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

- A financial market risk policy exists that sets out the assessment and determination of what constitutes financial market risk for the syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

- Strict control over derivative instruments (e.g. equity derivatives are only permitted to be held to facilitate portfolio management or to reduce investment risk).

- For assets backing outstanding claims provisions, financial market risk is managed by ensuring the duration and profile of assets are aligned to the technical provisions they are backing. This helps manage financial market risk to the extent that changes in the values of assets are matched by a corresponding movement in the values of the technical provisions.

(a) Currency risk

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

The syndicate's functional currency is sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in euros, Australian dollars, US dollars and Canadian dollars. The syndicate seeks to mitigate the risk by regularly seeking to match the estimated foreign currency denominated liabilities with assets denominated in the same currency.

The 2019 year of account has closed and the result is fixed in sterling. Only the years of account that remain open at 31 December 2022 attract a foreign currency exchange exposure. The syndicate annual accounts include a table that summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date.

In part, foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the syndicate may also choose to utilise options on foreign currency derivatives to mitigate the risk of reported losses due to changes in foreign exchange rates. The degree to which options are used is dependent on the prevailing cost versus the perceived benefit to members' value from reducing the chance of a reported loss due to changes in foreign currency exchange rates.

Sensitivity to changes in foreign exchange rates

The syndicate annual accounts give an indication of the impact on the result of a percentage change in the relative strength of sterling against the value of the main settlement currencies simultaneously based on the information as at 31 December 2022.

16. Risk management *continued*

(b) Interest rate risk

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

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

The syndicate has no significant concentration of interest rate risk.

Insurance liabilities are not discounted and, therefore, are not exposed.

Analysis in note 22 of the syndicate annual accounts is performed for reasonably possible movements in interest rates with all other variables held constant and shows the impact on the result of the effects of changes in interest rates on financial assets and liabilities for items recorded at fair value through profit or loss.

(c) Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The syndicate's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The financial market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector and market, and careful and planned use of derivative financial instruments.

There is no significant concentration of equity price risk.

Note 22 in the syndicate annual accounts includes analysis performed for reasonably possible movements in market indices on financial instruments, with all other variables held constant, showing the impact on the result due to changes in fair value of financial assets and liabilities whose fair values are recorded in the profit and loss account. The correlation of variables will have a significant effect in determining the ultimate impact on equity price risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that movements in these variables are non-linear.

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