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Argenta Syndicate Management Limited
Syndicate 6134

Report and Annual Accounts

as at 31 December 2021

Argenta Syndicate Management Limited

Company Information

Directors
John LP Whiter
Andrew J Annandale
Graham K Allen
Sven Althoff
Ian Burford
Carol-Ann Burton
Alan E Grant
Nicholas J Moore
Gary A Powell
Jens Schäfermeier
David J Thompson

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Registered in England number 3632880

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Syndicate bankers
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London SE1 2RT

Managing agency auditors
PricewaterhouseCoopers LLP
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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 2021.

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").

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 activities

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

Overview of business

Syndicate 6134 was established during 2018 as a Special Purpose Arrangement to underwrite quota share reinsurances of business underwritten by Syndicate 2121 as the host syndicate. The portfolio can be broken down into eight main classes: financial lines, casualty treaty, property, terrorism, cyber, warranty and indemnity, marine and political risks. The syndicate has the benefit of the host syndicate's reinsurance programme for the applicable financial lines, casualty treaty, property, cyber, marine and warranty and indemnity classes.

The financial lines book was introduced from early January 2020 following the recruitment by Syndicate 2121 of a new team to underwrite professional indemnity; financial institutions; and SME specialty liability business to the existing portfolio. A small casualty treaty account was introduced alongside this.

For the 2019 year of account, the stamp capacity was £34.5 million increasing to £145 million in 2020. This decreased to £82 million for 2021 as the allocation of business for the new financial lines and casualty treaty accounts was rebalanced between Syndicate 6134 and the host syndicate. For 2022 we have increased the stamp capacity to £97 million as we react to the current favourable trading conditions. ASML will continue to flex the capacity of the syndicate in line with its strategic objectives and as market conditions allow.

The largest proportion of business for Syndicate 6134 sits in the casualty sector and consists of financial institutions and professional indemnity type risks with a relatively modest book of casualty treaty business.

The syndicate also takes a share of an established direct and facultative property book from the host syndicate, built around a number of long standing relationships with managing general agents, supplemented with an open market book of predominantly small commercial and homeowners' business. This account also includes property business written through Argenta's service company operating out of offices in Singapore and Sydney, Argenta Underwriting Asia Pte Ltd ("AUA").

Syndicate 6134 also participates in a book of cyber business, underwritten in the host syndicate predominantly through participation on Lloyd's approved consortia; London Market binding authorities; and a quota share reinsurance placement of a long-established writer of the class. Cyber is often talked about in trade journals with comment on some of the higher-profile losses and at the moment underwriting conditions are extremely favourable in this class with rates increasing dramatically.

The reinsurance arrangement with Syndicate 6134 provides for the host Syndicate 2121 to receive overriding commissions based on premium income, which vary depending on the class of business. The political risk account also carries a profit commission in line with previous years.

In addition to the overriding and profit commissions payable to Syndicate 2121 at a class level, Syndicate 6134 incurs management and member level expenses including a fee and profit commission payable to ASML. Syndicate 6134 does not participate in the underwriting of any prior year of Syndicate 2121 and no element of that syndicate' s reinsurance to close is ceded to Syndicate 6134.

As explained in the 2018 and 2019 year of account sections, whilst the Board of ASML has decided that it is now appropriate to close the 2018 year of account that was kept open as at 31 December 2020, the 2019 remains open as at 31 December 2021.

Review of underwriting activities

During 2021 the active underwriter of Syndicate 6134 changed with the appointment of Ian Burford on the 1 July 2021. Prior to joining ASML Ian was the CEO of a UK insurance company and before that he was the active underwriter of another Lloyd's syndicate.

We entered 2021 hoping that the extraordinary challenges of 2020 would soon become a distant memory. Sadly that was not to be the case as the world continues to be gripped by the COVID-19 pandemic. Civilization continues to adapt to a new way of living and working and the insurance industry has not been immune from having to make material changes to the way it operates. The ASML team has worked tirelessly to maintain "service as usual" and we are extremely grateful for all their hard work and dedication during these extraordinarily difficult times. Due to the ongoing nature of the COVID-19 event there remains a significant degree of uncertainty on the ultimate quantum of total insured losses likely to emerge globally. Additionally, at the time of writing there are still some important legal rulings outstanding that could affect the way that policy wordings are interpreted and that will ultimately have a material impact on the validity and payment of certain claims.

COVID-19 aside, calendar year 2021 started with an unusual loss event in February 2021 when a very severe winter storm and freeze, named Uri, hit the US state of Texas causing around US$15bn of insured damage. In total it is estimated the losses that occurred during the year caused around US$120bn of insured damage (Munich Re data) with the largest single loss event being Hurricane Ida, which hit the United States in August 2021 causing an estimated total insured loss of around US$36bn. Winter Storm Uri was not the only unusual event of 2021 as we also saw an extremely damaging flood hit central Europe in July which caused around US$13bn of insured damage and up to US$40bn of economic losses. The year closed with a terrible outbreak of tornadoes across the US Mid-West and a wildfire in Denver, both occurring "out of season" in December 2021. Whilst the insurance industry tends to focus on the insured damage caused by such loss events, we should also recognise the devastating impact they had on people and their lives. We hope that the insurance industry has been able to play a part, albeit perhaps small, in helping those affected to rebuild their lives and livelihoods.

As mentioned above, the total insured loss, according to the Munich Re, for 2021 is estimated to be US$120bn. To put that into context the insured losses for 2020 were US$82bn and for 2019 were US$52bn. This puts 2021 as the second most costly year in terms of natural catastrophe losses, with 2017 being the most costly. Fortunately the positive rating momentum of 2020 continued into 2021 and it is important that this momentum continues in 2022 and beyond as we face the combined headwinds of climate change and economic and social inflationary issues.

On an annual accounting basis, the result of the syndicate for calendar year 2021 is a profit of £6.7 million representing a combined ratio of 95.6%.

The table below summarises the capacity, premium volumes and performance of Syndicate 6134 for 2021 alongside comparative numbers for 2020. Other than in respect of capacity, the numbers shown are on an annually accounted basis. The table is followed by further 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	2021	2020
Gross premiums written	£133.4 million	£143.8 million
Net premiums earned	£145.2 million	£99.4 million
Profit/(Loss) for the year	£6.7 million	(£12.2 million)
Claims ratio (net)	56%	72%
Combined ratio	96%	112%

The largest natural perils loss incurred by the syndicate during 2021 was from Hurricane Ida that hit the US in August of that year. Syndicate 6134 benefits from a comprehensive reinsurance programme across multiple product lines that is bought by the host syndicate. Where appropriate, the benefit of reinsurance recoveries from this reinsurance programme reduce the amount of overall loss incurred.

It is pleasing to report that during 2021 we saw positive risk adjusted rate change ("RARC") movement across all of the business lines of Syndicate 6134. The RARC in our approved Syndicate Business Forecast ("SBF") for 2021 was 12.9% whereas the actual final full year RARC was 13.3%.

Review of activities in the year *continued*

2018 year of account

Whilst the effects of COVID-19 are still being felt in this year of account, during 2021 we began to see some stability and we therefore felt more confident about the ultimate outcome for this year. This changed during the last quarter of the year, however, as we became aware of a new court case, CG Restaurants & Bars v RSA that, along with Stonegate v MS Amlin, is expected to challenge the basis upon which claims have been paid to date. In spite of this unwelcome development, the board of ASML has concluded that we have now reached a point where we can close the 2018 year of account with a loss of 20.8% of capacity.

2019 year of account

This year of account is also affected by COVID-19 and the associated business interruption ("BI") claims. As previously mentioned there are still a number of ongoing legal issues to be sorted before finality is reached and this year is particularly exposed to the decisions of the High Court in Australia. At the time of writing this report, whilst a positive ruling had been received on the first appeal of their Test Case 2, this may still be subject to a further appeal. Other rulings are still awaited. As a result we are unable to determine our ultimate liability to claimants in respect of BI claims in Australia with a reasonable degree of confidence. It is therefore a huge disappointment to announce that the board of ASML has decided that the correct course of action at the current time will be to keep the 2019 year of account open with a current result forecast loss range of (25%) to (45%).

2020 year of account

COVID-19 has affected multiple years of account, including 2020. During the past 12 months, the 2020 year of account continued to perform in line with our reserving expectations albeit the midpoint of the forecast result is disappointingly some way off our initial SBF expectations, with a current result forecast range of 7.5% to (7.5%). There is, however, a significant element of 2020 business still on risk throughout a large part of 2022 and beyond and it is hoped that this continues to show a favourable development over the months ahead.

2021 year of account

At the time of writing this report the performance of the 2021 year is lagging behind the original SBF mainly due to the extraordinary run of natural peril events mentioned above. There is, however, still a material proportion of 2021 business that remains on risk so there is still plenty of opportunity for those risks to develop more favourably over the upcoming months.

Trading conditions for 2022

From a general market perspective Lloyd's continues to apply a firm hand to the poorer performing classes and syndicates, materially restricting growth where they deem necessary to maintain market discipline and mandating portfolio changes to improve the overall Lloyd's result. The majority of the syndicate's remedial work was done during 2019 and 2020 so, notwithstanding the challenges faced during 2021, we are now beginning to see the positive impact of the recent re-underwriting on those affected classes.

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. The syndicate continues, however, to take advantage of the improving market conditions and there was evidence of further strengthening over the January 2022 renewal season. RARC movements for 2021 exceeded our forecast in the plan and for 2022 we are predicting further increases again across most product lines. The momentum, however, is beginning to slow as we enjoy the benefits of at least three years of compound RARC increases for most of our classes. Our RARC estimate for 2022 is therefore 6% across the whole syndicate.

We have just finished the 1 January 2022 renewal season and rates continued to increase with the overall RARC for the whole syndicate sitting at 13.3%.

The syndicate's appetite for catastrophe exposure remains consistent with that adopted in previous years and the risk metrics for major US perils are expected to remain in line with previous years at a whole account level. The syndicate continues to benefit from the comprehensive reinsurance programme purchased by Syndicate 2121 for all relevant lines of business.

The plan for the 2022 year of account is to increase gross written premium income to £120.9m. The area with the largest planned growth is our casualty pillar that started writing in 2020. As mentioned above the momentum is building with the team and we are delighted with the quality of business that we are seeing. We also have the additional benefit of leading a material percentage of this new business.

Also, with effect from the 2022 year of account, we have decided to exit the Lloyd's China platform. After much deliberation we reached the conclusion that we could no longer see a long-term strategic benefit of being part of the platform. We will therefore be managing an orderly run-off for our remaining exposures derived from the territory.

We have recently seen a major world development with Russia invading Ukraine on 24 February 2022. In addition to the terrible human suffering this has caused, there are numerous financial impacts including a raft of sanction measures put in place against Russian companies, interests and named individuals. As to be expected, we are rigorously adhering to these new sanction requirements for the limited exposure that we have to the named individuals, Russia and Russian owned assets.

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.

ASML business structure

ASML is the Lloyd's managing agency subsidiary of Argenta Holdings Limited ("AHL"), a private company with diversified interests in the Lloyd's insurance market. AHL is wholly owned by Hannover Rück SE ("Hannover Re") whose immediate parent undertaking is Talanx AG, a leading global insurance group. ASML is the managing agency for two syndicates trading at Lloyd's, namely Syndicate 2121 and the associated Special Purpose Arrangement Syndicate 6134.

Hannover Re is currently in negotiations with HDI Global Specialty SE ("HGS") for HGS to acquire the entire issued share capital of AHL and its subsidiaries. The completion of any such transaction would be subject to regulatory approval in respect of the associated change in control.

The Hannover Re group is the sole capital provider to Syndicate 6134, which was established in 2018 and underwrites quota share reinsurances of business underwritten by Syndicate 2121 as the host syndicate. For the 2019 year of account Syndicate 6134 underwrote gross net written premium of £34.4 million across certain classes within the underwriting capability of the host syndicate. This increased to £111.8 million and £64.9 million for the 2020 and the 2021 years of account respectively. For the 2022 year of account, Syndicate 6134 is forecast to underwrite £76.5 million of gross net written premium.

Syndicate 2121 is also supported by Hannover Re both as a traditional reinsurer and a long-term capital provider. ASML has maintained a strategy of steadily growing Syndicate 2121 with capacity increasing to £600 million in 2021. 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

Syndicate 2121 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. Syndicate 2121 underwrites business on a global basis: from London; via a service company in Singapore, AUA, which has two branch offices in Australia. 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.

Syndicate 6134 has not bought reinsurance protection independently of its host Syndicate 2121, but benefits from certain reinsurance protections purchased by Syndicate 2121. Premiums and claims are ceded under the quota share net of Syndicate 2121's reinsurance where applicable. Syndicate 6134 operates on a funds withheld basis, although amounts may be advanced if needed to enable it to finance its standalone obligations.

Directors

John LP Whiter – Non-executive Chairman
Andrew J Annandale – Managing Director
Graham K Allen – Finance Director
Sven Althoff – Non-executive Director
Ian Burford – Underwriting Director and Active Underwriter Syndicates 2121 and 6134 (appointed 4 October 2021)
Carol-Ann Burton – Risk Management and Compliance Director and Company Secretary
Alan E Grant – Non-executive Director
Paul Hunt – Non-executive Director (resigned 30 June 2021)
Ian M Maguire – Active Underwriter Syndicates 2121 and 6134 (resigned 7 May 2021)
Nicholas J Moore – Chief Actuary and Operations Director
Gary A Powell – Non-executive Director
Jens Schäfermeier – Non-executive Director
David J Thompson – Claims Director

Risk management

As an underwriting business Syndicate 6134 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 6134 is exposed. The Own Risk and Solvency Assessment ("ORSA") undertaken in respect of Syndicate 6134 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 15 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 6134 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 which 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 6134 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.

Risk management *continued*

Other precautionary 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 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.

Capital risk

Capital risk is defined as the risk to the syndicate of losses arising from inappropriate levels or sources of capital. Syndicate 6134 is supported by Hannover Re whose ongoing support is important to the syndicate continuing to trade forward.

Managing Agent's Report

continued

Risk management *continued*

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. 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. The syndicate is managed on a funds withheld basis but does operate its own bank account for paying direct expenses and invests surplus funds in unitised money market funds that are both highly liquid and highly rated.

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 in the host syndicate. The ASML finance and investment committee approves the brokers, coverholders and reinsurers with which the host 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 relatively low as the syndicate is managed on a funds withheld basis and is only expected to hold cash, cash equivalents and unitised money market funds in the form of highly diversified collective investment schemes for paying expenses. It is however exposed to movements in exchange rates impacting the underlying values of the quota share reinsurance contracts it underwrites.

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 2021, the syndicate's funds were retained in a combination of a sterling bank deposit and highly liquid money market funds with Blackrock and Invesco. The money market funds investment objective is to preserve capital and invests in high quality sterling denominated short-term debt and fixed income securities aiming to achieve short-term money market returns. The average funds held during 2021 was £3.9m (2020: £3.3m) and a return of 0.01% (2020: 0.25%) was achieved yielding £392 (2020: £8,320).

Managing Agent's Report

continued

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.

Auditors

PricewaterhouseCoopers LLP ("PwC") continue to act as auditors of the syndicate annual 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 the syndicate member 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 the syndicate member. 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 with the syndicate member

In accordance with the provisions of the 2008 Regulations, it is not intended to hold an annual general meeting with the member of Syndicate 6134, unless objections to this proposal or to the deemed reappointment of the auditors are received from the syndicate member. Any such objection should be made in writing to the registered office of ASML, within 21 days of receipt of this statement.

Andrew J Annandale

Managing Director

Approved by the board of Argenta Syndicate Management Limited on 2 March 2022.

SYNDICATE

6134

ANNUAL ACCOUNTS 2021

Statement of Managing Agent's Responsibilities

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

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

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

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

The managing agent is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

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

Independent auditors' report to the member of Syndicate 6134

Report on the syndicate annual accounts

Opinion

In our opinion, Syndicate 6134's annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted AccountingPractice (United Kingdom Accounting Standards, comprising 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 and Annual Accounts (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2021, Income statement - Technical account, Income statement - Non-technical account, the Statement of cash flows, the Statement of changes in member's 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 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.

Emphasis of matter: COVID-19 Exposure

Without modifying our opinion, we draw attention to Note 15 of the syndicate's annual financial statements, which describes the effect of the exposure to losses arising from the COVID-19 pandemic. The ultimate costs of these claims are subject to significant uncertainty which, combined with their total size, increases the uncertainty of the syndicate's reserves for these claims significantly beyond the normal range of uncertainty for the liabilities of an insurance carrier at this stage of development.

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 2021 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 itis 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 potential for management bias in significant accounting estimates, particularly in relation to claims outstanding and estimated premium income and the posting of inappropriate journal entries to manipulate the Syndicate's results. Audit procedures performed by the engagement team included:

- discussions with the Audit Committee, management and the 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, Risk Framework and Compliance Committee 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, duplicate postings, unusual words or posted by unexpected users; 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 member 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.

Mark Bolton (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 March 2022

Income Statement

for the year ended 31 December 2021

Technical account – general business

	Notes	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Earned premiums, net of reinsurance					
Gross premiums written	2	133,425		143,846	
Outward reinsurance premiums		-		-	
Net premiums written		133,425		143,846	
Change in the provision for unearned premiums					
Gross amount		11,756		(44,484)	
Reinsurers' share		-		-	
Change in the net provision for unearned premiums		11,756		(44,484)	
Earned premiums, net of reinsurance			145,181		99,362
Allocated investment return transferred from the non-technical account			-		8
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(2,750)		(79)	
Reinsurers' share		-		-	
Net claims paid		(2,750)		(79)	
Change in the provision for claims					
Gross amount		(79,235)		(71,898)	
Reinsurers' share		-		-	
Change in the net provisions for claims		(79,235)		(71,898)	
Claims incurred, net of reinsurance			(81,985)		(71,977)
Net operating expenses	4		(56,741)		(39,575)
Balance on the technical account for general business			6,455		(12,182)

All items relate only to continuing operations.

Income Statement

for the year ended 31 December 2021 continued

Non-technical account

	2021 £'000	2020 £'000
Balance on the general business technical account	6,455	(12,182)
Income from other financial investments	-	8
Allocated investment return transferred to the general business technical account	-	(8)
Exchange gains	216	11
Profit/(loss) for the financial year	6,671	(12,171)

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 Member's Balances

for the year ended 31 December 2021

	2021 £'000	*2020* *£'000*
At 1 January	(13,195)	(2,970)
Profit/(loss) for the financial year	6,671	(12,171)
Cash calls made	4,865	2,000
Member's agent's fees	(75)	(54)
At 31 December	(1,734)	(13,195)

Statement of Financial Position

as at 31 December 2021

	Notes	2021 £'000	2021 £'000	2020 £'000	2020 £'000
ASSETS					
Investments					
Financial investments	8		2,800		2,630
Reinsurers' share of technical provisions					
Provision for unearned premiums		-		-	
Claims outstanding		-		-	
			-		-
Debtors					
Debtors arising out of reinsurance operations	9		219,912		137,013
Cash and other assets					
Cash at bank and in hand			6		20
Prepayments and accrued income					
Accrued interest		-		-	
Deferred acquisition costs	10	21,873		26,631	
Other prepayments and accrued income		243		301	
			22,116		26,932
TOTAL ASSETS			244,834		166,595

Statement of Financial Position

as at 31 December 2021 continued

	Notes	2021 £'000	2021 £'000	2020 £'000	2020 £'000
MEMBER'S BALANCES AND LIABILITIES					
Member's balances			(1,734)		(13,195)
Technical provisions					
Provision for unearned premiums	10	60,487		72,815	
Claims outstanding	10	185,764		106,650	
			246,251		179,465
Creditors					
Creditors arising out of reinsurance operations		-		-	
Other creditors		82		90	
			82		90
Accruals and deferred income			235		235
TOTAL MEMBER'S BALANCES AND LIABILITIES			244,834		166,595

The syndicate annual accounts on pages 16 to 46 were approved by the board of Argenta Syndicate Management Limited on 2 March 2022 and were signed on its behalf by

Andrew J Annandale

Managing Director

Statement of Cash Flows

for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Profit/(loss) on ordinary activities		6,671	(12,171)
Increase in unearned premiums and outstanding claims		68,137	113,637
Increase in debtors		(79,210)	(103,167)
Decrease in creditors		(8)	(7)
Investment return		-	(8)
Exchange differences		(224)	(244)
Net cash outflow from operating activities		(4,634)	(1,960)
Investing activities			
Purchase of equity and debt instruments		-	-
Sale of equity and debt instruments		-	2,613
Investment income received		-	-
Net cash inflow from investing activities		-	2,613
Financing activities			
Cash calls made from the member's personal reserve fund		4,865	2,000
Member's agent's fee advances		(75)	(54)
Net cash inflow from financing activities		4,790	1,946
Increase in cash and cash equivalents		156	2,599
Cash and cash equivalents at 1 January		2,650	51
Cash and cash equivalents at 31 December	11	2,806	2,650

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 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 premiums written by the syndicate under the quota reinsurance share contracts with Syndicate 2121, as host syndicate, are gross premiums written by Syndicate 2121 less the cost of specific reinsurance contracts that protect the gross exposure of Syndicate 2121 and which the syndicate has benefit of. Accordingly, premiums reported in the annual accounts are stated net of the cost of the applicable reinsurance purchased by Syndicate 2121 and claims are ceded from Syndicate 2121 net of applicable reinsurance recoveries. The syndicate has not purchased any additional reinsurance on its own account.

The financial statements for the year ended 31 December 2021 were approved for issue by the board of directors on 2 March 2022.

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

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 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.

Notes to the Accounts

continued

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 judgmental 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.

1.4 Significant accounting policies

Funds withheld

The syndicate operates on a “funds withheld basis” and primarily operates its own bank account for the purpose of settling direct expenses.

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.

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.

Notes to the Accounts

continued

1. Accounting policies *continued*

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.

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.

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.

Notes to the Accounts

continued

1. Accounting policies *continued*

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 fees 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.

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 member's balance is made from the non-technical account to the technical account. Investment return related to non-insurance business and member's 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.

Notes to the Accounts

continued

1. Accounting policies continued

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).

Premiums written

Syndicate 6134 solely writes quota share reinsurances of business written by Syndicate 2121. Gross written premiums comprise the syndicate's share of total premiums receivable by Syndicate 2121, net of reinsurance purchased by Syndicate 2121 where applicable, for the whole period of cover provided by the contracts entered into during the reporting period by Syndicate 2121. These include any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. This is regardless of whether these are wholly due for payment in the reporting period. They are recognised on the date on which the policy written or reinsurance purchased by Syndicate 2121 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 with Syndicate 2121 prior to the reporting date. The most significant assumption in this estimate is that current experience will be consistent with prior year experience.

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, potential increases are recognised as follows:

- In respect of the policies underwritten by Syndicate 2121, the increase is deferred until the additional amount can be ascertained with reasonable certainty; and
- In respect of reinsurance purchased by Syndicate 2121, the increase is recognised as soon as there is an obligation to the reinsurer.

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 or deferred until the reduction in the amount due to the reinsurer can be ascertained with reasonable certainty.

Notes to the Accounts

continued

1. Accounting policies *continued*

Profit commission

Profit commission is charged by the managing agent at a rate of 17.5% of the profit on a year of account basis subject to the operation of a deficit clause. 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 the member.

Claims

Gross claims include the syndicate's share of Syndicate 2121 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. These amounts are ceded from Syndicate 2121 net of relevant reinsurance that is applicable when the related gross insurance claim is recognised.

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 syndicate's share of the Syndicate 2121 estimated ultimate cost of all claims incurred at the reporting date, whether reported or not, together with related claims handling costs and reduction for the 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. The claims provision is recognised net of the applicable reinsurer's share of provisions for claims in Syndicate 2121.

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. Reinsurance purchased by Syndicate 2121 is 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. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Notes to the Accounts

continued

1. Accounting policies *continued*

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 2021 the syndicate had an unexpired risk provision of £0.3m in relation to the 2019 year of account (2020: £0.5m and £0.1m in relation to the 2019 and 2018 years of account respectively) arising as a result of COVID-19 losses.

Deferred acquisition costs

Acquisition costs take account of the syndicate's share of the Syndicate 2121 acquisition costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies. Acquisition costs also include overriding commissions and profit commissions payable to Syndicate 2121 under the quota share reinsurance agreements.

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

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

Insurance receivables

Insurance receivables relate to the funds withheld in respect of the business ceded by Syndicate 2121 and 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. 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.

Notes to the Accounts

continued

1. **Accounting policies** *continued*

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 the member 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 the member on underwriting results.

Pension costs

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

Notes to the Accounts

continued

2. Particulars of business written

Type of business

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

2021	*Gross premiums written*	*Gross premiums earned*	*Gross claims incurred*	*Gross operating expenses**	*Reinsurance balance*	*Total*
Reinsurance acceptances	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Fire and other damage to property	26,122	25,522	(14,651)	(11,577)	-	(706)
Casualty	96,452	110,140	(61,013)	(41,467)	-	7,660
Marine	10,851	9,519	(6,321)	(3,697)	-	(499)
	133,425	145,181	(81,985)	(56,741)	-	6,455

2020	*Gross premiums written*	*Gross premiums earned*	*Gross claims incurred*	*Gross operating expenses**	*Reinsurance balance*	*Total*
Reinsurance acceptances	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Fire and other damage to property	25,915	25,727	(23,372)	(11,967)	-	(9,612)
Casualty	110,022	66,370	(43,719)	(24,670)	-	(2,019)
Marine	7,909	7,265	(4,886)	(2,938)	-	(559)
	143,846	99,362	(71,977)	(39,575)	-	(12,190)

*Gross operating expenses are the same as net operating expenses shown in the income statement, as no commissions in respect of outward reinsurance were set off in arriving at the net operating expenses.

All premiums were concluded in the UK. The syndicate solely writes quota share reinsurances of business written by Syndicate 2121 that operates within the Lloyd's of London insurance market.

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

An overall improvement of £3.3 million on prior years' provisions was experienced during the year. This is due to improvements of £3.6 million on property reinsurance and £0.2 million on marine reinsurance partially offset by a deterioration of £0.5 million on casualty reinsurance.

(2020: An overall deterioration of £0.1 million on prior years' provisions was experienced during the year. This is due to deteriorations of £0.4 million on casualty reinsurance and £0.2 million on marine reinsurance partially offset by an improvement of £0.5 million on property reinsurance.)

Notes to the Accounts

continued

4. Net operating expenses

	2021	2020
	£'000	£'000
Acquisition costs	50,220	53,947
Change in deferred acquisition costs	4,547	(16,184)
Administrative expenses	1,974	1,812
	56,741	39,575

Administrative expenses include:

		2021	2020
		£'000	£'000
Auditors' remuneration	- audit of the syndicate accounts	49	43
	- other services pursuant to regulations and Lloyd's byelaws	56	49
Operating lease rentals	- office equipment	-	-
Member's standard personal expenses		1,058	1,024

No commissions for direct insurance were accounted for during the year.

Member's standard personal expenses include managing agent's fees.

Notes to the Accounts

continued

5. Staff numbers and costs

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

	2021 *£'000*	*2020* *£'000*
Wages and salaries	567	513
Social security costs	87	82
Other pension costs	33	32
	687	627

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

	2021 *Number*	*2020* *Number*
Administration and finance	3	2
Underwriting support	1	1
	4	3

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

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

	2021 *£'000*	*2020* *£'000*
Emoluments	182	189

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

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

7. Active underwriter emoluments

	2021 *£'000*	*2020* *£'000*
Active underwriter emoluments	8	11

The aggregate remuneration above was charged to the syndicate in respect of individuals in the role of active underwriter.

Notes to the Accounts

continued

8. Financial investments

	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	2,800	2,800	2,800

	31 December 2020		
	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	2,630	2,630	2,630

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 period.

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

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

	Level 1	*Level 2*	*Level 3*	*Total*
31 December 2021	*£'000*	*£'000*	*£'000*	*£'000*
Shares and other variable yield securities and units in unit trusts				
- designated at fair value through profit or loss	2,800	-	-	2,800

	Level 1	*Level 2*	*Level 3*	*Total*
31 December 2020	*£'000*	*£'000*	*£'000*	*£'000*
Shares and other variable yield securities and units in unit trusts				
- designated at fair value through profit or loss	2,630	-	-	2,630

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.

Notes to the Accounts

continued

8. Financial investments *continued*

The level 2 category would include 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.

9. Debtors arising out of reinsurance operations

	2021 £'000	*2020 £'000*
Amounts falling due within one year – Syndicate 2121	55,086	22,188
Amounts falling due after one year – Syndicate 2121	164,826	114,825
	219,912	137,013

10. Technical Provisions

Claims outstanding

	2021 Gross	*2021 Reinsurers' share*	*2021 Net*	*2020 Gross*	*2020 Reinsurers' share*	*2020 Net*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
At 1 January	106,650	-	106,650	36,754	-	36,754
Claims incurred in current underwriting year	22,127	-	22,127	43,598	-	43,598
Claims incurred in prior underwriting years	59,858	-	59,858	28,379	-	28,379
Claims paid during the year	(2,750)	-	(2,750)	(79)	-	(79)
Foreign exchange	(121)	-	(121)	(2,002)	-	(2,002)
At 31 December	185,764	-	185,764	106,650	-	106,650

Provision for unearned premiums

	2021 Gross	*2021 Reinsurers' share*	*2021 Net*	*2020 Gross*	*2020 Reinsurers' share*	*2020 Net*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
At 1 January	72,815	-	72,815	29,905	-	29,905
Premiums written in the year	133,425	-	133,425	143,846	-	143,846
Premiums earned in the year	(145,181)	-	(145,181)	(99,362)	-	(99,362)
Foreign exchange	(572)	-	(572)	(1,574)	-	(1,574)
At 31 December	60,487	-	60,487	72,815	-	72,815

Notes to the Accounts

continued

10. Technical Provisions *continued*

Deferred acquisition costs

	2021	*2020*
	£'000	*£'000*
At 1 January	26,631	11,029
Change in deferred acquisition costs	(4,547)	16,184
Foreign exchange	(211)	(582)
At 31 December	21,873	26,631

11. Cash and cash equivalents

	2021	*2020*
	£'000	*£'000*
Cash at bank and in hand	6	20
Short term deposits with financial institutions	2,800	2,630
	2,806	2,650

12. 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.

13. Related parties

Argenta Holdings Ltd

ASML manages syndicates 6134 and 2121 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 accounts 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 Haftpflichtverband Der Deutschen Industrie V.a.G. ("HDI") which holds 79.0 % of Talanx AG's issued share capital. Hannover Re is currently in negotiations with HDI Global Specialty SE ("HGS") for HGS to acquire the entire issued share capital of AHL and its subsidiaries. The completion of any such transaction would be subject to regulatory approval in respect of the associated change in control.

AHL and its related parties provide certain underwriting, administrative, accounting, human resource, information technology, risk management and compliance 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, as in 2020, 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 a branch office approved by Lloyd's in Sydney, Australia. Syndicate 2121 as host to Syndicate 6134 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 (2020: £90,000). 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 Syndicate 2121. The commission charged in Australia covers original acquisition costs, branch office expenses and processing costs. The total commissions payable by Syndicate 2121 were £12.0 million (2020: £13.1 million).

Notes to the Accounts

continued

13. Related parties *continued*

Mr Graham Allen, Mr Sven Althoff, Mr Andrew Annandale and Mr John Whiter are all directors of AHL. Mr Andrew Annandale is a director of AUA. Mr Ian Maguire was a director of AHL and AUA until his resignation from both companies on 7 May 2021. Mr Andrew Annandale and Ms Carol-Ann Burton are directors 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.

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 is chairman of Lloyd's broker, Piiq Risk Partners Ltd (formerly PSE Partners Ltd and before that Ed Broking (London) Ltd). He was also chairman of another Lloyd's broker, Ed Broking LLP until November 2019 although he remains chairman of Ed Broking Group Ltd, its parent undertaking.

Mr Paul Hunt was a director of Britannia Steam Ship Insurance Association Limited, until his resignation on 19 December 2020.

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 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 Limited, a Lloyd's Managing Agent, until his resignation on 7 March 2019; and a director of Integra Insurance Solutions Ltd, a UK managing general agent, until his resignation on 15 March 2018.

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 Limited, 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.

Notes to the Accounts

continued

13. Related parties *continued*

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.

Messrs Grant and Hunt benefitted from fees paid in respect of independent review services that they carried out, or continue to carry 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.

ASML

Total fees payable to ASML in respect of services provided to the syndicate amounted to £1.0 million (2020: £1.1 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 the member. During 2021, no profit commission was due to ASML (2020: £nil). There were no creditors at the year-end in respect of profit commission due to ASML (2020: £nil).

In addition to this, £1.0 million (2020: £0.8 million) was recharged by ASML for expenses paid on behalf of the syndicate. Creditors at the year-end include amounts due to ASML of £0.1 million (2020: £0.1million).

Capital support for Syndicate 6134

Hannover Re supports Syndicate 6134 for the 2018 to 2021 years of account through Inter Hannover (No.1) Ltd, a wholly owned subsidiary of the Hannover Re group.

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. Hannover Re currently also supports 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.

Inter Hannover (No.1) Ltd, a wholly owned subsidiary of the Hannover Re group, also participates on Syndicate 2121 for the 2018 to 2022 years of account.

For a fee, Hannover Re also provides capital support to Argenta Underwriting No. 3 Ltd for the 2018 to 2022 years of account and Argenta Underwriting No. 2 Ltd for the 2022 year of account by way of excess participation agreements, which support Syndicate 2121.

Mr Annandale is a director of Argenta Private Capital Limited ("APCL"), a subsidiary of AHL. APCL allocates capacity to Syndicates 6134 and 2121 for the 2018 to 2022 years of account.

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

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

Notes to the Accounts

continued

13. Related parties *continued*

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. Messrs Annandale and Allen were also appointed directors of Inter Hannover (No.1 Ltd) and Dynastic Underwriting Ltd with effect from 18 January 2021.

AU2, AU3 and AU9 participated on Syndicate 2121 for the 2018 to 2022 years of account. AU8 participated on the 2018 and 2019 years of account. AU10 participated on the 2018 to 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.

There are no other transactions or arrangements to be disclosed.

14. Funds at Lloyd's

In case syndicate assets prove insufficient to meet the member's underwriting liabilities, the 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 member's FAL to meet liquidity requirements or to settle losses.

15. Risk management

Syndicate 6134 writes quota share reinsurances of the host Syndicate 2121. Therefore the risk policies described below are in some cases implemented at the host level.

a. Governance framework

The primary objective of the syndicate's risk management framework is to protect the syndicate's member 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.

Notes to the Accounts

continued

15. Risk management *continued*

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.

With effect from 1 January 2016, Lloyd's became subject to the Solvency II capital regime and the Solvency I figures were no longer applicable from that date. Although the capital regime changed, this did not significantly impact the solvency capital requirement ("SCR") of syndicates at Lloyd's, since this had been previously calculated based on Solvency II principles, as described below.

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 6134 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. 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 2020 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).

Notes to the Accounts

continued

15. Risk management *continued*

Accordingly all of the assets less liabilities of the syndicate, as represented in the member's balances reported on the statement of financial position on page 20, represent resources available to meet the member's 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 in the host syndicate. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The 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 host 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.

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 2022 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 2022 Syndicate Business Forecast (SBF) approved by Lloyd's, therefore are based on expected risk exposures estimated for the 2022 year.

Catastrophe Event	Estimated gross loss	Estimated final net loss
	£m	£m
Cyber – ransomware contagion	18	18
Cyber - major data security breach	14	14
30-year loss - whole world natural catastrophe	12	12
Construction product liability	11	11
UK terror event	10	10

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

	31 December 2021		*31 December 2020*	
	Gross liabilities	*Net liabilities*	*Gross liabilities*	*Net liabilities*
Reinsurance acceptances:	*£'000*	*£'000*	*£'000*	*£'000*
Fire and other damage to property	66,221	66,221	54,407	54,407
Casualty	162,316	162,316	114,830	114,830
Marine	17,714	17,714	10,228	10,228
	246,251	246,251	179,465	179,465

Notes to the Accounts

continued

15. 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.

	31 December 2021		*31 December 2020*	
	Gross liabilities	*Net liabilities*	*Gross liabilities*	*Net liabilities*
	£'000	*£'000*	*£'000*	*£'000*
United Kingdom	246,251	246,251	179,465	179,465

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 claim indemnity costs, claim 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 the member's balance. 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.

Notes to the Accounts

continued

15. Risk management *continued*

31 December 2021	*Change in assumptions*	*Impact on gross liabilities*	*Impact on net liabilities*	*Impact on result*	*Impact on member's balance*
		£'000	*£'000*	*£'000*	*£'000*
'A priori' loss ratios	*+5%*	*6,104*	*6,104*	*(6,261)*	*(6,261)*
Incurred claims development patterns	*Recede Development by 1 month*	*3,952*	*3,952*	*(4,117)*	*(4,117)*

31 December 2020	*Change in assumptions*	*Impact on gross liabilities*	*Impact on net liabilities*	*Impact on result*	*Impact on member's balance*
		£'000	*£'000*	*£'000*	*£'000*
'A priori' loss ratios	*+5%*	*3,050*	*3,050*	*(3,131)*	*(3,131)*
Incurred claims development patterns	*Recede Development by 1 month*	*2,390*	*2,390*	*(2,527)*	*(2,527)*

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 2021.

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.

Gross and net insurance contract outstanding claims provision as at 31 December 2021:

	2018	*2019*	*2020*	*2021*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Estimate of cumulative claims incurred:					
At end of underwriting year	8,754	12,264	42,230	22,322	
12 months later	23,802	38,387	100,104		
24 months later	25,291	41,013			
36 months later	25,190				
Current estimate of cumulative claims incurred	25,190	41,013	100,104	22,322	
Cumulative payments to date	2,732	60	49	24	
Gross outstanding claims provision at 31 December 2021 per the statement of financial position	22,458	40,953	100,055	22,298	185,764

2. COVID-19

Syndicate 6134 has material exposure to losses arising from the COVID-19 pandemic. The ultimate costs of these claims are subject to a great deal of uncertainty which, combined with their total size, increases the level of uncertainty for the total reserves of the syndicate significantly beyond the normal range of uncertainty for the liabilities of an insurance carrier at this stage of development.

Notes to the Accounts

continued

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

31 December 2021	*Neither past due nor impaired*	*Past due*	*Impaired*	*Total*
	£'000	*£'000*	*£'000*	*£'000*
Financial investments				
- Shares and other variable yield securities and units in unit trusts	2,800	-	-	2,800
Debtors arising out of reinsurance operations	219,912	-	-	219,912
Cash at bank and in hand	6	-	-	6
Other debtors	22,116	-	-	22,116
	244,834	-	-	244,834

31 December 2020	*Neither past due nor impaired*	*Past due*	*Impaired*	*Total*
	£'000	*£'000*	*£'000*	*£'000*
Financial investments				
- Shares and other variable yield securities and units in unit trusts	2,630	-	-	2,630
Debtors arising out of reinsurance operations	137,013	-	-	137,013
Cash at bank and in hand	20	-	-	20
Other debtors	26,932	-	-	26,932
	166,595	-	-	166,595

Notes to the Accounts

continued

15. 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. The management of the syndicate's investments is largely outsourced to professional investment managers.

2. Liquidity risk

Liquidity risk is the risk that the syndicate will encounter difficulty in meeting obligations associated with financial instruments. The syndicate is managed on a funds withheld basis and it primarily uses its bank account for paying expenses. 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.

31 December 2021	*0–1 year £'000*	*1–3 years £'000*	*3–5 years £'000*	*Over 5 years £'000*	*Total £'000*
Outstanding claim liabilities	24,874	160,890	-	-	185,764
Other	82	-	-	-	82

31 December 2020	*0–1 year £'000*	*1–3 years £'000*	*3–5 years £'000*	*Over 5 years £'000*	*Total £'000*
Outstanding claim liabilities	1,865	104,785	-	-	106,650
Other	90	-	-	-	90

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.

***15.* 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 seeking to match the estimated foreign currency denominated liabilities with assets denominated in the same currency.As the syndicate is managed on a funds withheld basis, it seeks assistance from the host syndicate in this regard as far as it is reasonably able.

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*
As at 31 December 2021							
Total assets	31,432	158,002	11,137	26,721	15,869	1,673	244,834
Total liabilities	(33,019)	(161,094)	(10,385)	(26,470)	(13,902)	(1,698)	(246,568)
Net assets	(1,587)	(3,092)	752	251	1,967	(25)	(1,734)

Converted £'000	*UK £*	*US $*	*CAD $*	*AUS $*	*EUR €*	*OTH*	*Total*
As at 31 December 2020							
Total assets	22,675	105,275	7,054	20,154	10,377	1,060	166,595
Total liabilities	(19,820)	(114,280)	(6,983)	(27,916)	(9,989)	(802)	(179,790)
Net assets	2,855	(9,005)	71	(7,762)	388	258	(13,195)

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

Notes to the Accounts

continued

15. Risk management *continued*

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 the member's 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 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 2021.

Impact on result	2021	2020
Sterling weakens	£'000	£'000
10% against other currencies	57	(1,750)
20% against other currencies	129	(3,940)
Sterling strengthens		
10% against other currencies	(47)	1,432
20% against other currencies	(86)	2,626

(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.

The syndicate has no significant concentration of interest rate risk. Insurance liabilities are not discounted and therefore are not exposed to interest rate risk.

(c) Equity price risk

Equity price is the risk that the fair value of 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 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 value 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 investment in each sector and market, and careful and planned use of derivative financial instruments.

There is no significant concentration of equity price risk.

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