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StarStone Syndicate 2008

Annual Report and

Financial Statements

For the year ended 31 December 2020

STARSTONE

Part of the Enstar Group

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Directors and Administration

Managing agent

StarStone Underwriting Limited

Directors

The directors named below held office for the period 1 January 2020 to 31 December 2020.

E Gilmour (Chairman and Non-Executive)

A Agnew (Non-Executive)

C Barrett

R Delhaise

B Dimmock

D Truman

J Wardrop (Non-Executive)

P West (Chief Executive Officer, appointed 15 July 2020)

Former directors who served during the year

G Maina (Resigned 10 February 2020)

S Schnorr (appointed 3 January 2020, resigned 15 November 2020)

Directors and Administration (continued)

Managing agent's secretary

C Traxler

S Hextall

Managing agent's registered office

One Creechurch Place

London, EC3A 5AY

United Kingdom

Managing agent's registered number

08039754

Syndicate

Run-off manager

M Batterbury

Banker

Citibank, Barclays, Royal Bank of Canada

Investment manager

Goldman Sachs

Registered auditor

KPMG LLP

Consulting actuary

Lane Clark & Peacock LLP

Report of the directors of the managing agent

The directors of the managing agent, StarStone Underwriting Limited ("SUL") present their managing agent's report for Syndicate 2008 ("the Syndicate") for the year ended 31 December 2020.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ('FRS102') and Financial Reporting Standard 103 "Insurance Contracts" ('FRS103'). The corporate member on the 2018 year of account ("YOA"), SGL 1, has exercised its right to waive the requirement to prepare separate accounts for this closed underwriting year of account.

The results for year ended 31 December 2020 are shown in the table below. Please note this table excludes take on reinsurance to close ("RITC") premiums and claims.

2020	2018 YOA £'000	2019 YOA £'000	All YOA's £'000
Net premiums earned	1,096	21,429	**22,525**
Total technical charges	11,368	2,396	**13,764**
Technical profit	**12,464**	**23,825**	**36,289**
Investment income	15,896	8,807	**24,703**
Non-technical account - other income/charges	(7,618)	(2,640)	**(10,258)**
Profit/(Loss) on foreign exchange	992	(3,616)	**(2,624)**
Net expenses	(2,728)	(10,734)	**(13,462)**
Net profit	**19,006**	**15,642**	**34,648**

The Syndicate recorded a £34.6m profit for the 2020 financial year across all years of account. Technical profit of £36.3m, investment income of £24.7m, other charges of £10.3m, expenses of £13.5m and loss on foreign exchange of 2.6m.

Principal activities

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

Business review

Syndicate 2008 did not execute any RITC transactions during the year.

Effective 1 October 2019, the Syndicate entered into a 50% quota share agreement with Cavello Bay Reinsurance Limited (a subsidiary of Enstar Group Limited). The contract is applicable to both the 2018 and 2019 years of account and is a reinsurance of the net results of each underwriting year. It is collateralised at 120% through a combination of funds withheld and a letter of credit.

Report of the directors of the managing agent (continued)

Risk review

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

Covid-19

The World Health Organisation (WHO), on 11 March 2020, declared the Coronavirus, Covid-19, outbreak as a global pandemic. The Directors continue to closely monitor the Covid-19 outbreak and to actively assess the potential impact to all stakeholders. The Syndicate has a formal business continuity plan which is being continually reviewed in light of current developments and is being actively deployed as events require, which includes office closures where required.

From an employee wellbeing and business continuity perspective the Directors are proactively monitoring this outbreak by maintaining continuous dialogue regarding its status and issuing periodic updates and guidance to all staff on preventative measures to maintaining good health.

As the situation continues to evolve the Directors are regularly assessing the impact on solvency capital in line with established risk metrics and in compliance with the Syndicate's risk appetite, including the impact following the recent volatility in the financial markets.

The directors have considered the Syndicate's forecast income and financial position and the potential impact of Covid-19;

- The Syndicate is forecasted to operate profitability from base and stress-tested Covid-19 impact scenarios

- As at 31 December 2020 the Syndicate held no Covid-19 related loss reserves. Analysis of the Syndicate's book shows minimal exposure to Covid-19 losses because its youngest underwriting year is 2016. A sample study has been undertaken on its 275 live policies which concluded that 64.5% of the sampled policies presented zero chance of a Covid-19 related loss. The remaining 35.5% of sampled policies were rated as presenting a negligible to medium chance of loss.

- There has been no recorded financial loss due to the impact of Covid-19 in relation to the Syndicate's outwards reinsurance programmes. As at 31 December 2020, the funds withheld from the Syndicate's largest reinsurer, Cavello Bay Reinsurance Limited ("Cavello Bay"), totalled £493.1m. The Syndicate also held a letter of credit in its favour for £119.4m. The total reinsurance recoverable due from Cavello Bay as at 31 December 2020 was £464.6m. The ratio of collateral held to reinsurance recoverable was therefore 131.8%.

- The Syndicate's financial investments reported a loss during the first quarter of 2020, but this was reversed during the second quarter of 2020 and the Syndicate reported total annual income and gains on investments of £24.7m (2019: £75.4m).

- Syndicate 2008's members' balances amount to £115.0m (2019: £80.3m) and cash at bank and in hand is £12.5m (2019: £7.6m). Its financial assets are valued at £1.0bn (2019: £1.2bn) and are predominantly high grade corporate and government bonds. The Syndicate's Board together with its asset managers are continually monitoring its investment portfolios against the guidelines in place. At present the Syndicate has no claims exposure to Covid-19 and the Directors are therefore confident that the Syndicate can continue to meet its liquidity requirements.

Report of the directors of the managing agent (continued)

Future developments

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

Brexit

In an effort to provide continued access to Lloyd's for policy holders within the EEA following the United Kingdom's exit from the EU on 31 January 2020, Lloyd's established a subsidiary insurance and reinsurance company incorporated in Belgium, Lloyd's Insurance Company S.A. (Lloyd's Brussels). Lloyd's Brussels is authorised in Belgium by the National Bank of Belgium ("NBB") and regulated by the NBB and the Financial Services and Markets Authority of Belgium. It is capitalised according to the Solvency II standard formula and benefits from the same financial ratings as the Lloyd's market, which are provided by A.M. Best (A "excellent"); Standard & Poor's (A+ "strong"); and Fitch Ratings (AA- "very strong"). Lloyd's Brussels has 18 branches across the EEA and a branch in the UK.

Lloyd's Brussels writes all classes of non-life insurance business and non-life reinsurance (facultative and non-proportional excess of loss treaty only) business from EEA countries. It does not underwrite proportional treaty reinsurance. The establishment of Lloyd's Brussels ensured that Lloyd's European intermediaries and policyholders still have access to the combined scale, expertise, capacity and claims service of the Lloyd's market through a single insurance company based at the heart of Europe.

Lloyd's Part VII Transfer

On 30 December 2020, the Members and former Members of the Syndicate, as comprised for each of the relevant years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance), transferred all relevant policies (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Members of the Syndicate entered into a 100% Quota Share Reinsurance Agreement whereby Lloyd's Brussels reinsured all risks on the same policies back to the relevant open years of account of the Syndicate which wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

Following the sanction of the scheme by the High Court on 18 November 2020, the scheme took effect on 30 December 2020 and the Members and former Members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of US$334.9m. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of US$334.9m. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement or balance sheet.

Current year underwriting results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the Inwards Reinsurance class of business, reflecting the new contractual arrangement with Lloyd's Brussels.

Report of the directors of the managing agent (continued)

Directors

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

None of the directors participate directly on the Syndicate.

Disclosure of information to auditor

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

Auditor

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

Syndicate meeting

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

B Dimmock
Director
For and on behalf of the board
4 March 2021

Statement of managing agent's directors' responsibilities

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

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

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

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

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

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

B Dimmock
Director
For and on behalf of the board
4 March 2021

Independent auditor's report to the members of Syndicate 2008

Opinion

We have audited the Syndicate annual accounts of Syndicate 2008 ("the Syndicate") for the year ended 31 December 2020 which comprise the Income Statement: Technical account, Income Statement: Non-technical account, Statement of Financial Position- Assets, Statement of Financial Position- Liabilities, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including accounting policies in note 3.

In our opinion the Syndicate annual accounts:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

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

Going concern

The Directors of the Managing Agent have prepared the Syndicate annual accounts on the going concern basis as they do not intend to cease underwriting or to cease its operations, and as they have concluded that the Syndicate's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the Syndicate annual accounts ("the going concern period"). In our evaluation of the Directors' conclusions, we considered the inherent risks to the Syndicate's business model and analysed how those risks might affect the Syndicate's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the Syndicate annual accounts is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Syndicate's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Syndicate will continue in operation.

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures at the Syndicate and Managing Agent included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Syndicate and Managing Agent’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Syndicate and Managing Agent’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and audit committee minutes.
- Considering remuneration incentive schemes and performance targets for directors and management.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements related to the valuation of insurance reserves. This is because of their direct impact on the Syndicate’s profit and financial position. Valuation of these liabilities, especially in respect of the incurred but not reported (IBNR) component, is highly judgmental as it requires a number of assumptions to be made such as initial expected loss ratios and claim development patterns. In addition to application of methods such as netting down and earnings approach. This all carries high estimation uncertainty and are difficult to corroborate creating opportunity for management to commit fraud.

On this audit we do not believe there is a fraud risk related to revenue recognition because the Syndicate does not have complex earning patterns and apply standard earning patterns to its books of business. Lines of business which require more bespoke earning methodologies do not impose a significant risk. We also note that Syndicate has a consistent policy of aligning the estimated debtor to the ultimate and reported income after 36 months and does not have significant estimated debtors from earlier (than 2020) underwriting years.

In determining the audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of some of the fraud risk management controls. In order to address the risk of fraud specifically as it relates to the valuation of insurance reserves, we involved actuarial specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions and the consistency of those assumptions both year on year and across different aspects of the financial reporting process.

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

To address the pervasive risk as it relates to management override, we also performed the following procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management or individuals who do not frequently post journals, those posted with descriptions containing key words or phrases, those posted to a seldom used account including those related to cash and post-closing journals meeting certain criteria.
- Assessing significant accounting estimates for inherent bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Annual Return from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), from inspection of the Managing Agent's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Syndicate is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the Annual Return varies considerably.

Firstly, the Syndicate is subject to laws and regulations that directly affect the Annual Return including financial reporting legislation (including related Lloyd's regulations) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related Annual Return items.

Secondly, the Syndicate is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the Annual Return, for instance through the imposition of fines, litigation or loss of the Syndicate's capacity to operate. We identified the following areas as those most likely to have such an effect: anti-bribery and regulatory capital and solvency regulations recognising the financial and regulated nature of the Syndicate's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Annual Return, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Annual Return, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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

Other information - Report of the Directors of the Managing Agent

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

Our responsibility is to read the Report of the Directors of the Managing Agent and, in doing so, consider whether, based on our Syndicate annual accounts audit work, the information therein is materially misstated or inconsistent with the Syndicate annual accounts or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Report of the Directors of the Managing Agent;
- in our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the Syndicate annual accounts; and
- in our opinion the information given in the Report of the Directors of the Managing Agent have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Responsibilities of the Directors of the Managing Agent

As explained more fully in their statement set out on page 8, the Directors of the Managing Agent are responsible for: the preparation of the Syndicate annual accounts and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of Syndicate annual accounts that are free from material misstatement, whether due to fraud or error; assessing the Syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

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

David Maddams (Senior Statutory Auditor)
For an on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
London
4 March 2021

Income statement: Technical account – General business

For the year ended 31 December 2020

	Note	2020		2019	
		£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	*5*	**3,180**		586,238	
Outwards reinsurance premiums		**424**		(621,232)	
			3,604		(34,994)
Change in the provision for unearned premiums					
Gross amount		**48,029**		(78,986)	
Reinsurers' share		**(29,108)**		37,238	
			18,921		(41,748)
	17		**22,525**		(76,742)
Allocated investment return transferred from the non-technical account	*10*		**24,703**		75,448
Claims incurred, net of reinsurance	*17*				
Claims paid					
Gross amount		**(308,756)**		(403,131)	
Reinsurers' share		**199,110**		131,149	
			(109,646)		(271,982)
Change in the provision for claims	*17*				
Gross amount		**309,035**		(312,040)	
Reinsurers' share		**(185,625)**		679,935	
			123,410		367,895
Net operating expenses	*7*		**(13,462)**		12,236
Balance on the technical account – general business			**47,530**		106,855

All operations relate to continuing activities.

The notes on pages 20 to 52 form an integral part of these financial statements.

Income statement: Non-technical account – General business

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Balance on the technical account – general business		**47,530**	106,855
Non-technical account – other charges		**(10,258)**	(10,221)
Investment income	*10*	**11,906**	36,967
Unrealised gains on investments	*10*	**13,167**	39,072
Investment expenses and charges	*10*	**(370)**	(591)
Allocated investment return transferred to technical account	*10*	**(24,703)**	(75,448)
(Loss)/profit on foreign exchange		**(2,624)**	650
Profit for the financial year		**34,648**	97,284

All operations relate to continuing activities.

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

The notes on pages 20 to 52 form an integral part of these financial statements.

Statement of financial position – Assets

As at 31 December 2020

	Note	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Investments					
Other financial investments	*11*		**1,035,051**		1,215,402
Reinsurers' share of technical provisions	*17*				
Provision for unearned premiums		**29,246**		53,970	
Claims outstanding		**784,816**		958,455	
			814,062		1,012,425
Debtors					
Debtors arising out of direct insurance operations	*12*	**13,430**		16,912	
Debtors arising out of reinsurance operations	*13*	**54,581**		40,496	
Other debtors	*14*	**37,355**		54,486	
Other assets	*15*	**23,007**		32,783	
Accrued interest		**4,994**		6,413	
			133,367		151,090
Other assets					
Cash at bank and in hand	*20*		**12,475**		7,605
Prepayments and accrued income					
Deferred acquisition costs			**11,180**		21,099
Total assets			**2,006,135**		2,407,621

The notes on pages 20 to 52 form an integral part of these financial statements.

Statement of financial position – Liabilities

As at 31 December 2020

	Note	2020		2019	
		£'000	£'000	£'000	£'000
Capital and reserves					
Members' balances			**114,983**		80,335
Technical provisions	*17*				
Provision for unearned premiums		**53,161**		99,241	
Claims outstanding		**1,297,112**		1,593,454	
			1,350,273		1,692,695
Deposits received from reinsurers			**514,116**		600,693
Creditors					
Creditors arising out of reinsurance operations	*18*	**5,291**		9,051	
Other creditors	*19*	**16,352**		21,108	
			21,643		30,159
Accruals and deferred income			**5,120**		3,739
Total liabilities and equity			**2,006,135**		2,407,621

The notes on pages 20 to 52 form an integral part of these financial statements.

The Syndicate financial statements on pages 14 to 50 were approved by the board of StarStone Underwriting Limited on 2 March 2021 and were signed on its behalf by:

B Dimmock
Director
4 March 2021

Statement of changes in members' balances

For the year ended 31 December 2020

	2020	2019
	£'000	£'000
Members' balances brought forward at 1 January	**80,335**	1,450
Profit for the year	**34,648**	97,284
Payments of profit to members' personal reserve fund [1]	**-**	(18,399)
Members' balances carried forward at 31 December	**114,983**	80,335

The notes on pages 20 to 52 form an integral part of these financial statements.

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

[1] There were no distributions or cash calls made by the Syndicate to the corporate member in 2020 (2019: £18.4m distribution)

STARSTONE

Statement of cash flows

For the year ended 31 December 2020

	2020		2019	
	£'000	**£'000**	£'000	£'000
Cash flows from operating activities				
Profit for the year	**34,648**		97,284	
Adjustments:				
(Decrease)/increase in technical provisions	**(342,422)**		337,496	
Decrease/(increase) in reinsurers share of technical provisions	**198,363**		(695,193)	
Decrease/(increase) in debtors	**16,303**		(42,113)	
(Decrease)/increase in creditors	**(7,135)**		15,214	
Investment return	**(24,703)**		(75,448)	
Movement in other assets/liabilities	**(75,238)**		555,008	
Foreign exchange (loss)/gain	**(1,323)**		2,241	
Net cash inflow from operating activities		**(201,507)**		194,489
Cash Flow from investing activities				
Acquisitions of financial instruments	**(193,660)**		(912,417)	
Proceeds from sales of financial instruments	**365,271**		689,793	
Investment income received	**11,536**		36,376	
Increase in deposit with credit institutions	**6,966**		6,496	
Increase in overseas deposits	**19,683**		(29,042)	
Foreign exchange (loss)/gain	**(4,742)**		33,599	
Net cash outflow from investing activities		**205,054**		(175,195)
Net cash flow from financing activities:				
Transfer to members in respect of underwriting participations	**-**		(18,399)	
Net cash outflow from financing activities		**-**		(18,399)
Net increase in cash and cash equivalents		**3,547**		895
Cash at bank and in hand at 1 January		**7,605**		8,951
Effect of exchange rate changes on cash and cash equivalents		**1,323**		(2,241)
Cash at bank in hand at 31 December		**12,475**		7,605

The notes on pages 20 to 52 form an integral part of these financial statements.

Notes (forming part of the financial statements)

1. Basis of preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable accounting standards in the United Kingdom and Republic of Ireland, including Financial Reporting Standard 102 *The Financial Reporting Standard* ("FRS 102"). FRS 102 requires the application of Financial Reporting Standard 103 *Insurance Contracts* ("FRS 103").

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

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

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

The Directors have considered the uncertainty brought by Covid-19 as laid out in the Report of the directors of the managing agent on page 5. Having assessed the Syndicate's financial position at 31 December 2020, performance for the year then ended and to the date of signing of the financial statements, we have not found any evidence to suggest that the Syndicate will have difficulty in meeting future obligations. The Directors are satisfied that the Syndicate's operating model is sufficiently flexible to support the continuing delivery of key services for the foreseeable future.

2. Use of judgements and estimates

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

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

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

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

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

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

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

Notes (continued)

3. Significant accounting policies

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

Premiums written

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

Unearned premiums

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

Acquisition costs

Costs incurred in acquiring general insurance contracts are deferred. Acquisition costs include direct costs such as brokerage and commission, and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies. The deferred acquisition cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the balance sheet date.

Claims provisions and related recoveries

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

Outstanding claims include an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end (IBNR). The calculation of IBNR involves projecting the development of claims from past experience to form a view of the likely ultimate claims to be incurred. The key sensitivities in this calculation are the choices of development patterns and loss ratios. The most critical assumption in regards to claims provisions is that the past is a reasonable predictor of the likely level of claims development in the future.

Outstanding claims also includes a provision for expenses that would be utilised in the event of the Syndicate being placed into run off. The provision is estimated using forecast expenses and claims development patterns.

Anticipated salvage and subrogation and other recoveries are recognised as other assets.

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

Notes (continued)

3. Significant accounting policies (continued)

Claims provisions and related recoveries (continued)

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

Foreign currencies

The Syndicate has adopted Pounds Sterling as both its presentational and functional currency. As such, no differences arise on conversion between the two. This achieves consistency with prior year reporting.

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

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

Financial assets and liabilities

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

Classification

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

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

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

Recognition

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

Notes (continued)

3. Significant accounting policies (continued)

Recognition (continued)

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

Measurement

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

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

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

Identification and measurement of impairment

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

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

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

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

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

Off-setting

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

Notes (continued)

3. Significant accounting policies (continued)

Investment return

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

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

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

Investment return (continued)

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

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

Cash and cash equivalents

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

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

Taxation

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

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

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

Notes (continued)

4. Risk and capital management

Pension costs

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

Introduction and overview

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

Risk management framework

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

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). Given that the business of the Syndicate is reinsuring Syndicates in run-off, the remaining insurance risk is primarily claims and reserving risk. Reserve adequacy is monitored through quarterly review.

Notes (continued)

4. Risk and capital management (continued)

Concentration of insurance risk

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

2020 **Gross**	**Accident and Health** **£'000**	**Marine, aviation and transport** **£'000**	**Fire and other damage to property** **£'000**	**Third party liability** **£'000**	**Reinsurance** **£'000**	**Total** **£'000**
United States	**13,507**	**49,739**	**70,087**	**187,272**	**38,672**	**359,277**
United Kingdom	**1,010**	**13,822**	**5,879**	**182,943**	**74,343**	**277,997**
Other EEA	**2,378**	**14,002**	**8,274**	**279,244**	**15,580**	**319,478**
Other Non-EEA	**3,476**	**5,702**	**16,282**	**113,879**	**12,006**	**151,345**
Australia & New Zealand	**139**	**604**	**7,300**	**98,796**	**5,237**	**112,076**
Canada	**2**	**344**	**4,283**	**70,124**	**2,186**	**76,939**
Total	**20,512**	**84,213**	**112,105**	**932,258**	**148,024**	**1,297,112**

2019 Gross	Accident and Health £'000	Marine, aviation and transport £'000	Fire and other damage to property £'000	Third party liability £'000	Reinsurance £'000	Total £'000
United States	13,543	79,148	109,200	263,200	38,967	504,058
United Kingdom	1,463	29,650	8,942	247,562	78,275	365,892
Other EEA	4,897	18,705	9,881	281,370	28,252	343,105
Other Non-EEA	6,386	1,141	18,123	105,367	16,140	147,157
Australia & New Zealand	272	465	8,854	107,187	6,030	122,808
Canada	111	592	12,467	94,764	2,500	110,434
Total	26,672	129,701	167,467	1,099,450	170,164	1,593,454

Notes (continued)

4. Risk and capital management (continued)

Concentration of insurance risk (continued)

2020 Net	Accident and Health £'000	Marine, aviation and transport £'000	Fire and other damage to property £'000	Third party liability £'000	Reinsurance £'000	Total £'000
United States	**5,080**	**20,624**	**19,170**	**61,591**	**14,495**	**120,960**
United Kingdom	**362**	**4,973**	**2,943**	**65,585**	**37,855**	**111,718**
Other EEA	**1,219**	**5,065**	**3,392**	**117,530**	**8,262**	**135,468**
Other Non-EEA	**1,813**	**2,944**	**7,913**	**53,923**	**6,204**	**72,797**
Australia & New Zealand	**73**	**318**	**3,892**	**32,517**	**2,854**	**39,654**
Canada	**1**	**233**	**1,892**	**28,395**	**1,178**	**31,699**
Total	**8,548**	**34,157**	**39,202**	**359,541**	**70,848**	**512,296**

2019 Net	Accident and Health £'000	Marine, aviation and transport £'000	Fire and other damage to property £'000	Third party liability £'000	Reinsurance £'000	Total £'000
United States	4,659	30,966	35,312	90,289	15,323	176,549
United Kingdom	572	9,714	4,441	86,634	37,242	138,603
Other EEA	2,591	6,887	3,659	128,081	14,830	156,048
Other Non-EEA	3,383	498	9,132	47,029	8,092	68,134
Australia & New Zealand	141	245	4,461	42,078	2,818	49,743
Canada	55	338	4,228	39,994	1,307	45,922
Total	11,401	48,648	61,233	434,105	79,612	634,999

Notes (continued)

4. Risk and capital management (continued)

Sensitivity to insurance risk

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

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

	2020		2019	
	5 per cent increase £'000	**5 per cent decrease £'000**	5 per cent increase £'000	5 per cent decrease £'000
Accident and health	**(427)**	**427**	(570)	570
Marine, aviation and transport	**(1,708)**	**1,708**	(2,432)	2,432
Fire and other damage to property	**(1,960)**	**1,960**	(3,062)	3,062
Third party liability	**(17,977)**	**17,977**	(21,705)	21,705
Reinsurance	**(3,542)**	**3,542**	(3,981)	3,981
Total	**(25,614)**	**25,614**	(31,750)	31,750

Financial risk

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

Credit risk

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

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

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

Management of credit risk

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

Notes (continued)

4. Risk and capital management (continued)

Management of credit risk (continued)

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

Exposure to credit risk

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

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

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

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

The Syndicate has inherited the reinsurance programs of the reinsured Syndicates, so the risk is largely the exposure to reinsurers on past reinsurance rather than new purchases of reinsurance. Intra-group reinsurance arrangements are in place in relation to one portfolio Syndicates 588/861 and are collateralised 100% on a funds withheld basis.

The Syndicate also has an intra-group reinsurance arrangement with Cavello Bay Reinsurance Ltd for 50% of the net results on the 2018 and 2019 underwriting years. It is collateralised at 120% through a combination of funds withheld and a letter of credit.

Any new purchase of reinsurance may only be carried out with the Board's prior approval of the related security.

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

Notes (continued)

4. Risk and capital management (continued)

Exposure to credit risk (continued)

Year 2020	AAA £'000	AA £'000	A £'000	BBB £'000	<BBB £'000	Not rated £'000	Total £'000
Financial investments							
Shares and other variable yield securities and units in unit trusts	**45,541**	**23,028**	**55,811**	**68,213**	**35,205**	**142,974**	**370,772**
Debt securities and other fixed income securities	**74,312**	**134,460**	**193,535**	**115,173**	**15,852**	**5,479**	**538,811**
Deposits with credit institutions	**-**	**-**	**4,195**	**-**	**-**	**-**	**4,195**
Overseas deposits as investments	**51,605**	**9,638**	**8,339**	**6,459**	**4,227**	**41,005**	**121,273**
Reinsurers' share of claims outstanding	**-**	**81,920**	**215,075**	**21,799**	**64**	**465,958**	**784,816**
Cash at bank and in hand	**-**	**-**	**12,475**	**-**	**-**	**-**	**12,475**
Total	**171,458**	**249,046**	**489,430**	**211,644**	**55,348**	**655,416**	**1,832,342**

Year 2019	AAA £'000	AA £'000	A £'000	BBB £'000	<BBB £'000	Not rated £'000	Total £'000
Financial investments							
Shares and other variable yield securities and units in unit trusts	7,336	24,800	75,154	96,486	41,473	108,990	354,239
Debt securities and other fixed income securities	201,063	150,763	218,286	124,192	20,194	4,239	718,737
Deposits with credit institutions	-	-	4,518	-	-	-	4,518
Overseas deposits as investments	67,246	14,345	11,978	7,027	4,886	32,426	137,908
Reinsurers' share of claims outstanding	-	139,481	263,393	22,529	86	532,966	958,455
Cash at bank and in hand	-	-	7,605	-	-	-	7,605
Total	275,645	329,389	580,934	250,234	66,639	678,621	2,181,462

Notes (continued)

4. Risk and capital management (continued)

Financial assets that are past due or impaired

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

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

Year 2020	Debtors arising from direct insurance operations £'000	Debtors arising from reinsurance operations £'000
Past due but not impaired financial assets:		
Past due by:		
Up to 3 months	**-**	**47,930**
Three to Six Months	**-**	**2,313**
Six Months to one year	**-**	**2,875**
Greater than one year	**-**	**239**
Past due but not impaired financial assets	**-**	**53,357**
Impaired financial assets	**-**	**-**
Gross value of past due and impaired financial assets	**-**	**53,357**
Less: individually assessed impairment allowances	**-**	**-**
Net carrying value of past due and impaired financial assets	**-**	**53,357**
Neither past due nor impaired financial assets	**13,430**	**-**
Net carrying value	**13,430**	**53,357**

Notes (continued)

4. Risk and capital management (continued)

Financial assets that are past due or impaired (continued)

Year 2019	Debtors arising from direct insurance operations £'000	Debtors arising from reinsurance operations £'000
Past due but not impaired financial assets:		
Past due by:		
Up to 3 months	-	30,484
Three to Six Months	-	35
Six Months to one year	-	8,256
Greater than one year	-	421
Past due but not impaired financial assets	-	39,196
Impaired financial assets	-	-
Gross value of past due and impaired financial assets	-	39,196
Less: individually assessed impairment allowances	-	-
Net carrying value of past due and impaired financial assets	-	39,196
Neither past due nor impaired financial assets	16,912	1,300
Net carrying value	16,912	40,496

Liquidity risk

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

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

Management of liquidity risk

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

Notes (continued)

4. Risk and capital management (continued)

Management of liquidity risk (continued)

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

			Undiscounted net cash flows			
Year 2020	Carrying amount	Total cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	**370,772**	**370,772**	**370,772**	**-**	**-**	**-**
Debt securities	**538,811**	**538,811**	**32,931**	**90,913**	**195,932**	**219,035**
Deposits with credit institutions	**125,468**	**125,468**	**125,468**	**-**	**-**	**-**
Reinsurers share of claims outstanding	**784,816**	**784,816**	**224,106**	**261,365**	**161,489**	**137,856**
Debtors and accrued interest	**110,360**	**110,360**	**110,360**	**-**	**-**	**-**
Cash at bank and in hand	**12,475**	**12,475**	**12,475**	**-**	**-**	**-**
Total assets	**1,942,702**	**1,942,702**	**876,112**	**352,278**	**357,421**	**356,891**
Technical provisions	**1,297,112**	**1,297,112**	**370,394**	**431,973**	**266,903**	**227,842**
Creditors	**21,643**	**21,643**	**21,643**	**-**	**-**	**-**
Total liabilities	**1,318,755**	**1,318,755**	**392,037**	**431,973**	**266,903**	**227,842**

Notes (continued)

4. Risk and capital management (continued)

Management of liquidity risk (continued)

Year 2019	Carrying amount	Total cash flows	Undiscounted net cash flows Less than 1 year	1-2 years	2-5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	354,239	354,239	354,239	-	-	-
Debt securities	718,737	718,737	218	59,776	282,258	376,485
Deposits with credit institutions	142,426	142,426	142,426	-	-	-
Reinsurers share of claims outstanding	958,455	958,455	277,984	321,573	195,641	163,257
Debtors and accrued interest	118,307	118,307	118,307	-	-	-
Cash at bank and in hand	7,605	7,605	7,605	-	-	-
Total assets	2,299,769	2,299,769	900,779	381,349	477,899	539,742
Technical provisions	1,593,454	1,593,454	462,156	534,622	325,258	271,418
Creditors	30,159	30,159	30,159	-	-	-
Total liabilities	1,623,613	1,623,613	492,315	534,622	325,258	271,418

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

Market risk

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

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

Notes (continued)

4. Risk and capital management (continued)

Management of market risks

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

In line with group policy, as at 31 December 2020, the Syndicate had no currency forward contracts.

Interest rate risk

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

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

Currency risk

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

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

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

Notes (continued)

4. Risk and capital management (continued)

Currency risk (continued)

Year 2020	GBP £'000	USD £'000	EUR £'000	CAD £'000	Other £'000	Total £'000
Financial investments	227,696	409,864	209,013	62,748	4,456	913,777
Reinsurers' share of technical provisions	230,918	296,499	184,334	43,344	58,967	814,062
Insurance and reinsurance receivables	16,614	28,645	14,216	5,156	3,380	68,011
Cash and cash equivalents	1,220	3,351	3,228	189	4,487	12,475
Overseas deposits	38,058	7,971	-	16,683	58,562	121,274
Other assets	41,113	16,269	13,603	2,963	2,588	76,536
Total assets	555,619	762,599	424,394	131,083	132,440	2,006,135
Technical provisions	391,580	474,656	318,832	72,934	92,271	1,350,273
Insurance and reinsurance payables	590	4,509	95	(14)	111	5,291
Other creditors	159,682	215,879	99,139	21,878	39,010	535,588
Total liabilities	551,852	695,044	418,066	94,798	131,392	1,891,152
Net (liabilities)/assets	3,767	67,555	6,328	36,285	1,048	114,983

Notes (continued)

4. Risk and capital management (continued)

Currency risk (continued)

Year 2019	GBP £'000	USD £'000	EUR £'000	CAD £'000	Other £'000	Total £'000
Financial investments	270,222	411,295	307,802	82,439	5,736	1,077,494
Reinsurers' share of technical provisions	309,252	391,662	181,070	61,841	68,600	1,012,425
Insurance and reinsurance receivables	3,488	41,316	11,582	68	954	57,408
Cash and cash equivalents	2,079	1,273	3,527	44	682	7,605
Overseas deposits	37,697	9,693	-	21,857	68,661	137,908
Other assets	58,324	22,970	18,423	5,530	9,534	114,781
Total assets	681,062	878,209	522,404	171,779	154,167	2,407,621
Technical provisions	518,543	625,157	330,017	104,723	114,255	1,692,695
Insurance and reinsurance payables	744	7,748	497	(7)	69	9,051
Other creditors	180,303	223,300	146,122	31,594	44,221	625,540
Total liabilities	699,590	856,205	476,636	136,310	158,545	2,327,286
Net (liabilities)/assets	(18,528)	22,004	45,768	35,469	(4,378)	80,335

Sensitivity analysis to market risks

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

Notes (continued)

4. Risk and capital management (continued)

Sensitivity analysis to market risks (continued)

	2020 **Profit or loss for the year** **£'000**	2019 Profit or loss for the year £'000
Interest rate risk		
+ 50 basis points shift in yield curves	**(16,534)**	(19,015)
- 50 basis points shift in yield curves	**16,534**	19,015
Currency risk		
10 percent increase in GBP/euro exchange rate	**(633)**	(4,577)
10 percent decrease in GBP/euro exchange rate	**633**	4,577
10 percent increase in GBP/US dollar exchange rate	**(6,756)**	(2,201)
10 percent decrease in GBP/US dollar exchange rate	**6,756**	2,201
Equity price risk		
5 percent increase in equity prices	**2,885**	3,398
5 percent decrease in equity prices	**(2,885)**	(3,398)

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

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

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

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

Operational risk

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

Notes (continued)

4. Risk and capital management (continued)

Group risk

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

Regulatory risk

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

Capital management

Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly, the capital requirement in respect of Syndicate 2008 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicates on which it is participating but not other members' shares. Accordingly, the capital requirements that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2020 was 35% of the member's SCR 'to ultimate'.

Notes (continued)

4. Risk and capital management (continued)

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), assets held and managed within a Syndicate (funds in Syndicate), or as the member's share of the members' balances on each Syndicate on which it participates. Accordingly, all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position on pages 16 and 17, represent resources available to meet members' and Lloyd's capital requirements.

5. Analysis of underwriting result

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

Year 2020	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Net Technical Result £'000
Accident and health	**65**	**2,400**	**387**	**(317)**	**(1,206)**	**1,264**
Marine, aviation and transport	**312**	**339**	**(467)**	**(1,198)**	**1,536**	**210**
Fire and other damage to property	**268**	**18,523**	**158**	**(1,441)**	**(8,947)**	**8,293**
Third party liability	**(974)**	**1,862**	**1,030**	**(7,085)**	**5,142**	**949**
Other	**2,873**	**27,444**	**(529)**	**(2,431)**	**(13,725)**	**10,759**
Total direct	**2,544**	**50,568**	**579**	**(12,472)**	**(17,200)**	**21,475**
Reinsurance	**636**	**641**	**(300)**	**(990)**	**2,001**	**1,352**
Total	**3,180**	**51,209**	**279**	**(13,462)**	**(15,199)**	**22,827**

Year 2019	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Net Technical Result £'000
Accident and health	(188)	2,236	313	(2,921)	4,062	3,690
Marine, aviation and transport	56	10,799	(3,072)	(8,423)	13,903	13,207
Fire and other damage to property	(100)	12,892	(5,558)	(12,984)	22,788	17,138
Third party liability	(721)	41,169	1,949	(26,846)	(7,128)	9,144
Other	587,037	431,220	(708,264)	67,701	208,220	(1,123)
Total direct	586,084	498,316	(714,632)	16,527	241,845	42,056
Reinsurance	154	8,936	(539)	(4,291)	(14,755)	(10,649)
Total	586,238	507,252	(715,171)	12,236	227,090	31,407

Notes (continued)

6. Claims

Positive movements on claims incurred net of reinsurance are driven predominately by increased reinsurance recoveries.

These arose in respect of the following classes of business:

	2020 **£'000**	2019 £'000
Accident and health	**410**	17,974
Marine, aviation and transport	**758**	67,675
Fire and other damage to property	**1,045**	66,004
Third party liability	**9,323**	335,627
Miscellaneous	**872**	46,467
Reinsurance	**1,356**	63,744
Change in prior year provisions	**13,764**	597,491
RITC take on balance	**-**	(501,578)
Claims incurred, net of reinsurance	**13,764**	95,913

7. Net operating expenses

	2020 **£'000**	2019 £'000
Acquisition costs:		
Brokerage and commissions	**10,097**	59,365
Administrative expenses	**9,339**	20,023
Paid ULAE transferred to gross incurred claims	**(5,974)**	(12,691)
RITC take on balance	**-**	(78,933)
Net operating expenses	**13,462**	(12,236)

Notes (continued)

7. Net operating expenses (continued)

Administrative expenses include:

	2020 £'000	2019 £'000
Auditors' remuneration:		
- fees payable to the Syndicate's auditor for the audit of these financial statements	**259**	235
- fees payable to the Syndicate's auditor for the audit of regulatory returns	**94**	95
- fees payable to the Syndicate's auditor and its associates in respect of other services pursuant to legislation	**114**	103
Fee Paid to managing agent	**1,374**	2,998
Management fee	**24,845**	14,919
Reinsurers' share of expenses	**(21,021)**	(6,966)
Other	**3,674**	8,639
	9,339	20,023

In 2020, a fixed fee of £1.374m was charged to the Syndicate by SUL. The fee was based on 0.5% of the Syndicate's economic capital assessment ("ECA"), plus £150,000 for board time agreed upon by the directors. This amount is included within "net operating expenses".

In 2020, the Syndicate transferred 75% of its expenses to the technical account. These expenses are related to the unallocated loss adjustment expenses ("ULAE") paid during the year.

8. Key management personnel compensation

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

	2020 £'000	2019 £'000
Directors' emoluments	**1,809**	1,042
Contribution to pension schemes	**72**	56
	1,881	1,098

Notes (continued)

8. Key management personnel compensation (continued)

The amounts charged to the Syndicate by its managing agent in respect of emoluments paid to the Syndicate's run-off manager in the financial year were:

	2020 £'000	2019 £'000
Emoluments	**347**	446
Contribution to pension schemes	**37**	36
	384	482

9. Staff numbers and costs

During 2020, all staff continued to be employed on behalf of SUL by Enstar EU Limited ("EEUL"). EEUL charges SUL a management fee that covered all salary, pension, accommodation, computer and other costs as a single amount. The total amount of EEUL management fees recharged to SUL and the Syndicate for the year amounts to £24.8m (2019: £14.9m).

	2020	2019
Administration and finance	**41**	26
Underwriting	**1**	1
Claims	**64**	39
	106	66

10. Investment return

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

	2020 £'000	2019 £'000
Investment income:		
Interest and dividend income	**11,130**	23,955
Realised gains	**776**	13,012
Net unrealised gains on investments	**13,167**	39,072
Investment management expenses, including interest	**(370)**	(591)
Investment return transferred to the technical account from the non-technical account	**24,703**	75,448

Notes (continued)

10. Investment return (continued)

As at 31 December 2020 and 31 December 2019 all financial assets were measured at fair value through profit and loss.

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

	2020 **£'000**	2019 £'000
Average amount of Syndicate funds available for investment during the year		
Sterling	**289,876**	274,689
Euro	**253,966**	311,770
US Dollar	**440,609**	388,015
Canadian Dollar	**92,790**	122,642
Australian Dollar	**71,979**	79,481
Japanese Yen	**91**	84
Total funds available for investment, in Sterling	**1,149,311**	1,176,681
Total investment return	**24,703**	75,448
Annual investment yield		
Sterling	**3.72%**	4.78%
Euro	**2.81%**	7.12%
US Dollar	**4.75%**	7.42%
Canadian Dollar	**5.17%**	4.17%
Australian Dollar	**2.44%**	4.93%
Japanese Yen	**0.00%**	-0.07%
Total annual investment yield, in Sterling	**2.15%**	6.41%

Notes (continued)

11. Financial investments

	Carrying value		Cost	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
Shares and other variable yield securities and units in unit trusts	**370,772**	354,239	**345,812**	332,000
Debt securities and other fixed income securities	**538,811**	718,737	**522,420**	708,456
Overseas deposits	**121,273**	137,908	**121,273**	137,908
Loans and deposits with credit institutions	**4,195**	4,518	**4,195**	4,518
Total financial investments	**1,035,051**	1,215,402	**993,700**	1,182,882

The Syndicate classifies its financial instruments held at fair value in its balance sheet using a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 – 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 group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.
- Level 2 – 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.
- Level 3 – financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

Therefore, unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Syndicate's own data.

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

2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable yield securities and units in unit trusts	**23,972**	**307,998**	**38,802**	**370,772**
Debt securities and other fixed income securities	**98,038**	**440,773**	**-**	**538,811**
Loans and deposits with credit institutions	**-**	**4,195**	**-**	**4,195**
Overseas deposits	**64,326**	**56,947**	**-**	**121,273**
Total	**186,336**	**809,913**	**38,802**	**1,035,051**

Notes (continued)

11. Financial investments (continued)

2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable yield securities and units in unit trusts	78,660	266,338	9,241	354,239
Debt securities and other fixed income securities	151,200	567,537	-	718,737
Loans and deposits with credit institutions	-	4,518	-	4,518
Overseas deposits	74,416	63,492	-	137,908
Total	304,276	901,885	9,241	1,215,402

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

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

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

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

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

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

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

Notes (continued)

11. Financial investments (continued)

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

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

Movement in level 3 investments

The following table provides an analysis of investments valued with reference to level 3 inputs.

	2020	2019
	£'000	£'000
At 1 January	**9,241**	-
Purchases	**28,793**	6,987
Reclassification from level 2	**-**	2,129
Fair value gains recognised in profit from continuing operations	**466**	248
Foreign exchange gain/(loss)	**302**	(123)
At 31 December	**38,802**	9,241

12. Debtors arising out of direct insurance operations

	2020	2019
	£'000	£'000
Due within one year	**13,430**	16,912
	13,430	16,912

13. Debtors arising out of reinsurance operations

	2020	2019
	£'000	£'000
Amounts due within one year	**54,581**	40,496
	54,581	40,496

Notes (continued)

14. Other debtors due within one year

	2020 **£'000**	2019 £'000
LCA debtors	**10,727**	22,288
Funds withheld	**17,866**	22,161
Commission receivable	**1,107**	1,117
Other	**7,655**	8,920
	37,355	54,486

15. Other assets

As at 31 December 2020, assets of £7.9m and £15.1m pertained to the respective 2019 and 2018 years of account RITC's (2019: 2019 year of account of £10.0m, 2018 year of account £22.8m). These amounts are amortised on a straight-line basis over a five-year period from when they were initially recognised. The total amortised during the year was £10.3m (2019: £10.2m)

Notes (continued)

16. Claims development

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2020 in all cases.

Pure underwriting year - Gross	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
Estimate of ultimate gross claims							
At end of underwriting year							
One year later							
Two years later							
Three years later	172,989	64,561	-	-	599,568	525,625	1,362,743
Four years later	175,006	66,205	-	583,072	1,000,515	560,428	2,385,226
Five years later	170,504	68,521	438,779	939,817	1,033,403	-	2,651,024
Six years later	163,053	518,968	788,183	964,012	-	-	2,434,216
Seven years later	666,819	871,496	786,120	-	-	-	2,324,435
Eight years later	1,067,114	916,120	-	-	-	-	1,983,234
Nine years later	1,094,932	-	-	-	-	-	1,094,932
Less gross claims paid	996,091	782,331	669,979	808,359	812,840	435,283	4,504,883
Gross ultimate claims reserve	98,841	133,789	116,141	155,653	220,563	125,145	850,132
Gross ultimate claims reserve for 2010 and prior years	446,980	-	-	-	-	-	446,980
Gross claims reserves	545,822	133,789	116,141	155,653	220,563	125,145	1,297,112

Pure underwriting year - Net	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
Estimate of ultimate gross claims							
at end of underwriting year							
One year later							
Two years later							
Three years later	70,168	26,187	-	-	243,198	194,661	534,214
Four years later	70,986	26,854	-	236,507	392,694	207,550	934,591
Five years later	69,160	27,794	177,978	368,746	405,843	-	1,049,521
Six years later	66,138	210,505	307,687	378,216	-	-	962,546
Seven years later	270,476	341,109	306,900	-	-	-	918,484
Eight years later	419,184	358,756	-	-	-	-	777,940
Nine years later	430,476	-	-	-	-	-	430,476
Less net claims paid	391,308	306,100	261,405	316,751	318,602	161,203	1,755,369
Net ultimate claims reserve	39,168	52,656	45,494	61,465	87,241	46,347	332,371
Net ultimate claims reserve for 2010 and prior years	179,925	-	-	-	-	-	179,925
Net claims reserves	219,093	52,656	45,494	61,465	87,241	46,347	512,296

Notes (continued)

17. Technical provisions

	Gross 2020 £'000	Reinsurance 2020 £'000	Net 2020 £'000	Gross 2019 £'000	Reinsurance 2019 £'000	Net 2019 £'000
Incurred claims outstanding:						
Claims notified	**1,108,914**	**(670,371)**	**438,543**	994,372	(244,516)	749,856
Claims incurred but not reported	**484,540**	**(288,084)**	**196,456**	337,118	(54,889)	282,229
Balance at 1 January	**1,593,454**	**(958,455)**	**634,999**	1,331,490	(299,405)	1,032,085
RITC take on reserves	**-**	**-**	**-**	701,118	(199,540)	501,578
Change in prior year provisions	**(279)**	**(37,457)**	**(37,736)**	14,053	(611,544)	(597,491)
Claims paid during the year	**(308,756)**	**199,110**	**(109,646)**	(403,131)	131,149	(271,982)
Effect of movements in exchange rates	**12,693**	**11,986**	**24,679**	(50,076)	20,885	(29,191)
Balance at 31 December	**1,297,112**	**(784,816)**	**512,296**	1,593,454	(958,455)	634,999
Claims notified	**1,058,997**	**(654,171)**	**404,826**	1,108,914	(670,371)	438,543
Claims incurred but not reported	**238,115**	**(130,645)**	**107,470**	484,540	(288,084)	196,456
Balance at 31 December	**1,297,112**	**(784,816)**	**512,296**	1,593,454	(958,455)	634,999
Unearned premiums						
Balance at 1 January	**99,241**	**(53,970)**	**45,271**	23,709	(17,827)	5,882
Premiums written during the year	**3,180**	**424**	**3,604**	586,238	(621,232)	(34,994)
Premiums earned during the year	**(51,209)**	**28,684**	**(22,525)**	(507,252)	583,994	76,742
Effect of movements in exchange rate	**1,949**	**(4,384)**	**(2,435)**	(3,454)	1,095	(2,359)
Balance at 31 December	**53,161**	**(29,246)**	**23,915**	99,241	(53,970)	45,271

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

Notes (continued)

18. Creditors arising out of reinsurance operations

Creditors arising out of reinsurance operations	2020 £'000	2019 £'000
Due within one year	**5,291**	9,051
	5,291	9,051

19. Other creditors

	2020 £'000	2019 £'000
Financial liabilities at amortised cost	**16,352**	21,108
	16,352	21,108

£1.5m (2019: £5.1m) of the total £16.4m other creditors relate to intercompany payables.

20. Cash and cash equivalents

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

	2020 £'000	2019 £'000
Short term deposits with credit institutions	**4,195**	4,518
Cash at bank and in hand	**12,475**	7,605
Total cash and cash equivalents	**16,670**	12,123

21. Related parties

The ultimate parent company of SUL is Enstar Group Limited (59% shareholding, 2019: 59% shareholding) in conjunction with Stone Point Capital (39.3% shareholding, 2019: 39.3% shareholding) and Dowling Capital Partners (1.7% shareholding, 2019: 1.7% shareholding). Enstar Group Limited is a company registered in Bermuda under number 30916. Copies of the ultimate parent company's consolidated financial statements can be obtained from The Secretary, Enstar Group Limited, Windsor Place, 3rd Floor, 22 Queen Street, Hamilton, HM11, Bermuda.

The main component of operating expenses was the Enstar EU limited management fees of £24.8m (2019: £14.9m) as shown in note 7.

At 31 December 2020, Syndicate 2008 owed £Nil to SUL (2019: £0.1m). No amount of profit commission (2019: £Nil) is due to SUL at 31 December 2020.

B Dimmock, J Lee, S Hextall and B Merriman are directors of SGL No.1 Limited which provides 100% of the nominal stamp capacity of the Syndicate. The Syndicate has no stamp arranged for 2020 (2019 YOA: £17.5m).

Notes (continued)

21. Related parties (continued)

In 2008, the Syndicate ceded to Fitzwilliam (SAC) Insurance Limited ("FW") a 100% quota share in respect of the reinsurance to close of Syndicates 588 and 861. The amount owing to FW at 31 December 2020 is £10.9m (2019: £9.5m). This amount is collateralised on a "funds withheld" basis.

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

The Syndicate also has an intra-group reinsurance arrangement with Cavello Bay Reinsurance Ltd for 50% of the net results on the 2018 and 2019 underwriting years. It is collateralised at 120% through a combination of funds withheld and a letter of credit.

22. Foreign exchange rates

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

	2020		2019	
	Year-end rate	**Average rate**	Year-end rate	Average rate
Euro	**1.1166**	**1.1251**	1.1815	1.1401
US dollar	**1.3654**	**1.2819**	1.3266	1.2761
Canadian dollar	**1.7433**	**1.7196**	1.7217	1.6932
Australian dollar	**1.7748**	**1.8637**	1.8887	1.8358
Japanese yen	**141.0431**	**136.8662**	144.0435	139.1203

23. Funds at Lloyd's

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