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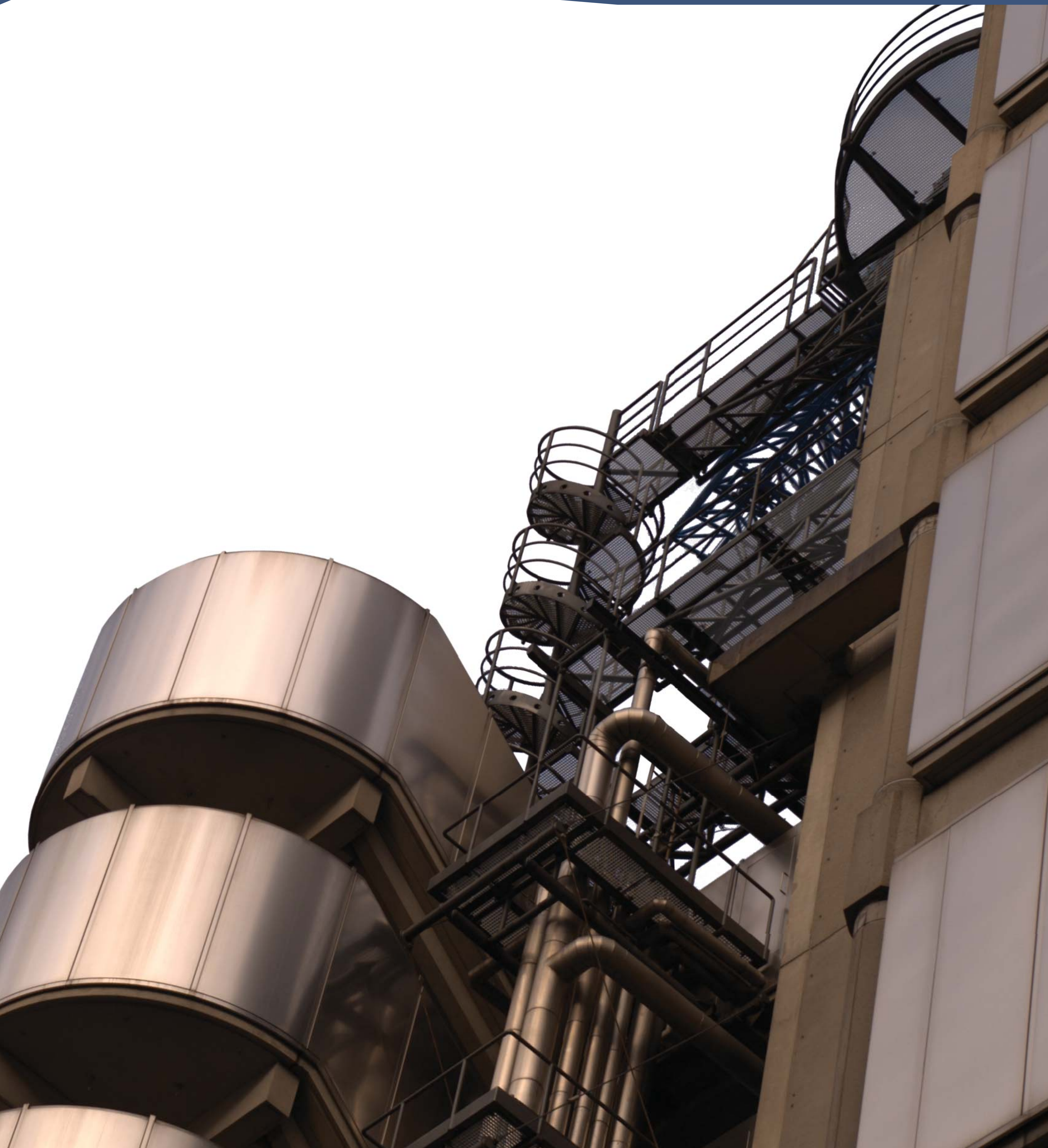
Argenta Syndicate Management Limited
Syndicate 2121

Report, Annual Accounts and Underwriting Year Accounts

as at 31 December 2021



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Managing Agent's Report

The directors of Argenta Syndicate Management Limited ("ASML"), a company registered in England and Wales, present their report for the year ended 31 December 2021.

The annual accounts are prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

A separate set of underwriting year accounts has been prepared on the traditional three year accounting basis in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). These relate to the 2018 year of account that was left open as at 31 December 2020 but has been reinsured to close as at 31 December 2021, and the 2019 year of account for the three years to 31 December 2021 that has remained open.

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

Principal activity

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

Overview of business

Based in London, the syndicate operates within the Lloyd's of London ("Lloyd's") insurance market and through a service company, Argenta Underwriting Asia Pte Ltd ("AUA"), on the Lloyd's Asia platform in Singapore. AUA has branch offices in Australia, one located in the central business district of Sydney and the other located in Tuggerah, north of Sydney.

The Tuggerah branch operates as a managing general agent predominantly in the New South Wales region, underwriting a niche property account. Finally, the syndicate had access to Chinese domiciled reinsurance business through a dedicated underwriting division of Lloyd's Insurance Company (China) Limited ("LICCL") based in Shanghai. We have, however, withdrawn support from LICCL for the 2022 and subsequent years of account.

Syndicate 2121 continues to underwrite a well-balanced portfolio of both insurance and reinsurance business across a broad selection of marine and non-marine classes. The overall balance of the syndicate has been materially enhanced with the introduction in early 2020 of a sizeable portfolio of casualty business, moving the split to roughly two-thirds short-tail and one-third long-tail for 2021.

The portfolio underwritten can be broken down into seven main areas: property (including terrorism, UK commercial combined and transportation); energy (offshore, utilities and liability); marine (hull and war, liability, cargo and specie); specialty (political risks, cyber, warranty and indemnity); worldwide treaty; casualty; and financial lines.

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

The largest book of business remains the direct and facultative property account. It is built around a number of long-standing relationships with managing general agents from around the world, with a focus on the USA, supplemented with a modest open-market book of predominantly small commercial and homeowners' business. We also underwrite a UK commercial combined book for small to medium enterprises that along with property lines gives coverage for both employers' and public liability risks. The overall property account continues to grow with the AUA office in Sydney underwriting Australasian property and business interruption business via delegated authorities through third party coverholders and open-market risks.

Overview of business *continued*

Our energy book offers a wide range of cover including utilities, exploration, production and distribution risks, however we do not write downstream refining exposures. The marine book consists of the traditional Lloyd’s classes including a small book of hull, cargo, specie, war, fine art and liability exposures, both in conjunction with physical damage lines and on a standalone basis.

The syndicate writes a relatively modest sized worldwide property treaty account split between catastrophe excess of loss and a small book of risk excess business.

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

We are also seeing steady growth in the political risks account that covers contract frustration, credit and political risks.

As mentioned earlier the casualty team that joined Syndicate 2121 during 2020 continued to enhance our portfolio balance, building on their initial momentum and carrying it well into 2021 as they leveraged strong long-standing relationships with their brokers and clients.

Looking back at the growth of the syndicate over time, the stamp for Syndicate 2121 in 2019 was £340 million. This was increased to £425 million for 2020 and increased again to £600 million for the 2021 year of account. We have continued to grow the syndicate with a stamp capacity for 2022 of £660 million. This planned growth remains in line with the ASML strategic growth objectives for Syndicate 2121 adding new lines of business and distribution sources that are able to deliver profit in a competitive market as well as growing organically when the time is right. This strategy is expected to continue, but will always be subject to market conditions and either the recruitment of high quality underwriters with a proven track record, or through the support of market consortia or other such joint ventures that offer us the opportunity to partner with class leading expertise.

Review of underwriting activities

During 2021 the active underwriter of Syndicate 2121 changed with the appointment of Ian Burford on the 1 July 2021. Prior to joining ASML Ian was the CEO of a UK insurance company and before that he was the active underwriter of another Lloyd’s syndicate.

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

Review of underwriting activities *continued*

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

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

It is against this backdrop that the syndicate has produced a combined ratio for calendar year 2021 of 97.6% with a profit of £9.8 million.

The table below summarises the capacity, premium volumes and performance of Syndicate 2121 for 2021 alongside comparative numbers for 2020. Other than in respect of capacity, the numbers shown are on an annually accounted basis. The table is followed by further comments in relation to each of the years on an annually accounted basis and also on an underwriting year of account basis.

Key performance indicators	*2021*	*2020*
Capacity (underwriting year)	£600 million	£425 million
Premiums written gross of commission	£655 million	£587 million
Net premiums earned	£367 million	£329 million
Result for the year profit/(loss)	£9.8 million	(£37 million)
Claims ratio (net)	57%	74%
Combined ratio	98%	113%
Cash and investments at 31 December	£512 million	£348 million

During the year it quickly became apparent that the original Syndicate Business Forecast ("SBF") for the 2021 year of account would require a mid-year revision as we saw material risk adjusted rate change ("RARC") increases over the original SBF estimate of 8.7%: during 2021 the overall RARC at the syndicate level was 12.4%. That increase, coupled with numerous growth opportunities (particularly in the casualty pillar), lead us to request from Lloyd's a mid-year increase in the SBF. At the 2021 SBF exchange rates, the planned gross written premium increased from £634 million to £659 million.

Review of underwriting activities *continued*

2018 year of account

Whilst the effects of COVID-19 are still being felt in this year of account, during 2021 we began to see some stability and we therefore felt more confident about the ultimate outcome for this year. This changed during the last quarter of the year, however, as we became aware of a new court case, CG Restaurants & Bars v RSA that, along with Stonegate v MS Amlin, is expected to challenge the basis upon which claims have been paid to date. In spite of this unwelcome development, the board of ASML has concluded that we have now reached a point where we can close the 2018 year of account with a loss of 12.2% of capacity.

2019 year of account

This year of account is also affected by COVID-19 and the associated business interruption ("BI") claims. As previously mentioned there are still a number of ongoing legal issues to be sorted before finality is reached and this year is particularly exposed to the decisions of the High Court in Australia. At the time of writing this report, whilst a positive ruling has been received on the first appeal of their Test Case 2, this may still be subject to a further appeal and other rulings are still awaited. As a result, we are unable to determine our ultimate liability to claimants in respect of BI claims in Australia with a reasonable degree of confidence. It is, therefore, a huge disappointment to announce that the Board of ASML has decided that the correct course of action at the current time will be to keep the 2019 year of account open with a current forecast loss range of (5%) to (20%).

2020 year of account

COVID-19 has affected multiple years of account, including 2020. The impact on this year, however, is relatively modest when compared to the 2019 year of account. During the past 12 months, the 2020 year of account continued to perform in line with our reserving expectations albeit the midpoint of the forecast result is disappointingly some way off our initial SBF expectations, with a current result forecast of 8% to (2%). There is, however, a significant element of 2020 business still on risk throughout a large part of 2022 and beyond and it is hoped that this continues to show a favourable development over the months ahead.

2021 year of account

As previously mentioned, 2021 was a very busy year for natural catastrophe events. The largest event loss incurred by Syndicate 2121 was from Hurricane Ida that struck the US in August 2021. This was an extremely powerful and long-lasting event (hitting the US Gulf coastline and also affecting the North East of the USA) and is currently estimated to have caused around US$36 billion of insured losses. The settlement of Hurricane Ida claims is taking an inordinately long time, possibly exacerbated by the effects of the COVID-19 pandemic, so we are still some way from finality but we are confident that our loss estimates, again based on good quality information, are robust.

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

Trading conditions for 2022

From a general market perspective Lloyd's continues to apply a firm hand to the poorer performing classes and syndicates, materially restricting growth where they deem necessary to maintain market discipline and mandating portfolio changes to improve the overall Lloyd's result. The majority of Syndicate 2121's remedial work was done during 2019 and 2020 so, notwithstanding the challenges faced during 2021, we are now beginning to see the positive impact of the recent re-underwriting on those affected classes.

The overall market conditions can best be described as good in most areas. The changing physical, social and economic environments, however, mean that we cannot become complacent and take our foot off the gas when it comes to achieving premium increases. These are necessary to maintain profitability whilst dealing with climate change and inflationary issues, along with driving forward with the improvement in terms and conditions of the policies we issue. The syndicate continues to take advantage of the improving market conditions and there was evidence of further strengthening over the January 2022 renewal season. RARC movements for 2021 exceeded our forecast in the plan and for 2022 we are predicting further increases again across most product lines. The momentum, however, is beginning to slow as we enjoy the benefits of at least three years of compound RARC increases for most of our classes. Our RARC estimate for 2022 is therefore 5.9% across the whole syndicate.

We have just finished the 1 January 2022 renewal season and rates continued to increase but there are one or two areas, such as US property reinsurance, where the increases were relatively disappointing given the recent loss experience. On a more positive note, however, the overall RARC for January 2022 was 8.1% and it is pleasing to see rates continuing to climb.

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

The plan for 2022 is to increase gross written premium income by around 10% year on year to £694 million at Lloyd's 2022 monitoring exchange rates. The area with the largest planned growth is our casualty pillar that started writing in 2020. As mentioned previously the momentum is building with the team and we are delighted with the quality of business that we are seeing. We also have the additional benefit of leading a material percentage of this new business. Offsetting this the syndicate has withdrawn from a Lloyd's casualty consortium that was first written in 2013 and was a strategically important relationship at the time as it added an element of balance to what was a very short-tail product mix. With the arrival of our casualty team in 2020 this relationship no longer had any strategic value so we decided to remove ourselves from the consortium at the end of 2021 and allocate that capacity to our own casualty team.

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

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

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

ASML business structure

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

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

As the managing agency of Syndicate 2121, ASML has maintained a strategy of steadily growing the syndicate with capacity increasing from £340 million in 2018 to £660 million in 2022. The growth strategy is achieved by the selective addition over the years of new classes of business to complement the existing portfolio as well as continued organic growth in a number of areas.

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

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

A strategy of growth has also been adopted in respect of Syndicate 6134. In 2019 the syndicate underwrote gross net written premium of £34.4 million across specific classes of business within the underwriting capability of the host syndicate. This increased to £111.8 million and £64.9 million for the 2020 and 2021 years of account respectively. For the 2022 year of account the expectation is that Syndicate 6134 will underwrite £76.5 million of gross net premium. Syndicate 2121 receives an overriding commission in respect of these arrangements. The quota share contracts are being underwritten on a funds withheld basis although amounts may be advanced if needed to enable Syndicate 6134 to finance its standalone obligations.

Directors

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

Risk management

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

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

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

Insurance risk

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

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

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

Operational risk

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

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

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

Risk management *continued*

Capital risk

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

Liquidity risk

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

Credit risk

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

Financial market risk

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

Emerging risk

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

Conduct risk

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

Investment managers and policy

During 2021 Insight Investment Management (Global) Limited ("Insight") has been responsible for investing the large majority of the syndicate's US dollar assets within a fixed income portfolio. The syndicate's Canadian dollar assets in the regulated trust funds are managed by Lloyd's treasury within a fixed income portfolio. The returns achieved on these portfolios are measured with reference to appropriate benchmarks.

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

Insight

The gross US dollar fixed income portfolio return was broadly breakeven, which was underperformance against the target benchmark of 0.8%. A disappointing investment performance for the calendar year but it must be recognised that the US Federal Reserve cut interest rates to 0.25% in March 2020 and they remained at historic lows throughout 2021. Credit spreads have also widened during the calendar year making it a very difficult environment for fixed income traders to make money without taking more investment risk. Market sentiment suggests that the Fed will begin increasing interest rates during 2022, which will mean US dollar yield will continue to be challenging in the short term. Insight report on 2021 as follows:

> "Inflation has accelerated globally, fraying central bank nerves, and policy normalisation is being pursued with varying degrees of urgency. In some emerging markets the hiking cycle has already started, with central banks prioritising inflationary concerns over economic fundamentals. In developed markets, bond purchase programmes are being brought to a close, with the Bank of England the first central bank to stop buying government bonds. The Bank of England also increased interest rates twice in sequential meetings indicating a concern about inflationary pressures. The timing of interest rate hikes in other markets is now an active point of discussion. In the US, persistent inflation has led the Federal Reserve to change policy and indicate rate hikes could begin in March 2022.
>
> With this backdrop government bond markets have seen yields following a generally upward trend. In the first quarter this was fuelled by strong global growth numbers. The second and third quarters were quieter for government markets but in the final quarter yields moved sharply higher. Inflation continued to increase above expectation triggering a repricing of the range in which interest rates were expected to trade and the US Federal Reserve indicated it would be ending asset purchases earlier than expected.
>
> Over the 2021 calendar year the portfolio generally lagged the cash benchmark. For the majority of the period the funds were positioned with lower levels of interest rate risk in US treasuries. A material part of the US treasury exposure was in floating rate notes where the coupons rise in line with interest rates. This defensive investment strategy was designed to preserve capital in a rising rate environment. Exposure has been maintained to selective investment grade credits where better total returns are expected given the strong growth environment. Over the period bonds offered at a discount were purchased at new issue such as John Deere, Amazon and Honda.
>
> In 2022 the UK's growth rate is anticipated to moderate from 7% in 2021 to 4.5%. This above trend growth combined with inflation running significantly above the Bank of England's 2.0% inflation target means tighter monetary policy is expected. Base rates are forecast to reach 1.0% by the end of 2022. In the US, inflation remains elevated driven by supply chain issues. Inflation is anticipated to begin to ease by the second half of 2022. US growth is also expected to remain above trend in 2022 and is currently forecast to come in at 3.9%"

Managing Agent's Report

continued

Investment managers and policy *continued*

Lloyd's treasury

The Canadian dollar portfolio return was break even, which was marginally better than the benchmark, which was a loss of 0.02% for the calendar year. Lloyd's treasury report on 2021 as follows:

> "The fund achieved a slight outperformance against benchmark by having a shorter duration. The overall exposure of the fund to corporate bonds was reduced in Q4, which limited exposure to losses as credit spreads widened slightly over the quarter. This was driven by concerns over the impact of COVID developments along with the potential pace of Central Bank tightening. Canadian government bonds sold off as the Bank of Canada followed the Fed and turned more hawkish in the face of multi-year high inflation readings. The 2-year and 5-year yields on the Canadian government bond moved 36 and 18 basis points higher in Q4 to finish at 0.77% and 1.21% respectively at year-end. The Bank of Canada overnight lending rate remained at 0.25% over the quarter.
>
> There is likely to be a greater period of volatility in 2022, making credit vulnerable and susceptible to spreads becoming increasingly range-bound with limited scope to rally. Credit headwinds will likely come from Central Bank retrenchment and rising net issuance, with a significant amount from green and sustainable bonds. On balance, credit spreads over the year will likely widen, meaning that a degree of caution remains warranted. Investors should, however, have ample cash, which in turn should help support spreads when deployed; as well as corporate fundamentals remaining sound, albeit slowing. Alpha selection will become increasingly important in the decision-making process for investment grade credit. This is a reversal from the last few years, where beta has been a huge factor for the credit sector. Ongoing wariness over brown assets, such as oil, gas and tobacco, will continue as environmental, social and governance ("ESG") becomes a more salient theme, driven by the phasing in of EU taxonomy and increasing influence of ESG focused funds.
>
> In the short-term, our expectation is that front-end rates will move higher while the market debates the number of rate hikes already priced-in for 2022, unless we get another large sell-off in risk assets. Central Banks will try to keep their policies accommodative but will also place emphasis on not falling behind the curve with inflation remaining above their targets. In terms of the belly to long-end of the curve, we expect rates to continue to move higher albeit at a slower pace than the front-end. Our duration position going forward will be driven by the steepness of the curves but also the market's over or under pricing of potential future rate increases. We see opportunities in the semi-sovereign, supranational and agency bonds as spreads continue to offer relative value opportunities.
>
> Central Bank tightening could slow growth momentum in 2022, as inflation continues to be the policy priority. The Fed has the important challenge of removing accommodation without causing major turmoil, a difficult task ahead. Labour markets in the developed world should continue to improve, although the latter comes with more inflationary impulses: wage acceleration. Additionally, if maintained, China's zero-case policy should continue to put pressure on supply chain bottlenecks. How inflation progresses is still very uncertain and adds to the uncertainty of how Central Banks will react and whether they will be able to manage inflation without causing an end to the recovery."

Custodians

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

Investment objectives

The overall objective is to target a return, over the long term, of 3m LIBOR plus 1% and remain 99.5% confident of not underperforming LIBOR by more than 5%. The US dollar return for 2021 underperformed the long term target, which was 1.2%, although it must be recognised that this was a difficult year for fixed income portfolios with interest rates at record lows and with credit spreads generally widening. The 2022 calendar year is likely to be another challenging year for bond markets as the Fed enter a rate hiking cycle.

Investment performance

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

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

	2021	*2020*
	'000	*'000*
United States dollars	372,879	275,186
Sterling and other currencies	81,399	57,995
Canadian dollars	64,602	41,798
Euros	28,937	21,190
Combined in sterling	414,803	314,146
Net aggregate investment return for the calendar year in sterling	288	6,730

Net calendar year investment yield:	*2021*	*2020*
United States dollars	(0.2%)	2.3%
Sterling and other currencies	1.1%	1.9%
Canadian dollars	0.0%	2.9%
Euros	(0.6%)	0.0%
Combined in sterling	0.1%	2.1%

Research and development

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

Disclosure of information to the auditors

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

- So far as the director is aware, there is no relevant audit information, being information needed by the syndicate's auditors in connection with the auditors' report, of which the auditors are unaware; and

- Having made enquiries of fellow directors of the agency and the syndicate's auditors, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

Managing Agent's Report

continued

Auditors

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

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

Annual general meeting of syndicate members

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

Andrew J Annandale

Managing Director

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

SYNDICATE

2121

ANNUAL ACCOUNTS 2021

Statement of Managing Agent's Responsibilities

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

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

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

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

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

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

Independent Auditors’ Report to the Members of Syndicate 2121

Report on the audit of the syndicate annual accounts

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

- give a true and fair view of the state of the syndicate’s affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Report, Annual Accounts and Underwriting Year Accounts (the “Annual Report”), which comprise: the Statement of financial position as at 31 December 2021, the Income statement – Technical account, the Income statement – Non-technical account, the Statement of cash flows, and the Statement of changes in members’ balances for the year then ended and the Notes to the syndicate annual accounts, which include a description of the significant accounting policies.

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

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

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

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

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

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

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

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

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

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

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

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

Managing Agent's Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2021 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

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

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

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

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

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

Independent Auditors' Report to the Members of Syndicate 2121

continued

Audit procedures performed by the engagement team included:

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

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

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

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

Income Statement

for the year ended 31 December 2021

Technical account – general business

	Notes	*2021* £'000	*2021* £'000	*2020* £'000	*2020* £'000
Earned premiums, net of reinsurance					
Gross premiums written	2	654,917		586,912	
Outward reinsurance premiums		(251,486)		(246,036)	
Net premiums written		403,431		340,876	
Change in the provision for unearned premiums					
Gross amount		(30,002)		(62,872)	
Reinsurers' share		(6,679)		50,810	
Change in the net provision for unearned premiums		(36,681)		(12,062)	
Earned premiums, net of reinsurance			366,750		328,814
Allocated investment return transferred from the non-technical account	8		288		6,730
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(243,523)		(278,157)	
Reinsurers' share		97,857		101,900	
Net claims paid		(145,666)		(176,257)	
Change in the provision for claims					
Gross amount		(102,487)		(147,549)	
Reinsurers' share		37,460		80,492	
Change in the net provisions for claims		(65,027)		(67,057)	
Claims incurred, net of reinsurance			(210,693)		(243,314)
Net operating expenses	4		(147,098)		(129,235)
Balance on the technical account for general business			9,247		(37,005)

All items relate only to continuing operations.

Income Statement

for the year ended 31 December 2021 continued

Non-technical account

	Notes	*2021* *£'000*	*2020* *£'000*
Balance on the general business technical account		9,247	(37,005)
Investment income	8	3,744	4,672
Net unrealised (losses)/gains on investments	8	(3,044)	2,369
Investment expenses and charges	8	(412)	(311)
Allocated investment return transferred to the general business technical account		(288)	(6,730)
Exchange gains/(losses)		583	(79)
Profit/(loss) for the financial year		9,830	(37,084)

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

Statement of Changes in Members' Balances

for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
At 1 January		(86,124)	(52,406)
Profit/(loss) for the financial year		9,830	(37,084)
Members' agents' fees		(1,534)	(1,639)
Cash calls made from members' personal reserve funds	14	23,800	5,005
At 31 December		(54,028)	(86,124)

Statement of Financial Position

as at 31 December 2021

	Notes	2021 £'000	2021 £'000	2020 £'000	2020 £'000
ASSETS					
Investments					
Financial investments	9		399,026		268,503
Deposits with ceding undertakings			1,341		55
Reinsurers' share of technical provisions					
Provision for unearned premiums	10	95,231		102,483	
Claims outstanding	10	319,353		282,762	
			414,584		385,245
Debtors					
Debtors arising out of direct insurance operations	11	211,941		132,784	
Debtors arising out of reinsurance operations	12	112,485		96,906	
Other debtors		501		1,862	
			324,927		231,552
Cash and other assets					
Cash at bank and in hand		35,105		20,813	
Other assets	13	77,875		59,029	
			112,980		79,842
Prepayments and accrued income					
Accrued interest		24		121	
Deferred acquisition costs	10	85,361		78,261	
Other prepayments and accrued income		2,920		2,370	
			88,305		80,752
TOTAL ASSETS			1,341,163		1,045,949

Statement of Financial Position

as at 31 December 2021 continued

	Notes	2021 £'000	2021 £'000	2020 £'000	2020 £'000
MEMBERS' BALANCES AND LIABILITIES					
Members' balances			(54,028)		(86,124)
Technical provisions					
Provision for unearned premiums	10	310,178		281,632	
Claims outstanding	10	731,072		632,132	
			1,041,250		913,764
Creditors					
Creditors arising out of direct insurance operations	15	70,871		12,674	
Creditors arising out of reinsurance operations	16	252,762		172,092	
Other creditors		2,066		2,274	
			325,699		187,040
Accruals and deferred income	17		28,242		31,269
TOTAL MEMBERS' BALANCES AND LIABILITIES			1,341,163		1,045,949

The syndicate annual accounts on pages 21 to 65 were approved by the board of Argenta Syndicate Management Limited on 2 March 2022 and were signed on its behalf by

Andrew J Annandale
Managing Director

Statement of Cash Flows

for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Profit/(loss) on ordinary activities		9,830	(37,084)
Increase/(decrease) in unearned premiums and outstanding claims		133,952	210,064
(Increase)/decrease in reinsurers' share of unearned premiums and outstanding claims		(31,449)	(130,651)
(Increase)/decrease in debtors		(107,094)	(75,500)
Increase/(decrease) in creditors		142,314	94,467
Investment return		(288)	(6,730)
Movements in other assets/liabilities		(3,001)	2,325
Exchange differences		(2,563)	(322)
Net cash inflow/(outflow) from operating activities		141,701	56,569
Investing activities			
Investment income received		3,283	4,183
Purchases of debt and equity instruments		(229,745)	(140,880)
Sales of debt and equity instruments		119,597	118,936
Purchases of derivatives		(72,457)	(45,804)
Sales of derivatives		72,837	45,811
(Increase)/decrease in overseas deposits		(21,171)	(16,019)
(Increase)/decrease in deposits with ceding undertakings		(1,286)	(17)
Net cash inflow/(outflow) from investing activities		(128,942)	(33,790)
Financing activities			
Cash calls made from members' personal reserve funds		23,800	5,005
Members' agents' fee advances		(1,534)	(1,639)
Net cash inflow/(outflow) from financing activities		22,266	3,366
Increase/(decrease) in cash and cash equivalents		35,025	26,145
Cash and cash equivalents at 1 January		60,300	33,015
Exchange differences on opening cash and cash equivalents		(1,977)	1,140
Cash and cash equivalents at 31 December	18	93,348	60,300

Notes to the Accounts

1. Accounting policies

1.1 Statement of compliance

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

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

1.2 Basis of preparation

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

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

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

1.3 Judgements and key sources of estimation uncertainty

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

Insurance contract technical provisions

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

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

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

1. Accounting policies *continued*

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

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

Estimates of future premiums

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

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

Fair value of financial assets and derivatives determined using valuation techniques

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk and model inputs such as estimated future cash flows based on management's best estimates and discount rates.

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

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

Further details are given in note 22.

1.4 Significant accounting policies

Financial investments

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

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

1. Accounting policies *continued*

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

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

Derivative financial instruments

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

Cash and cash equivalents

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

Fair value of financial assets

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

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

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

Impairment of financial assets

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

1. Accounting policies *continued*

Derecognition of financial assets

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

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

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

Offsetting of financial instruments

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

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

Financial liabilities

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

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

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

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

1. Accounting policies *continued*

Investment return

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

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

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

Insurance contracts – product classification

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

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

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

Gross premiums

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

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

1. Accounting policies *continued*

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

Reinsurance premiums

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

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

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

Profit commission

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

Claims

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

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

Technical provisions

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

Claims outstanding

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

1. **Accounting policies** *continued*

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

Provisions for unearned premiums

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

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

Unexpired risks

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

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

At 31 December 2021 and 31 December 2020 the syndicate did not have an unexpired risks provision.

Deferred acquisition costs

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

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

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

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

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

1. Accounting policies *continued*

Reinsurance assets

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

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

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2021 or 2020.

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

Insurance receivables

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

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

Insurance payables

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

Foreign currencies

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

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

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

Exchange differences are recorded in the non-technical account.

1. Accounting policies *continued*

Taxation

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

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

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

Pension costs

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

2. Particulars of business written

Type of business

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

2021	*Gross premiums written £'000*	*Gross premiums earned £'000*	*Gross claims incurred £'000*	*Gross operating expenses* £'000*	*Reinsurance balance £'000*	*Total £'000*
Direct insurance:						
Accident and health	(345)	275	(756)	(242)	566	(157)
Motor (other classes)	6,557	7,849	(3,330)	(4,066)	(837)	(384)
Marine, aviation and transport	43,108	43,756	(34,578)	(16,141)	38	(6,925)
Energy	39,987	37,552	(24,123)	(10,991)	(3,651)	(1,213)
Fire and other damage to property	165,059	167,409	(60,010)	(56,427)	(33,978)	16,994
Third party liability	213,146	196,050	(108,941)	(69,162)	(18,099)	(152)
Pecuniary loss	22,474	21,427	(10,281)	(5,942)	(2,960)	2,244
	489,986	474,318	(242,019)	(162,971)	(58,921)	10,407
Reinsurance acceptances:						
Fire and other damage to property	68,490	65,945	(48,141)	(16,208)	(11,439)	(9,843)
Marine, aviation and transport	34,189	30,718	(27,579)	(9,546)	7,596	1,189
Energy	17,044	16,312	(6,733)	(4,430)	(220)	4,929
Casualty	45,208	37,622	(21,538)	(10,493)	(3,314)	2,277
	164,931	150,597	(103,991)	(40,677)	(7,377)	(1,448)
	654,917	624,915	(346,010)	(203,648)	(66,298)	8,959

Notes to the Accounts

continued

2. Particulars of business written *continued*

2020

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses* £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Accident and health	920	1,995	(2,933)	(1,097)	1,080	(955)
Motor (other classes)	9,693	9,211	(4,787)	(3,795)	(17)	612
Marine, aviation and transport	49,959	48,542	(46,932)	(16,267)	17,775	3,118
Energy	39,517	35,707	(24,024)	(9,798)	(2,303)	(418)
Fire and other damage to property	161,061	159,262	(199,727)	(56,343)	39,499	(57,309)
Third party liability	168,083	126,991	(59,339)	(43,820)	(21,203)	2,629
Pecuniary loss	18,624	14,552	(10,310)	(4,120)	808	930
	447,857	396,260	(348,052)	(135,240)	35,639	(51,393)
Reinsurance acceptances:						
Fire and other damage to property	66,390	66,785	(30,152)	(14,044)	(11,128)	11,461
Marine, aviation and transport	27,077	26,355	(28,959)	(9,624)	2,917	(9,311)
Energy	18,880	15,963	(4,253)	(4,080)	(2,716)	4,914
Casualty	26,708	18,677	(14,290)	(5,503)	1,710	594
	139,055	127,780	(77,654)	(33,251)	(9,217)	7,658
	586,912	524,040	(425,706)	(168,491)	26,422	(43,735)

All premiums were concluded in the UK.

*Net operating expenses shown in the income statement include an amount of £56.6 million (2020: £39.3 million) in respect of commissions on outward reinsurance that have been set off from the gross operating expenses but are included in the reinsurance balance above.

Geographical analysis by destination

	Gross written premiums 2021 £'000	Gross written premiums 2020 £'000
UK	236,642	205,985
EU	32,787	33,241
Other	385,488	347,686
	654,917	586,912

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

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

(2020: An overall deterioration of £2.9 million on prior years' provisions was experienced during the year. Deteriorations of £1.3 million on energy, £2.1 million on fire and other damage to property, £1.6 million on liability and £2.6 million on reinsurance acceptances were partially offset by improvements of £0.6 million on motor (other), £1.3 million on marine, aviation and transport and £2.7 million on pecuniary loss.)

4. Net operating expenses

	2021	*2020*
	£'000	*£'000*
Acquisition costs	189,453	169,756
Change in deferred acquisition costs	(7,518)	(17,667)
Administrative expenses	21,713	16,402
Gross operating expenses	203,648	168,491
Reinsurance commissions	(52,085)	(54,515)
Change in deferred reinsurance commissions	(4,465)	15,259
Net operating expenses	147,098	129,235

Administrative expenses include:

	2021	*2020*
	£'000	*£'000*
Auditors' remuneration – audit of the syndicate accounts	273	239
– other services pursuant to regulations and Lloyd's byelaws	202	182
Members' standard personal expenses	8,288	6,887

Total commissions for direct insurance accounted for in the year amounted to £132.7 million (2020: £123.0 million).

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

5. Staff numbers and costs

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

	2021	*2020*
	£'000	*£'000*
Wages and salaries	16,186	13,380
Social security costs	2,237	1,806
Other pension costs	1,136	971
	19,559	16,157

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

	2021	*2020*
	Number	*Number*
Administration and finance	15	14
Underwriting	41	39
Underwriting support	39	37
Claims	14	11
	109	101

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

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

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

	2021	*2020*
	£'000	*£'000*
Emoluments	1,760	1,902

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

7. Active underwriter emoluments

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

	2021	*2020*
	£'000	*£'000*
Emoluments	282	390

8. Investment return

	2021	*2020*
	£'000	*£'000*
Income from other financial investments	4,892	4,344
Net (losses)/gains on realisation of investments		
– designated at fair value through profit or loss	(1,148)	328
Total investment income	3,744	4,672
Net unrealised (losses)/gains on investments		
– designated at fair value through profit and loss	(3,044)	2,369
Investment expenses and charges	(412)	(311)
Total investment return	288	6,730

9. Financial investments

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

	31 December 2020 Carrying value £'000	Purchase price £'000	Listed £'000
Shares and other variable yield securities and units in unit trusts			
– designated at fair value through profit or loss	45,661	45,661	30,657
Debt securities and other fixed income securities			
– designated at fair value through profit or loss	198,450	196,634	–
Participation in investment pools	24,392	23,836	–
Deposits with credit institutions held at fair value	–	–	–
Loans secured by mortgages held at fair value	–	–	–
Derivative assets held at fair value	–	–	–
	268,503	266,131	30,657

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

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

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

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

9. Financial investments *continued*

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

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

31 December 2020	*Level 1* *£'000*	*Level 2* *£'000*	*Level 3* *£'000*	*Total* *£'000*
Shares and other variable yield securities and units in unit trusts	37,830	–	7,831	45,661
Debt securities and other fixed income securities	–	198,450	–	198,450
Participation in investment pools	1	24,391	–	24,392
Loans, deposits with credit institutions and derivatives	–	–	–	–
Overseas deposits	12,755	46,274	–	59,029
	50,586	269,115	7,831	327,532

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

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

9. Financial investments *continued*

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

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

10. Technical provisions

Claims outstanding

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

		2020	
	Gross	*Reinsurers' share*	*Net*
	£'000	*£'000*	*£'000*
At 1 January	492,277	(205,752)	286,525
Claims incurred in current underwriting year	170,373	(85,109)	85,264
Claims incurred in prior underwriting years	255,333	(97,283)	158,050
Claims paid during the year	(278,157)	101,900	(176,257)
Foreign exchange	(7,694)	3,482	(4,212)
At 31 December	632,132	(282,762)	349,370

Notes to the Accounts
continued

10. Technical provisions *continued*

Provision for unearned premiums

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

	2020 Gross £'000	*2020* Reinsurers' share £'000	*2020* Net £'000
At 1 January	223,660	(53,989)	169,671
Premiums written in the year	586,912	(246,036)	340,876
Premiums earned in the year	(524,040)	195,226	(328,814)
Foreign exchange	(4,900)	2,316	(2,584)
At 31 December	281,632	(102,483)	179,149

Deferred acquisition costs

	2021 £'000	*2020* £'000
At 1 January	78,261	61,650
Change in deferred acquisition costs	7,518	17,667
Foreign exchange	(418)	(1,056)
At 31 December	85,361	78,261

11. Debtors arising out of direct insurance operations

	2021 £'000	*2020* £'000
Amounts falling due within one year – intermediaries	211,941	132,783
Amounts falling due after one year – intermediaries	–	1
	211,941	132,784

12. Debtors arising out of reinsurance operations

	2021	*2020*
	£'000	*£'000*
Amounts falling due within one year	112,475	96,795
Amounts falling due after one year	10	111
	112,485	96,906

13. Other assets

	2021	*2020*
	£'000	*£'000*
Overseas deposits		
Amounts advanced in the following locations as a condition of carrying on business there:		
Illinois, USA	592	579
Australia	36,930	37,253
Canada	8,295	5,446
South Africa and other countries	32,058	15,751
	77,875	59,029

14. Reconciliation of members' balances

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

Cash calls made from members' personal reserve funds relate to collection of £23,800,000 in respect of the 2018 year of account. (2020: collection of £5,005,000 in respect of the 2017 year of account).

15. Creditors arising out of direct insurance operations

	2021	*2020*
	£'000	*£'000*
Amounts falling due within one year	70,871	12,673
Amounts falling due after one year	–	1
	70,871	12,674

16. Creditors arising out of reinsurance operations

	2021	*2020*
	£'000	*£'000*
Amounts falling due within one year	105,214	77,382
Amounts falling due after one year	147,548	94,710
	252,762	172,092

17. Accruals and deferred income

Accruals and deferred income includes £23.5 million (2020: £28.2 million) in respect of deferred reinsurance commissions.

18. Cash and cash equivalents

	2021	*2020*
	£'000	*£'000*
Cash at bank and in hand	35,105	20,813
Short-term deposits with financial institutions	58,243	39,487
	93,348	60,300

The syndicate holds £58.2 million (2020: £39.5 million) of highly liquid assets. An amount of £57.2 million (2020: £37.8 million) is held in unitised money market funds that provide daily liquidity, with the remaining £1.0 million (2020: £1.7 million) held in cash within the overseas deposits by Lloyd's (note 13).

19. Off balance sheet items

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

20. Related parties

Argenta Holdings Ltd

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

AHL is wholly owned by Hannover Re. The parent undertaking of Hannover Re is Talanx AG which holds a 50.2% interest in the company. The principal shareholder in Talanx AG is Haftpflichtverband Der Deutschen Industrie V.a.G. ("HDI") which holds 79.0% of Talanx AG's issued share capital.

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

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

Argenta Tax & Corporate Services Ltd ("ATCSL"), an AHL group company, provides taxation services to the syndicate. Fees are agreed on a commercial basis and the profit to ATCSL generated from providing these services is, as in 2020, less than £1,000.

20. Related parties *continued*

AUA, a subsidiary of AHL, is a service company approved by Lloyd's and the MAS to operate on the Lloyd's Asia platform. AUA also holds a licence granted by the Australian Securities and Investments Commission and has two branch offices approved by Lloyd's in Australia. Syndicate 2121 uses this service company as a coverholder to bind risks on its behalf. Such services relating to business written in Singapore are provided at cost plus a small profit margin of 5% mainly for tax purposes. The total value of the margin is less than £100,000 (2020: £90,000). The commission retained by AUA for business underwritten by the Australian branch is, at most, 28.5% of gross premium, which is in line with other Australian facilities currently supported by the syndicate. The commission charged in Australia covers original acquisition costs, branch office expenses and processing costs. The total commissions payable were £12.0 million (2020: £13.1 million).

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

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

Business transactions

Hannover Re

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

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

Lloyd's granted approval for ASML to establish a Special Purpose Arrangement, Syndicate 6134, with effect from the start of the 2018 underwriting year to operate alongside Syndicate 2121 as the host syndicate. Syndicate 6134 is sponsored and capitalised by the Hannover Re group through its corporate member Inter Hannover (No.1) Ltd.

Syndicate 6134 writes quota share reinsurances across specific classes of business within the underwriting capability of the host syndicate. In 2018 these included elements of the property, terrorism, specialty, cyber and political risks accounts. In 2019 this was extended to include elements of the marine hull and war, marine and energy liability, marine cargo and marine specie accounts. This was further extended in 2020 with casualty treaty as well as financial lines business consisting of professional indemnity, financial institutions, and SME specialty liability accounts, being added. The estimated ultimate gross net written premium of Syndicate 6134 for the 2020 year of account is £111.8 million, for the 2021 year of account it is £64.9 million and for the 2022 year of account the expectation is that the gross net written premium will be £76.5 million.

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

At 31 December 2021 creditors included an amount of £156.5 million (2020: £98.0 million) owed to Syndicate 6134.

20. Related parties *continued*

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

ASML Directors

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

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

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

Mr Sven Althoff is a member of the Executive Board of Hannover Re and a director of other Hannover Re group companies. He was also a director of Apollo Syndicate Management Limited, a Lloyd's Managing Agent, until his resignation on 7 March 2019; and a director of Integra Insurance Solutions Ltd, a UK managing general agent, until his resignation on 15 March 2018.

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

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

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

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

ASML

Total fees payable to ASML in respect of services provided to the syndicate amounted to £4.5 million (2020: £3.2 million). Profit commission is only due on closure of the year of account although managing agents may receive payments on account of anticipated profit commissions in line with interim profits released to members. During 2021, no profit commission (2020: £Nil) was due to ASML. There were no creditors at the year-end in respect of profit commission due to ASML (2020: £Nil).

20. Related parties *continued*

In addition to this, £22.6 million (2020: £19.0 million) was recharged by ASML for expenses paid on behalf of the syndicate. Creditors at the year-end include amounts due to ASML of £1.0 million (2020: £0.9 million).

Capital support for Syndicate 2121

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

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

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

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

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

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

On 10 April 2019 Mr Allen was appointed as a director of all the above corporate members, apart from AU8 which was sold to a third party in February 2019. Messrs Annandale and Allen were also appointed directors of Inter Hannover (No.1) Ltd and Dynastic Underwriting Ltd with effect from 18 January 2021.

AU2, AU3 and AU9 participated on Syndicate 2121 for the 2018 to 2022 years of account. AU8 participated on the 2018 and 2019 years of account. AU10 participated on the 2018 to 2021 years of account.

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

For the 2021 and prior years of account all capital providers who underwrite on Syndicate 2121 are charged managing agency fees and profit commission on a standard basis, apart from where the charges are less advantageous, as disclosed in the Register of Underwriting Agency Charges.

There are no other transactions or arrangements to be disclosed.

21. Funds at Lloyd's

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

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

22. Risk management

(a) Governance framework

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

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

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

(b) Capital management objectives

Capital framework at Lloyd's

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

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

22. Risk management *continued*

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

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

Lloyd's capital setting process

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

A syndicate may comprise one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. For a member participating on a single syndicate, its SCR is determined by the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate a credit for diversification is included to reflect the spread of risk. The credit given is consistent with determining a SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies an uplift to the member's SCR to determine the overall level of capital required. This is known as the member's Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2021 was 35% (2020: 35%) of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member ("FAL"), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates (the latter being adjusted to reflect their value on a Solvency II basis).

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 25, represent resources available to meet members' and Lloyd's capital requirements.

(c) Insurance risk

(1) General

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

22. Risk management *continued*

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

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

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

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

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

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

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

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

22. Risk management *continued*

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

As a further guide to the level of catastrophe exposure written by the syndicate, the following table shows forecast claims arising from various hypothetical catastrophe events for the 2022 year.

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

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

Catastrophe event	*Estimated gross loss £m*	*Estimated final net loss £m*
30-year loss – Whole world natural catastrophe	167	76
30-year loss – US windstorm	106	45
Cyber – Ransomware contagion	65	36
30-year loss – US & Canada earthquake	44	23
Cyber – Major data security breach	34	21

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

	31 December 2021		*31 December 2020*	
	Gross liabilities £'000	*Net liabilities £'000*	*Gross liabilities £'000*	*Net liabilities £'000*
Direct insurance:				
Accident and health	3,914	2,195	4,521	3,045
Motor (other classes)	6,724	4,805	9,659	8,839
Marine, aviation and transport	62,605	48,122	64,325	51,619
Energy	71,621	53,857	57,684	45,031
Fire and other damage to property	249,884	160,986	280,439	161,914
Third party liability	359,926	188,303	281,714	136,634
Pecuniary loss	39,669	16,508	36,742	15,086
	794,343	474,776	735,084	422,168
Reinsurance acceptances:				
Fire and other damage to property	104,151	61,693	80,152	43,119
Marine, aviation and transport	57,820	42,284	52,610	40,783
Motor	9,434	5,282	2,770	1,096
Energy	21,979	18,611	17,171	15,854
Casualty	53,523	24,020	25,977	5,499
	246,907	151,890	178,680	106,351
	1,041,250	626,666	913,764	528,519

22. Risk management *continued*

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

	31 December 2021		*31 December 2020*	
	Gross liabilities £'000	*Net liabilities £'000*	*Gross liabilities £'000*	*Net liabilities £'000*
United Kingdom	413,428	259,529	380,512	220,184
EU	30,814	19,166	30,071	19,100
USA	261,155	144,041	185,302	102,682
Canada	29,026	16,426	28,616	14,902
Other	306,827	187,504	289,263	171,651
	1,041,250	626,666	913,764	528,519

Key assumptions

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

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

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

Sensitivities

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

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

22. Risk management *continued*

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

31 December 2020	*Change in assumptions*	*Impact on gross liabilities £'000*	*Impact on net liabilities £'000*	*Impact on result £'000*	*Impact on members' balance £'000*
'A priori' loss ratios	+5%	16,648	10,403	(11,051)	(11,051)
Incurred claims development patterns	Recede development by 1 month	18,121	12,825	(13,602)	(13,602)

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

Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at 31 December 2021.

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

Notes to the Accounts

continued

22. Risk management *continued*

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

Underwriting year	*Before 2012 £m*	*2012 £m*	*2013 £m*	*2014 £m*	*2015 £m*	*2016 £m*	*2017 £m*	*2018 £m*	*2019 £m*	*2020 £m*	*2021 £m*	*Total £m*
Estimate of cumulative claims incurred:												
At end of underwriting year		92.3	57.5	45.6	61.2	66.1	115.0	120.2	111.5	165.0	161.8	
12 months later		148.8	113.2	102.2	132.3	162.6	209.0	288.4	321.3	336.0		
24 months later		150.5	115.2	102.3	143.5	185.0	248.3	339.0	328.0			
36 months later		148.5	111.6	97.0	148.4	203.5	248.7	331.0				
48 months later		144.6	111.0	102.2	150.0	201.4	258.9					
60 months later		140.4	107.9	101.8	146.7	208.3						
72 months later		138.9	106.4	101.6	147.7							
84 months later		138.6	105.4	101.0								
96 months later		138.0	105.4									
108 months later		137.5										
Current estimate of cumulative claims incurred		137.5	105.4	101.0	147.7	208.3	258.9	331.0	328.0	336.0	161.8	
Cumulative payments to date		135.3	99.7	96.8	129.2	167.8	204.6	251.4	196.4	101.6	14.4	
Gross outstanding claims provision at 31 December 2021 per the statement of financial position	12.7	2.2	5.7	4.2	18.5	40.5	54.3	79.6	131.6	234.4	147.4	731.1

22. Risk management *continued*

Net insurance contract outstanding claims provision as at 31 December 2021:

Underwriting year	*Before 2012*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Estimate of cumulative claims incurred:												
At end of underwriting year		58.3	52.9	42.3	46.6	54.5	63.0	80.2	69.4	82.7	104.1	
12 months later		115.0	106.1	94.4	110.8	118.8	160.7	181.5	204.1	174.3		
24 months later		115.3	107.4	95.3	116.2	134.6	180.6	208.0	209.5			
36 months later		113.4	104.1	90.2	117.4	139.1	179.1	209.5				
48 months later		110.6	101.5	92.4	118.2	138.1	185.6					
60 months later		107.8	101.3	91.8	116.0	141.0						
72 months later		106.4	99.5	91.7	116.4							
84 months later		106.7	99.0	91.1								
96 months later		105.2	99.1									
108 months later		105.1										
Current estimate of cumulative claims incurred		105.1	99.1	91.1	116.4	141.0	185.6	209.5	209.5	174.3	104.1	
Cumulative payments to date		104.0	94.7	87.8	106.5	123.3	155.8	158.5	127.5	63.3	11.6	
Net outstanding claims provision at 31 December 2021 per the statement of financial position	9.0	1.1	4.4	3.3	9.9	17.7	29.8	51.0	82.0	111.0	92.5	411.7

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

(2) COVID-19

Syndicate 2121 has material exposure to losses arising from the COVID-19 pandemic both in the UK and overseas. Uncertainties exist both in respect of the assessment of the initial losses that the syndicate might be obliged to pay and of how these will interact with the syndicate’s reinsurance programme. This increases the uncertainty of the syndicate’s total reserves but does not increase that uncertainty significantly beyond the normal range of uncertainty for the liabilities of an insurance carrier at this stage of development.

22. Risk management *continued*

(d) Financial risk

(1) Credit risk

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

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

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

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

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

- Guidelines determine when to obtain collateral and guarantees.

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

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

22. Risk management *continued*

31 December 2021	*Neither past due nor impaired £'000*	*Past due £'000*	*Impaired £'000*	*Total £'000*
Financial investments				
– Debt securities and other fixed income securities	298,994	–	–	298,994
– Shares and other variable yield securities and units in unit trusts	65,090	–	–	65,090
– Participation in investment pools	34,942	–	–	34,942
– Loans secured by mortgages	–	–	–	–
– Derivative assets	–	–	–	–
– Deposits with credit institutions	–	–	–	–
Deposits with ceding undertakings	1,341	–	–	1,341
Reinsurers' share of claims outstanding	319,353	–	–	319,353
Debtors arising out of insurance operations	247,363	77,063	–	324,426
Other debtors	501	–	–	501
Cash at bank and in hand	35,105	–	–	35,105
Overseas deposits	77,875	–	–	77,875
	1,080,564	77,063	–	1,157,627

22. Risk management *continued*

31 December 2020	*Neither past due nor impaired £'000*	*Past due £'000*	*Impaired £'000*	*Total £'000*
Financial investments				
– Debt securities and other fixed income securities	198,450	–	–	198,450
– Shares and other variable yield securities and units in unit trusts	45,661	–	–	45,661
– Participation in investment pools	24,392	–	–	24,392
– Loans secured by mortgages	–	–	–	–
– Derivative assets	–	–	–	–
– Deposits with credit institutions	–	–	–	–
Deposits with ceding undertakings	55	–	–	55
Reinsurers' share of claims outstanding	282,762	–	–	282,762
Debtors arising out of insurance operations	128,661	101,029	–	229,690
Other debtors	1,862	–	–	1,862
Cash at bank and in hand	20,813	–	–	20,813
Overseas deposits	59,029	–	–	59,029
	761,685	101,029	–	862,714

Assets that are past due but not impaired include amounts relating to binding authority business as at 31 December 2021. The past due amounts have principally been in arrears for less than 3 months from the reporting date.

22. Risk management *continued*

The table below provides information regarding the credit risk exposure of the syndicate at 31 December 2021 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Insurance and other debtors have been excluded from the table as these are generally not rated.

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

22. Risk management *continued*

31 December 2020	*AAA* *£'000*	*AA* *£'000*	*A* *£'000*	*BBB* *£'000*	*<BBB* *£'000*	*Not rated* *£'000*	*Total* *£'000*
Shares and other variable yield securities and units in unit trusts	35,342	–	–	–	–	10,319	45,661
Debt securities and other fixed income securities	117,702	15,769	50,451	14,528	–	–	198,450
Participation in investment pools	16,560	2,981	2,053	2,797	–	1	24,392
Loans secured by mortgages	–	–	–	–	–	–	–
Deposits with credit institutions	–	–	–	–	–	–	–
Overseas deposits	30,464	7,867	4,159	3,380	1,607	11,552	59,029
Derivative assets	–	–	–	–	–	–	–
Deposits with ceding undertakings	–	–	–	–	–	55	55
Reinsurers' share of claims outstanding	–	29,365	249,677	–	–	3,720	282,762
Cash at bank and in hand	–	–	20,813	–	–	–	20,813
Total credit risk	200,068	55,982	327,153	20,705	1,607	25,647	631,162

Maximum credit exposure

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

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

22. Risk management *continued*

(2) Liquidity risk

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

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

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

Maturity profiles

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

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

	0–1 year £'000	*1–3 years £'000*	*3–5 years £'000*	*Over 5 years £'000*	*Total £'000*
31 December 2020					
Outstanding claim liabilities	278,827	199,893	88,293	65,119	632,132
Other	92,329	94,711	–	–	187,040

22. Risk management *continued*

(3) Financial market risk

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

a. Currency risk;

b. Interest rate risk; and

c. Equity price risk.

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

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

- Strict control over derivative instruments (e.g. equity derivatives are only permitted to be held to facilitate portfolio management or to reduce investment risk).

- For assets backing outstanding claims provisions, financial market risk is managed by ensuring the duration and profile of assets are aligned to the technical provisions they are backing. This helps manage financial market risk to the extent that changes in the values of assets are matched by a corresponding movement in the values of the technical provisions.

(a) Currency risk

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

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

22. Risk management *continued*

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

Converted £'000	*UK £*	*US $*	*CAD $*	*AUS $*	*EUR €*	*OTH*	*Total*
31 December 2021							
Total assets	157,337	837,273	70,741	159,175	75,997	40,640	1,341,163
Total liabilities	(213,359)	(863,593)	(52,655)	(159,090)	(85,303)	(21,191)	(1,395,191)
Net assets	(56,022)	(26,320)	18,086	85	(9,306)	19,449	(54,028)

Converted £'000	*UK £*	*US $*	*CAD $*	*AUS $*	*EUR €*	*OTH*	*Total*
31 December 2020							
Total assets	143,783	643,519	46,592	142,569	51,040	18,446	1,045,949
Total liabilities	(186,896)	(684,248)	(34,214)	(153,151)	(51,254)	(22,310)	(1,132,073)
Net assets	(43,113)	(40,729)	12,378	(10,582)	(214)	(3,864)	(86,124)

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

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

22. Risk management *continued*

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on the result of a percentage change in the relative strength of sterling against the value of the main settlement currencies simultaneously. The analysis is based on the information as at 31 December 2021.

	Impact on result	
	2021	*2020*
	£'000	*£'000*
Sterling weakens:		
10% against other currencies	(2,639)	(5,812)
20% against other currencies	(5,937)	(13,076)
Sterling strengthens:		
10% against other currencies	2,159	4,755
20% against other currencies	3,958	8,718

(b) *Interest rate risk*

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

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

The syndicate has no significant concentration of interest rate risk.

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

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

22. Risk management *continued*

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

	Impact on result	
	2021	*2020*
	£'000	*£'000*
Changes in variables:		
+50 basis points	(1,262)	(1,528)
-50 basis points	1,343	1,639

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

(c) Equity price risk

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

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

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

There is no significant concentration of equity price risk.

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

	Impact on result	
	2021	*2020*
	£'000	*£'000*
Changes in variables – market indices:		
S&P 500/FTSE 100 +5%	–	–
S&P 500/FTSE 100 -5%	–	–

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

SYNDICATE

2121

UNDERWRITING YEAR ACCOUNTS

AS AT 31 DECEMBER 2021

2019 YEAR OF ACCOUNT

IN RUN-OFF

Statement of Managing Agent's Responsibilities

The Lloyd's Syndicate Accounting Byelaw (No.8 of 2005) requires the managing agent to prepare run-off underwriting year accounts at 31 December in respect of any syndicate year that is in run-off.

In preparing the run-off underwriting accounts, the managing agent is required to:

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

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

- make judgments and estimates that are reasonable and prudent; and

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the underwriting year accounts.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005). It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors’ Report to the Members of Syndicate 2121 – 2019 run-off year of account

Report on the audit of the syndicate underwriting year financial statements

Opinion

In our opinion, Syndicate 2121’s syndicate underwriting year financial statements for the 2019 year of account for the 3 years ended 31 December 2021 (the “underwriting year financial statements”):

- have been properly prepared, in all material respects, in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law), as modified by the Lloyd’s Syndicate Accounting Byelaw (No. 8 of 2005); and
- have been properly prepared, in all material respects, in accordance with the requirements ofthe Lloyd’s Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the underwriting year financial statements included within the Report, Annual Accounts and Underwriting Year Accounts, which comprise: the Income statement for the 2019 year of account in run-off at the end of the third year at 31 December 2021, the Statement of financial position as at 31 December 2021, the Statement of cash flows for the 36 months ended 31 December 2021 and the Notes to the underwriting year financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Emphasis of matter – Basis of preparation

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

Emphasis of matter – COVID-19 Exposure

Without modifying our opinion, we draw attention to Note 16 of the underwriting year financial statements, which describes the effect of the exposure to losses arising from the COVID-19 pandemic both in the UK and overseas. There are uncertainties with regards to the initial losses the syndicate might be obliged to pay and how these will interact with the syndicate’s reinsurance program. The ultimate costs of these claims are subject to significant uncertainty which, combined with their total size, increases the level of uncertainty significantly beyond the normal range of uncertainty for the liabilities of an insurance carrier at this stage of development.

Conclusions relating to going concern

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

In auditing the underwriting year financial statements, we have concluded that the Managing Agent’s use of the going concern basis of accounting in the preparation of the underwriting year financial statements is appropriate.

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

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

Reporting on other information

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

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

Responsibilities for the underwriting year financial statements and the audit

Responsibilities of the Managing Agent for the underwriting year financial statements

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

In preparing the underwriting year financial statements, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the syndicate is unable to continue to realise its assets and discharge its liabilities in the ordinary course of business.

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

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

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

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the underwriting year financial statements. We also considered those laws and regulations that have a direct impact on the underwriting year financial statements such as the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). We evaluated management's incentives and

Independent Auditors' Report to the Members of Syndicate 2121 – 2019 run-off year of account

continued

opportunities for fraudulent manipulation of the underwriting year financial statements (including the risk of override of controls), and determined that the principal risks were related to the potential for management bias in significant accounting estimates, particularly in relation to claims outstanding and estimated premium income and the posting of inappropriate journal entries to manipulate the Syndicate's results.

Audit procedures performed by the engagement team included:

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

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

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

Use of this report

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

Other required reporting

Under the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- the underwriting year financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

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

Income Statement for the 2019 year of account

in run-off at the end of the third year at 31 December 2021

Technical account – general business

	Notes	£'000	Cumulative balance at 31 December 2021 £'000
Syndicate allocated capacity			339,845
Earned premiums, net of reinsurance			
Gross premiums written	2		454,648
Outward reinsurance premiums			(148,555)
			306,093
Allocated investment return transferred from the non-technical account	8		2,780
Claims incurred, net of reinsurance			
Gross claims paid		(200,205)	
Reinsurers' share		69,468	
		(130,737)	
Amounts retained to meet all known and unknown outstanding liabilities, net of reinsurance, carried forward	4	(83,148)	
			(213,885)
Net operating expenses	5		(124,871)
Balance on the technical account for general business			(29,883)

Income Statement for the 2019 year of account

in run-off at the end of the third year at 31 December 2021 continued

Non-technical account

	Notes	*Cumulative balance at 31 December 2021 £'000*
Balance on the general business technical account		(29,883)
Investment income	8	2,129
Net unrealised gains on investments	8	819
Investment expenses and charges	8	(168)
Allocated investment return transferred to the general business technical account		(2,780)
Exchange losses		(5,630)
Result for the three years ended 31 December 2021 for the 2019 run-off account		(35,513)

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

Statement of Financial Position

as at 31 December 2021

	Notes	2021 £'000	£'000
ASSETS			
Investments	9		30,023
Deposits with ceding undertakings			15
Debtors			
Debtors arising out of direct insurance operations	10	20,477	
Debtors arising out of reinsurance operations	11	32,096	
Other debtors		232	
			52,805
Reinsurance recoveries anticipated on gross amounts retained to meet all known and unknown liabilities			52,316
Cash and other assets			
Cash at bank and in hand		3,411	
Other assets	12	23,275	
			26,686
Prepayments and accrued income			18
TOTAL ASSETS			161,863
LIABILITIES			
Amounts due from members			(36,936)
Amounts retained to meet all known and unknown liabilities – gross amounts			136,016
Creditors			
Creditors arising out of direct insurance operations		1,103	
Creditors arising out of reinsurance operations		23,634	
Other creditors		37,346	
			62,083
Accruals and deferred income			700
TOTAL LIABILITIES			161,863

The syndicate underwriting year accounts on pages 73 to 101 were approved by the Board of Argenta Syndicate Management Limited on 2 March 2022 and were signed on its behalf by

Andrew J Annandale
Managing Director

Statement of Cash Flows

for the 36 months ended 31 December 2021

	Notes	*2021* *£'000*
Loss on ordinary activities		(35,513)
Increase in outstanding claims		136,016
Increase in reinsurers' share of outstanding claims		(52,316)
Increase in debtors		(52,823)
Increase in creditors		62,783
Investment return		(2,780)
Net cash inflow from operating activities		55,367
Investing activities		
Investment income received		3,123
Purchase of debt and equity instruments		(37,270)
Sale of debt and equity instruments		11,925
Purchase of derivatives		(6,334)
Sale of derivatives		6,351
Increase in overseas deposits		(23,617)
Increase in deposits with ceding undertakings		(15)
Net cash outflow from investing activities		(45,837)
Financing activities		
Members' agents' fee advances		(1,424)
Net cash outflow from financing activities		(1,424)
Increase in cash and cash equivalents		8,106
Cash and cash equivalents at 1 January		–
Cash and cash equivalents at 31 December	13	8,106

Notes to the Accounts

1. Accounting policies

1.1 Statement of compliance

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

The 2019 year of account is remaining open at 31 December 2021. These underwriting year accounts therefore represent the assets and liabilities of the 2019 run-off year of account and the transactions for that year of account during the 36 months from inception to the 31 December 2021. The risks that the run-off year of account is exposed to in respect of the reported financial position and financial performance are less than the syndicate annual accounts. Accordingly, these underwriting year accounts do not have associated risk disclosures as required by section 34 of FRS 102 and section 4 of FRS 103. Full disclosures relating to these risks are provided in the syndicate annual accounts. In addition certain other disclosure requirements under FRS 102 and FRS 103, which include reconciliations of changes in insurance liabilities, reinsurance assets and deferred acquisition costs, have not been provided as the directors believe they are not required for a proper understanding of the underwriting year accounts.

1.2 Basis of preparation

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2019 year of account; the statement of financial position represents the assets and liabilities of the 2019 year of account and the income statement and statement of cash flows reflect the transactions for that year of account during the 36 month period until 31 December 2021.

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

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

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

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

1.3 Judgements and key sources of estimation uncertainty

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

1. Accounting policies *continued*

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

Insurance contract technical provisions

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

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

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

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

Fair value of financial assets and derivatives determined using valuation techniques

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk, and model inputs such as estimated future cash flows based on management's best estimates and discount rates.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

1.4 Significant accounting policies

Financial investments

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

1. Accounting policies *continued*

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

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

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

Derivative financial instruments

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

Cash and cash equivalents

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

Fair value of financial assets

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

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

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

Impairment of financial assets

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

1. Accounting policies *continued*

Derecognition of financial assets

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

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

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

Offsetting of financial instruments

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

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

Financial liabilities

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

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

Investment return

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

1. Accounting policies *continued*

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

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

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

Insurance contracts – product classification

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

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

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

Underwriting transactions

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

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

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

1. Accounting policies *continued*

Gross premiums

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

Gross claims

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

Outstanding claims

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

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

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

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

Reinsurance assets

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

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

1. **Accounting policies** *continued*

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

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

Insurance receivables

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

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

Insurance payables

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

Foreign currencies

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

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

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

Exchange differences are recorded in the non-technical account.

Taxation

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

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

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

1. Accounting policies *continued*

Syndicate operating expenses

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

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

Profit commission

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

2. Particulars of business written

2019 run-off year of account after three years

Type of business

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

	Gross premiums written and earned £'000	*Gross claims incurred £'000*	*Gross operating expenses* £'000*	*Reinsurance balance £'000*	*Total £'000*
Direct insurance:					
Marine, aviation and transport	61,561	(42,334)	(20,525)	4,070	2,772
Fire and other damage to property	183,079	(141,951)	(59,250)	(4,809)	(22,931)
Third party liability	93,655	(58,258)	(34,141)	(3,284)	(2,028)
Other	33,856	(20,027)	(9,722)	337	4,444
	372,151	(262,570)	(123,638)	(3,686)	(17,743)
Reinsurance accepted	82,497	(73,187)	(27,824)	3,594	(14,920)
	454,648	(335,757)	(151,462)	(92)	(32,663)

All premiums were concluded in the UK.

*Net operating expenses shown in the income statement include an amount of £26.6 million in respect of commissions on outward reinsurance that have been set off from the gross operating expenses but are included in the reinsurance balance above.

Geographical analysis by destination

	Gross written premiums £'000
UK	167,036
EU	20,241
Other	267,371
	454,648

Notes to the Accounts

continued

3. Analysis of underwriting result

	2018 and prior years of account £'000	*2019 pure year of account £'000*	*Total 2019 year of account £'000*
Technical account balance before allocated investment return and net operating expenses	–	92,208	92,208
Acquisition costs and reinsurance commissions	–	(110,072)	(110,072)
	–	(17,864)	(17,864)

No amounts are presented for the 2018 and prior years of account as the 2018 year of account has reinsured into the 2020 year of account at 31 December 2021.

4. Amounts retained to meet all known and unknown outstanding liabilities, net of reinsurance, carried forward

2019 run-off year of account after three years	*Reported £'000*	*IBNR £'000*	*Total £'000*
Gross outstandings	55,374	80,178	135,552
Reinsurance recoveries anticipated	(22,323)	(30,081)	(52,404)
Net amounts retained to meet all known and unknown outstanding liabilities	33,051	50,097	83,148

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

5. Net operating expenses

	2021 £'000
Acquisition costs	136,663
Administrative expenses	14,799
	151,462
Reinsurance commissions	(26,591)
Net operating expenses	124,871

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

6. Staff numbers and costs

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

	2021
	£'000
Wages and salaries	9,610
Social security costs	1,234
Other pension costs	682
	11,526

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

	2021
	Number
Underwriting	27
Underwriting support	28
Claims	9
Administration and finance	10
	74

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

The aggregate remuneration charged to the syndicate in respect of emoluments paid to the directors of ASML and the active underwriter was £1.6 million. This includes £333,000 that relates to the active underwriter.

7. Auditors' remuneration

	2021
	£'000
Audit services	194
Other services pursuant to regulations and Lloyd's byelaws	143
	337

8. Investment return

	2021 £'000
Income from other investments	2,668
Net losses on realisation of investments	(539)
Total investment income	2,129
Net unrealised gains on investments	819
Investment expenses and charges	(168)
Total investment return	2,780

9. Financial investments

	Market value 2021 £'000
Shares and other variable yield securities and units in unit trusts	
– designated at fair value through profit or loss	6,007
Debt securities and other fixed income securities	
– designated at fair value through profit or loss	19,028
Deposits with credit institutions held at fair value	–
Loans secured by mortgages held at fair value	–
Participation in investment pools	4,988
Derivatives held at fair value	–
	30,023

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

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

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

9. **Financial investments** *continued*

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

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

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

	Level 1	*Level 2*	*Level 3*	*Total*
	£'000	*£'000*	*£'000*	*£'000*
Shares and other variable yield securities and units in unit trusts	4,695	–	1,312	6,007
Debt securities and other fixed income securities	–	19,028	–	19,028
Participation in investment pools	1	4,987	–	4,988
Loans and deposits with credit institutions	–	–	–	–
Overseas deposits	3,304	19,971	–	23,275
Derivatives	–	–	–	–
	8,000	43,986	1,312	53,298

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

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

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

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

10. Debtors arising out of direct operations

	2021
	£'000
Amounts falling due within one year – intermediaries	20,477
Amounts falling due after one year – intermediaries	–
	20,477

11. Debtors arising out of reinsurance operations

	2021
	£'000
Amounts falling due within one year	32,096
Amounts falling due after one year	–
	32,096

12. Other assets

	2021
	£'000
Overseas deposits	
Amounts advanced in the following locations as a condition of carrying on business there:	
Illinois, USA	95
Australia	12,552
Canada	1,556
South Africa and other countries	9,072
	23,275

13. Cash and cash equivalents

	2021
	£'000
Cash at bank and in hand	3,411
Short-term deposits with financial institutions	4,695
	8,106

14. Off balance sheet items

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

15. **Related parties**

Argenta Holdings Ltd

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

AHL is wholly owned by Hannover Re. The parent undertaking of Hannover Re is Talanx AG which holds a 50.2% interest in the company. The principal shareholder in Talanx AG is Haftpflichtverband Der Deutschen Industrie V.a.G. ("HDI") which holds 79.0% of Talanx AG's issued share capital.

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

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

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

AUA, a subsidiary of AHL, is a service company approved by Lloyd's and the MAS to operate on the Lloyd's Asia platform. AUA also holds a licence granted by the Australian Securities and Investments Commission and has two branch offices approved by Lloyd's in Australia. Syndicate 2121 uses this service company as a coverholder to bind risks on its behalf. Such services relating to business written in Singapore are provided at cost plus a small profit margin of 5% mainly for tax purposes. The total value of the margin for the 2019 year of account is less than £70,000. The commission retained by AUA for business underwritten by the Australian branch is, at most, 28.5% of gross premium, which is in line with other Australian facilities currently supported by the syndicate. The commission charged in Australia covers original acquisition costs, branch office expenses and processing costs. The total commissions payable for the 2019 year of account were £12.8 million.

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

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

Business transactions

Hannover Re

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

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

Lloyd's granted approval for ASML to establish a Special Purpose Arrangement, Syndicate 6134, with effect from the start of 2018 underwriting year to operate alongside Syndicate 2121 as the host syndicate. Syndicate 6134 is sponsored and capitalised by the Hannover Re group through its corporate member Inter Hannover (No.1) Ltd.

15. Related parties *continued*

Syndicate 6134 writes quota share reinsurances across specific classes of business within the underwriting capability of the host syndicate. In 2019 these included elements of the property, terrorism, specialty, cyber, political risks, marine hull and war, marine and energy liability, marine cargo and marine specie accounts. The estimated ultimate gross net written premium of Syndicate 6134 for the 2019 year of account is £34.4 million.

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

At 31 December 2021 creditors included an amount of £7.4 million owed to Syndicate 6134.

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

ASML Directors

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

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

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

Mr Sven Althoff is a member of the Executive Board of Hannover Re and a director of other Hannover Re group companies. He was also a director of Apollo Syndicate Management Limited, a Lloyd's Managing Agent, until his resignation on 7 March 2019; and a director of Integra Insurance Solutions Ltd, a UK managing general agent, until his resignation on 15 March 2018.

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

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

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

15. Related parties *continued*

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

ASML

Total fees payable to ASML in respect of services provided to the syndicate in respect of its role as managing agent for the 2019 year of account amounted to £2.5 million. No profit commission was payable. There was £0.1 million of creditors at the period-end due to ASML in respect of expenses paid on behalf of the 2019 year of account.

Capital support for Syndicate 2121

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

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

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

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

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

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

On 10 April 2019 Mr Allen was appointed as a director of all the above corporate members, apart from AU8 which was sold to a third party in February 2019. Messrs Annandale and Allen were also appointed directors of Inter Hannover (No.1) Ltd and Dynastic Underwriting Ltd with effect from 18 January 2021.

AU2, AU3 and AU9 participated on Syndicate 2121 for the 2018 to 2022 years of account. AU8 participated on the 2018 and 2019 years of account. AU10 participated on the 2018 to 2021 years of account.

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

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

There are no other transactions or arrangements to be disclosed.

16. Risk management

(a) Governance framework

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

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

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

(b) Capital management objectives

Capital framework at Lloyd's

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

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

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

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

16. Risk management *continued*

Lloyd's capital setting process

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

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

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member ("FAL"), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates (the latter being adjusted to reflect their value on a Solvency II basis). Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 25 of the syndicate annual accounts, represent resources available to meet members' and Lloyd's capital requirements.

(c) Insurance risk

(1) General

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

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

16. Risk management *continued*

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

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

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

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

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

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

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

16. Risk management *continued*

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

A further guide to the level of catastrophe exposure written by the syndicate is in note 22 of the syndicate annual accounts.

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

Key assumptions

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

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

Sensitivities

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

Claims development table

The syndicate annual accounts include tables showing the estimates of cumulative incurred claims, including both claims notified and IBNR for each underwriting year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at 31 December 2021.

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

16. Risk management *continued*

(2) COVID-19

Syndicate 2121 has material exposure to losses arising from the COVID-19 pandemic both in the UK and overseas. Uncertainties exist both in respect of the assessment of the initial losses that the syndicate might be obliged to pay and of how these will interact with the syndicate's reinsurance programme. The ultimate costs of these claims are subject to a great deal of uncertainty which, combined with their total size, increases the level of uncertainty significantly beyond the normal range of uncertainty for the liabilities of an insurance carrier at this stage of development. Against the backdrop of these uncertainties and the need to ensure equity between capital providers on the different years of account, the 2019 year of account is being left open at 31 December 2021.

(d) Financial risk

(1) Credit risk

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

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

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Net exposure limits are set for each investment counterparty or syndicate of counterparties with minimum credit quality requirements at a portfolio level.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set by the finance and investment committee and are subject to regular reviews. At each reporting date management performs an assessment of creditworthiness of reinsurers, ascertaining a suitable allowance for impairment.
- Guidelines determine when to obtain collateral and guarantees.
- The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The syndicate annual accounts include tables showing the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the annually accounted statement of financial position.

The syndicate annual accounts also include a table showing information regarding the credit risk exposure of the syndicate at 31 December 2021 by classifying assets according to Standard & Poor's credit ratings of the counterparties.

16. Risk management *continued*

Maximum credit exposure

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

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

(2) Liquidity risk

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

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

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

Maturity profiles

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

(3) Financial market risk

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

a. Currency risk;

b. Interest rate risk; and

c. Equity price risk.

16. Risk management *continued*

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

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

(a) Currency risk

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

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

The years of account that remain open at 31 December 2021 attract a foreign currency exchange exposure. The syndicate annual accounts include a table that summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date.

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

Sensitivity to changes in foreign exchange rates

The syndicate annual accounts give an indication of the impact on the result of a percentage change in the relative strength of sterling against the value of the main settlement currencies simultaneously based on the information as at 31 December 2021.

16. Risk management *continued*

(b) Interest rate risk

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

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

The syndicate has no significant concentration of interest rate risk.

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

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

(c) Equity price risk

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

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

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

There is no significant concentration of equity price risk.

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

SYNDICATE 2121

UNDERWRITING YEAR ACCOUNTS

AS AT 31 DECEMBER 2021

2018 YEAR OF ACCOUNT

CLOSED

Statement of Managing Agent's Responsibilities

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

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

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

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the 2008 Regulations and the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005). It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors’ Report to the Members of Syndicate 2121 – 2018 closed year of account

Report on the audit of the syndicate underwriting year financial statements

Opinion

In our opinion, Syndicate 2121’s syndicate underwriting year financial statements for the 2018 year of account for the 4 years ended 31 December 2021 (the “underwriting year financial statements”):

- give a true and fair view of the state of the syndicate’s affairs as at 31 December 2021 and of its loss and cash flows for the 2018 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd’s Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the underwriting year financial statements included within the Report, Annual Accounts and Underwriting Year Accounts, which comprise: the Income statement for the 2018 year of account closed at the end of the fourth year at 31 December 2021, the Statement of changes in members’ balances for the 48 months ended 31 December 2021, the Statement of financial position as at 31 December 2021, the Statement of cash flows for the 48 months ended 31 December 2021 and the Notes to the underwriting year financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Emphasis of matter – Basis of preparation

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

Reporting on other information

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

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

Responsibilities for the underwriting year financial statements and the audit

Responsibilities of the Managing Agent for the underwriting year financial statements

As explained more fully in the Statement of Managing Agent's Responsibilities, the Managing Agent is responsible for the preparation of the underwriting year financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2018 closed year of account. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of underwriting year financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Audit procedures performed by the engagement team included:

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

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

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

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

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

Income Statement for the 2018 year of account

closed at the end of the fourth year at 31 December 2021

Technical account – general business

	Notes	*Calendar year £'000*	*Cumulative balance at 31 December 2021 £'000*
Syndicate allocated capacity			340,000
Earned premiums, net of reinsurance			
Gross premiums written	2	(48)	432,849
Outward reinsurance premiums		(3,622)	(130,527)
		(3,670)	302,322
Reinsurance to close premiums received, net of reinsurance	2		147,919
			450,241
Amounts retained to meet all known and unknown outstanding liabilities, net of reinsurance, carried forward		194,581	
Allocated investment return transferred from the non-technical account	8	29	6,387
Claims incurred, net of reinsurance			
Gross claims paid		(84,386)	(366,769)
Reinsurers' share		39,561	144,399
		(44,825)	(222,370)
Reinsurance to close premiums payable, net of reinsurance		(151,151)	(151,151)
			(373,521)
Net operating expenses	5	(3,444)	(128,872)
Balance on the technical account for general business		(8,480)	(45,765)

Income Statement for the 2018 year of account

closed at the end of the fourth year at 31 December 2021 continued

Non-technical account

	Notes	*Calendar year £'000*	*Cumulative balance at 31 December 2021 £'000*
Balance on the general business technical account		(8,480)	(45,765)
Investment income	8	1,129	5,739
Net unrealised gains on investments	8	(976)	1,033
Investment expenses and charges	8	(124)	(385)
Allocated investment return transferred to the general business technical account		(29)	(6,387)
Exchange (losses)/gains		(1,412)	4,353
Result for the 2018 closed year of account		(9,892)	(41,412)

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

Statement of Changes in Members' Balances

for the 48 months ended 31 December 2021

	2018 year of account £'000
At 1 January 2018	–
Loss for the 2018 closed year of account	(41,412)
Members' agents' fees	(1,293)
Cash calls made from members' personal reserve funds	23,800
At 31 December 2021	(18,905)

Statement of Financial Position

as at 31 December 2021

	Notes	2021 £'000	£'000
ASSETS			
Investments	9		85,433
Deposits with ceding undertakings			1,293
Debtors			
Debtors arising out of direct insurance operations	10	5,399	
Debtors arising out of reinsurance operations	11	28,519	
Other debtors		22,984	
			56,902
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the year of account			93,466
Cash and other assets			
Cash at bank and in hand		9,791	
Other assets	12	16,134	
			25,925
Prepayments and accrued income			18
TOTAL ASSETS			263,037
LIABILITIES			
Amounts due from members			(18,905)
Reinsurance to close premiums payable to close the year of account – gross amounts			221,751
Creditors			
Creditors arising out of direct insurance operations		23,101	
Creditors arising out of reinsurance operations		36,320	
Other creditors		429	
			59,850
Accruals and deferred income			341
TOTAL LIABILITIES			263,037

The syndicate underwriting year accounts on pages 109 to 138 were approved by the Board of Argenta Syndicate Management Limited on 2 March 2022 and were signed on its behalf by

Andrew J Annandale
Managing Director

Statement of Cash Flows

for the 48 months ended 31 December 2021

	Notes	2021 £'000
Loss on ordinary activities		(41,412)
Increase in outstanding claims		221,751
Increase in reinsurers' share of outstanding claims		(93,466)
Increase in debtors		(56,920)
Increase in creditors		60,191
Investment return		(6,387)
Net cash inflow from operating activities		83,757
Investing activities		
Investment income received		7,380
Purchase of debt and equity instruments		(208,692)
Sale of debt and equity instruments		136,943
Purchase of derivatives		(32,458)
Sale of derivatives		32,548
Increase in overseas deposits		(17,127)
Increase in deposits with ceding undertakings		(1,293)
Net cash outflow from investing activities		(82,699)
Financing activities		
Cash calls received		23,800
Members' agents' fee advances		(1,293)
Net cash inflow from financing activities		22,507
Increase in cash and cash equivalents		23,565
Cash and cash equivalents at 1 January		–
Cash and cash equivalents at 31 December	13	23,565

Notes to the Accounts

1. Accounting policies

1.1 *Statement of compliance*

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

The 2018 year of account has closed and all assets and liabilities have been transferred to the 2020 year of account. The result for the year of account was declared in sterling, having been translated at the prevailing rate of exchange at the balance sheet date. The collection of the closed year loss will be made in the currency in which it is declared with the exchange risk in respect of this transferring to the capital providers to the syndicate with effect from 31 December 2021. To this extent, the risks that it is exposed to in respect of the reported financial position and financial performance are significantly less than the syndicate annual accounts. Accordingly, these underwriting year accounts do not have associated risk disclosures as required by section 34 of FRS 102 and section 4 of FRS 103. Full disclosures relating to these risks are provided in the syndicate annual accounts. In addition certain other disclosure requirements under FRS 102 and FRS 103, which include reconciliations of changes in insurance liabilities, reinsurance assets and deferred acquisition costs, have not been provided as the directors believe they are not required for a proper understanding of the underwriting year accounts.

1.2 *Basis of preparation*

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2018 year of account, which has closed by reinsurance to close at 31 December 2021; consequently the statement of financial position represents the assets and liabilities of the 2018 year of account and the income statement and statement of cash flows reflect the transactions for that year of account during the 48 month period until closure.

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

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

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

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

1.3 *Judgements and key sources of estimation uncertainty*

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

1. Accounting policies *continued*

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

Insurance contract technical provisions

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

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

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

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

Fair value of financial assets and derivatives determined using valuation techniques

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk, and model inputs such as estimated future cash flows based on management's best estimates and discount rates.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

1.4 Significant accounting policies

Financial investments

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

1. Accounting policies *continued*

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

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

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

Derivative financial instruments

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

Cash and cash equivalents

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

Fair value of financial assets

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

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

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

Impairment of financial assets

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

1. Accounting policies *continued*

Derecognition of financial assets

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

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

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

Offsetting of financial instruments

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

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

Financial liabilities

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

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

Investment return

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

1. Accounting policies *continued*

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

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

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

Insurance contracts – product classification

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

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

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

Underwriting transactions

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

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

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

1. **Accounting policies** *continued*

Gross premiums

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

Gross claims

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

Outstanding claims

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

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

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

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

Reinsurance assets

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

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

1. Accounting policies *continued*

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised relating to the 2018 year of account.

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

Insurance receivables

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

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

Insurance payables

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

Foreign currencies

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

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

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

Exchange differences are recorded in the non-technical account.

Taxation

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

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

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

1. Accounting policies *continued*

Syndicate operating expenses

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

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

Profit commission

Profit commission is charged by the managing agent at a standard rate of 15% of profit subject to the operation of a deficit clause. The profit commission standard rate increases from 15% to 17.5% if an average profit measure exceeds 7.5% of capacity. No profit commission was chargeable in respect of the 2018 year of account. Where profit commission is charged, it is included within members' standard personal expenses within administrative expenses. Profit commission does not become payable until after the appropriate year of account closes, normally at 36 months, although the managing agent may receive payments on account of anticipated profit commissions in line with interim profits released to members.

2. Particulars of business written

2018 closed year of account after four years

Type of business

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

	Gross premiums written and earned £'000	*Gross claims incurred £'000*	*Gross operating expenses* £'000*	*Reinsurance balance £'000*	*Total £'000*
Direct insurance:					
Marine, aviation and transport	59,056	(44,567)	(20,459)	(5,481)	(11,451)
Fire and other damage to property	149,895	(174,330)	(52,635)	27,295	(49,775)
Third party liability	98,206	(32,886)	(35,200)	(22,619)	7,501
Other	41,890	(31,792)	(14,075)	4,361	384
	349,047	(283,575)	(122,369)	3,556	(53,341)
Reinsurance accepted	231,721	(302,873)	(24,925)	97,266	1,189
	580,768	(586,448)	(147,294)	100,822	(52,152)

Reinsurance acceptances include the reinsurance to close premium of £147,919,000 received from the 2017 year of account.

All premiums were concluded in the UK.

*Net operating expenses shown in the income statement include an amount of £18.4 million in respect of commissions on outward reinsurance that have been set off from the gross operating expenses but are included in the reinsurance balance above.

Geographical analysis by destination

	Gross written premiums £'000
UK	209,945
EU	39,298
Other	331,525
	580,768

3. Analysis of underwriting result

	2017 and prior years of account £'000	*2018 pure year of account £'000*	*Total 2018 year of account £'000*
Technical account balance before allocated investment return and net operating expenses	(526)	77,246	76,720
Acquisition costs and reinsurance commissions	(272)	(112,195)	(112,467)
	(798)	(34,949)	(35,747)

4. Reinsurance to close premiums payable net of reinsurance

	Reported £'000	*IBNR £'000*	*Total £'000*
Gross outstandings	121,052	98,627	219,679
Reinsurance recoveries anticipated	(57,848)	(10,680)	(68,528)
	63,204	87,947	151,151

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

5. Net operating expenses

	Calendar year £'000	*Cumulative balance at 31 December 2021 £'000*
Acquisition costs	2,954	130,889
Administrative expenses	1,627	16,405
	4,581	147,294
Reinsurance commissions	(1,137)	(18,422)
Net operating expenses	3,444	128,872

Members' standard personal expenses amounting to £5.3 million are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contributions and managing agent's fees.

6. Staff numbers and costs

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

	Calendar year £'000	*Cumulative balance at 31 December 2021 £'000*
Wages and salaries	881	10,744
Social security costs	137	1,477
Other pension costs	70	736
	1,088	12,957

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

	Calendar year number	*Cumulative number at 31 December 2021*
Underwriting	–	26
Underwriting support	3	28
Claims	2	12
Administration and finance	2	14
	7	80

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

The aggregate remuneration charged to the syndicate in respect of emoluments paid to the directors of ASML and the active underwriter was £1.8 million. This includes £371,000 that relates to the active underwriter.

7. Auditors' remuneration

	Calendar year £'000	*Cumulative balance at 31 December 2021 £'000*
Audit services	55	289
Other services pursuant to regulations and Lloyd's byelaws	40	203
	95	492

The amounts reported above include payments to the firm previously acting in the role of auditors.

8. Investment return

	Calendar year £'000	Cumulative balance at 31 December 2021 £'000
Income from other investments	1,579	6,117
Net losses on realisation of investments	(450)	(378)
Total investment income	1,129	5,739
Net unrealised (losses)/gains on investments	(976)	1,033
Investment expenses and charges	(124)	(385)
Total investment return	29	6,387

9. Financial investments

	Market value 2021 £'000
Shares and other variable yield securities and units in unit trusts	
– designated at fair value through profit or loss	13,774
Debt securities and other fixed income securities	
– designated at fair value through profit or loss	68,651
Deposits with credit institutions held at fair value	–
Loans secured by mortgages held at fair value	–
Participation in investment pools	3,008
Derivatives held at fair value	–
	85,433

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

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

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

9. Financial investments *continued*

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

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

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

	Level 1 *£'000*	*Level 2* *£'000*	*Level 3* *£'000*	*Total* *£'000*
Shares and other variable yield securities and units in unit trusts	13,774	–	–	13,774
Debt securities and other fixed income securities	–	68,651	–	68,651
Participation in investment pools	1	3,007	–	3,008
Loans and deposits with credit institutions	–	–	–	–
Overseas deposits	2,290	13,844	–	16,134
Derivatives	–	–	–	–
	16,065	85,502	–	101,567

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

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

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

10. Debtors arising out of direct operations

	2021
	£'000
Amounts falling due within one year – intermediaries	5,399
Amounts falling due after one year – intermediaries	–
	5,399

11. Debtors arising out of reinsurance operations

	2021
	£'000
Amounts falling due within one year	28,519
Amounts falling due after one year	–
	28,519

12. Other assets

	2021
	£'000
Overseas deposits	
Amounts advanced in the following locations as a condition of carrying on business there:	
Illinois, USA	148
Australia	10,271
Canada	1,807
Switzerland and other countries	3,908
	16,134

13. Cash and cash equivalents

	2021
	£'000
Cash at bank and in hand	9,791
Short-term deposits with financial institutions	13,774
	23,565

14. Off balance sheet items

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

15. Related parties

Argenta Holdings Ltd

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

AHL is wholly owned by Hannover Re. The parent undertaking of Hannover Re is Talanx AG which holds a 50.2% interest in the company. The principal shareholder in Talanx AG is Haftpflichtverband Der Deutschen Industrie V.a.G. ("HDI") which holds 79.0% of Talanx AG's issued share capital.

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

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

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

AUA, a subsidiary of AHL, is a service company approved by Lloyd's and the MAS to operate on the Lloyd's Asia platform. AUA also holds a licence granted by the Australian Securities and Investments Commission and has two branch offices approved by Lloyd's in Australia. Syndicate 2121 uses this service company as a coverholder to bind risks on its behalf. Such services relating to business written in Singapore are provided at cost plus a small profit margin of 5% mainly for tax purposes. The total value of the margin for the 2018 year of account is less than £80,000. The commission retained by AUA for business underwritten by the Australian branch is at most 28.5% of gross premium, which is in line with other Australian facilities currently supported by the syndicate. The commission charged in Australia covers original acquisition costs, branch office expenses and processing costs. The total commissions payable for the 2018 year of account were £8.6 million.

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

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

Business transactions

Hannover Re

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

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

Lloyd's granted approval for ASML to establish a Special Purpose Arrangement, Syndicate 6134, with effect from the start of 2018 underwriting year to operate alongside Syndicate 2121 as the host syndicate. Syndicate 6134 is sponsored and capitalised by the Hannover Re group through its corporate member Inter Hannover (No.1) Ltd.

15. Related parties *continued*

Syndicate 6134 writes quota share reinsurances across specific classes of business within the underwriting capability of the host syndicate. In 2018 these included elements of the property, terrorism, specialty, cyber and political risks accounts. The estimated ultimate gross net written premium of Syndicate 6134 for the 2018 year of account is £22.6 million.

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

At 31 December 2021 creditors included an amount of £1.6 million owed to Syndicate 6134.

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

ASML Directors

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

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

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

Mr Sven Althoff is a member of the Executive Board of Hannover Re and a director of other Hannover Re group companies. He was also a director of Apollo Syndicate Management Limited, a Lloyd's Managing Agent, until his resignation on 7 March 2019; and a director of Integra Insurance Solutions Ltd, a UK managing general agent, until his resignation on 15 March 2018.

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

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

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

15. Related parties *continued*

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

ASML

Total fees payable to ASML in respect of services provided to the syndicate in respect of its role as managing agent for the 2018 year of account amounted to £2.6 million. No profit commission was payable. There was £0.1 million of creditors at the period-end due to ASML in respect of expenses paid on behalf of the 2018 year of account.

Capital support for Syndicate 2121

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

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

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

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

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

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

On 10 April 2019 Mr Allen was appointed as a director of all the above corporate members, apart from AU8 which was sold to a third party in February 2019. Messrs Annandale and Allen were also appointed directors of Inter Hannover (No.1) Ltd and Dynastic Underwriting Ltd with effect from 18 January 2021.

AU2, AU3 and AU9 participated on Syndicate 2121 for the 2018 to 2022 years of account. AU8 participated on the 2018 and 2019 years of account. AU10 participated on the 2018 to 2021 years of account.

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

For the 2018 and prior years of account all capital providers who underwrite on Syndicate 2121 are charged managing agency fees and profit commission on a standard basis, apart from where the charges are less advantageous, as disclosed in the Register of Underwriting Agency Charges.

There are no other transactions or arrangements to be disclosed.

16. Risk management

(a) Governance framework

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

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

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

(b) Capital management objectives

Capital framework at Lloyd's

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

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

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

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

16. Risk management *continued*

Lloyd's capital setting process

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

A syndicate may comprise one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. For a member participating on a single syndicate, its SCR is determined by the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate a credit for diversification is included to reflect the spread of risk. The credit given is consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies an uplift to the member's SCR to determine the overall level of capital required. This is known as the member's Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for the 2018 year of account was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member ("FAL"), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates (the latter being adjusted to reflect their value on a Solvency II basis). Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 25 of the syndicate annual accounts, represent resources available to meet members' and Lloyd's capital requirements.

(c) Insurance risk

(1) General

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

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

16. Risk management *continued*

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

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

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

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

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

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

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

16. Risk management *continued*

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

A further guide to the level of catastrophe exposure written by the syndicate is in note 22 of the syndicate annual accounts.

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

Key assumptions

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

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

Sensitivities

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

Claims development table

The syndicate annual accounts include tables showing the estimates of cumulative incurred claims, including both claims notified and IBNR for each underwriting year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at 31 December 2021.

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

16. Risk management *continued*

(2) COVID-19

Syndicate 2121 has material exposure to losses arising from the COVID-19 pandemic both in the UK and overseas. Uncertainties exist both in respect of the assessment of the initial losses that the syndicate might be obliged to pay and of how these will interact with the syndicate's reinsurance programme. This increases the uncertainty of the syndicate's total reserves but does not increase that uncertainty significantly beyond the normal range of uncertainty for the liabilities of an insurance carrier at this stage of development.

(d) Financial risk

(1) Credit risk

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

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

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Net exposure limits are set for each investment counterparty or syndicate of counterparties with minimum credit quality requirements at a portfolio level.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set by the finance and investment committee and are subject to regular reviews. At each reporting date management performs an assessment of creditworthiness of reinsurers, ascertaining a suitable allowance for impairment.
- Guidelines determine when to obtain collateral and guarantees.
- The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The syndicate annual accounts include tables showing the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the annually accounted statement of financial position.

The syndicate annual accounts also include a table showing information regarding the credit risk exposure of the syndicate at 31 December 2021 by classifying assets according to Standard & Poor's credit ratings of the counterparties.

16. Risk management *continued*

Maximum credit exposure

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

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

(2) Liquidity risk

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

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

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

Maturity profiles

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

(3) Financial market risk

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

a. Currency risk;

b. Interest rate risk; and

c. Equity price risk.

16. Risk management *continued*

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

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

- Strict control over derivative instruments (e.g. equity derivatives are only permitted to be held to facilitate portfolio management or to reduce investment risk).

- For assets backing outstanding claims provisions, financial market risk is managed by ensuring the duration and profile of assets are aligned to the technical provisions they are backing. This helps manage financial market risk to the extent that changes in the values of assets are matched by a corresponding movement in the values of the technical provisions.

(a) Currency risk

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

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

The years of account that remain open at 31 December 2021 attract a foreign currency exchange exposure. The syndicate annual accounts include a table that summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date.

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

Sensitivity to changes in foreign exchange rates

The syndicate annual accounts give an indication of the impact on the result of a percentage change in the relative strength of sterling against the value of the main settlement currencies simultaneously based on the information as at 31 December 2021.

16. Risk management *continued*

(b) Interest rate risk

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

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

The syndicate has no significant concentration of interest rate risk.

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

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

(c) Equity price risk

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

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

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

There is no significant concentration of equity price risk.

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

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