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Argenta

Argenta Syndicate Management Limited
Syndicate 2121

Report, Annual Accounts
and Underwriting Year Accounts
as at 31 December 2023

Argenta Syndicate Management Limited
Company Information

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Contents of Report and Accounts

Managing Agent's Report

The directors of Argenta Syndicate Management Limited ("ASML"), a company registered in England and Wales, present their report for the year ended 31 December 2023.

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 2021 year of account which has been reinsured to close with effect from 31 December 2023.

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.

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 mix of business between short-tail and long-tail remains relatively unchanged with a split of roughly two-thirds and one-third respectively.

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

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

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 in the syndicate remains the direct and facultative property account, built around a number of long-standing relationships with managing general agents from around the world, with a particular focus on the USA. In addition, a new underwriter who will be writing an open-market book of predominantly commercial business, again with a US focus, has been appointed. The board of ASML made the decision to close the UK insurance portfolio with effect from July 2023, principally due to a history of underwhelming underwriting performance, but also influenced by

Overview of business *continued*
the increasingly demanding regulatory expectations of writing consumer business within the UK market. This account is now in orderly run-off. The overall property account, however, continues to grow in both London and via the AUA offices in Tuggerah and in Sydney. The latter underwrites Australasian property and business interruption insurance via delegated authorities through third-party coverholders and open-market risks. The syndicate continues to write a relatively modest sized worldwide property treaty account split between catastrophe excess of loss and a small book of risk excess business.

The syndicate's energy book offers a wide range of cover including utilities, exploration and production and distribution risks. The syndicate does not, however, write downstream refining exposures. There is increasing interest in how insurance companies manage the environmental impact of the businesses they choose to insure. It is possibly controversial, but correct, to point out that fossil fuel based energy sources will remain an important contributor to the World's energy supplies for years to come, however, it is important to note that ASML is not blind to the negative connotations and the wider global impact of supporting businesses dependent upon fossil fuels. To help its trading partners transition away from that source of energy, during the year the syndicate created a dedicated underwriting role to look at energy transition opportunities, as it continues to work towards its net zero carbon ambitions.

The marine book consists of the traditional Lloyd's classes including a small book of hull (that is now in run-off due to the closure of the Singapore office), cargo, specie, fine art and liability exposures, both in conjunction with physical damage lines and on a standalone basis.

A book of cyber business, predominantly through participation on Lloyd's approved consortia and London Market binding authorities, is also underwritten. It remains the syndicate's strategic focus to partner with like-minded businesses that put profitability before volume and offer a unique product or opportunity that the business would struggle to replicate without their specialist insight and knowledge.

The political risks account, covering contract frustration, credit and political risks continues to grow, albeit at a modest pace. ASML remains very aware of the current political and financial challenges and is therefore steering any growth opportunities towards those economies and trades that show a prolonged period of economic and political stability.

As alluded to above, the casualty book has grown to a point where it now accounts for around a third of the overall gross premium income written by the syndicate.

The syndicate continues to run-off its exposure to Chinese domiciled reinsurance business following the decision to close, for the 2022 year of account, the dedicated underwriting division of Lloyd's Insurance Company (China) Limited ("LICCL") based in Shanghai. During 2022, it was also decided to cease underwriting from the AUA office in Singapore and the exposures are now being run-off.

For the 2024 year of account, the stamp capacity has been held at £800 million. This follows the material growth between 2022 and 2023 when the syndicate's stamp capacity was increased by 21% from £660 million to £800 million. The plan in 2024 is to marginally increase the utilisation of the stamp capacity as the syndicate continues to build on the recent work done to improve overall performance. Growth remains in line with the ASML strategic objectives for Syndicate 2121, adding new lines of business that are able to deliver profit expectations as well as growing organically when the time is right. This strategy is expected to continue and will always be subject to market conditions, with either high quality underwriters with a proven track record being recruited, or through the support of market consortia or other such joint ventures that offer the syndicate the opportunity to partner with class leading profitable expertise.

Review of underwriting activities

It has been confirmed that 2023 was the hottest year since records began nearly 150 years ago, perilously close to the 1.5 degree celsius increase above the pre-industrial level that was adopted as a maximum desirable increase by 2040. Most people are now in agreement that extreme weather event frequency and severity has increased as a result of recent and rapid global temperature changes. One example of this increase is severe convective storm events (often shortened to SCS) in the USA that manifest themselves as intense tornado and hail outbreaks. In 2023, the total insured loss from SCS events was estimated to be $60 billion (with eighteen individual events each greater than $1 billion), a material increase from the $31 billion in 2022. Although it is far too soon to declare this the beginning of a trend, such a marked increase in activity and severity cannot be ignored. The Atlantic basin hurricane season was also above average from an activity point of view with twenty named storms; seven reaching hurricane status and three of those being major hurricanes (equal to or greater than category 3 on the Saffir-Simpson scale). Fortunately, the prevailing atmospheric conditions during the hurricane season meant that the majority of the storms avoided landfall, and those that did reach land did not cause extensive damage. There was a plethora of other extreme events worldwide, including those not related to climate change, such as earthquakes, that meant that the insurance industry's progress to better assess, aggregate and correctly price catastrophe exposures remains front and centre of attention for all.

Sadly the war in Ukraine continued to dominate headlines; that was until the fragile period of middle-eastern peace was shattered in October 2023 with the Hamas attack on Israel. As reported in 2022, Syndicate 2121 had limited exposure to Ukraine, Belarus and Russia. These exposures have now expired. The syndicate does, however, have some very limited exposure to a number of assets in Israel. These exposures will be reduced over time, should hostilities continue.

It has been an eventful year in many ways, and the lack of new investment capital into the marketplace has meant that new underwriting capacity remains relatively scarce and rates have therefore increased across most of the syndicate's lines, in some cases quite materially. The data shows an increase in risk adjusted rate change at the whole-account level of 8.2% against the estimate in the syndicate's 2023 business plan of 5.5%.

Even with the background of the challenges faced in 2023, it is very pleasing to be able to declare a profit for the year of £100.2 million with a combined ratio of 87.6%.

The table below summarises the capacity, premium volumes, and performance of Syndicate 2121 for 2023 alongside comparative numbers for 2022. Other than in respect of capacity, the numbers shown are on an annually accounted basis. The table is followed by further detailed comments in relation to each of the years on an annually accounted basis and also on an underwriting year of account basis.

Key performance indicators	*2023*	*2022*
Capacity (underwriting year)	£800 million	£660 million
Premiums written gross of commission	£838 million	£776 million
Net premiums earned	£528 million	£507 million
Profit for the year	£100.2 million	£9.4 million
Claims ratio (net)	48%	59%
Combined ratio	88%	99%

Review of underwriting activities *continued*

2021 year of account

Due to the timing of the awful events of early 2022 in Ukraine, the majority of the syndicate's allocated reserves for this loss are sitting within the 2021 year of account. The year of account was also affected by some extreme natural peril losses. An unusual winter storm, named Uri, hit Texas in February 2021 with snow and a severe freeze that caused around $15 billion of damage. In August 2021 Hurricane Ida, the second most powerful storm to hit Louisiana after Hurricane Katrina in 2005, doused 25 parishes of the state with water and damaging winds and caused an estimated loss of around $40 billion. The year finished with an unusual run of very late tornados in the US mid-west and a wildfire in Denver in late December 2021.

It is pleasing to be able to report, however, a profit of 6.0% of capacity for the 2021 year of account.

2022 year of account

The most material change for Syndicate 2121 during the year was the closure of the AUA operation in Singapore in August 2022. This step was taken as a result of a period of mediocre performance and the lack of strategic opportunities in the region to rectify the situation. From a claims point of view, it was a challenging year for the market, beginning with Russia's invasion of Ukraine in February 2022 and continuing with extreme weather events throughout the year. This included Hurricane Ian, a very powerful US windstorm in September 2022 that caused up to $60 billion of insured losses in Florida. This run of losses, exacerbated by the war in Ukraine, resulted in the (re)insurance market hardening dramatically in most product lines. Coupled with this increase in rates, capacity for certain lines of business contracted, just as the demand increased. The lack of new capacity has meant that the harder market conditions have lasted longer than in previous market "turns" and the syndicate has therefore experienced a relatively longer period of sustained rate increases.

The current estimate for the result of the 2022 year of account is a profit in the range of +4.5% to +12% of capacity.

2023 year of account

As mentioned above, 2023 was a year of extremes with over $100 billion of insured losses from natural peril events, the fourth year in a row to exceed the $100 billion threshold. Numerous climate records were also broken, including the disappointing observation that the efforts to keep global warming at or below 1.5 degrees celsius above pre-industrial levels are not showing the desired outcomes. The insurance market is therefore having to manage the near and long-term effects of this shortfall. Fortunately, one of the more effective tools available, along with rigorous risk selection and monitoring of exposures, is the price charged for the products the syndicate sells. Whilst it is expected that the harder market conditions witnessed throughout 2023 in all product lines will continue into 2024, the rate of increase is likely to slow. The syndicate, however, will remain in a strong position for the foreseeable future, given the rate adequacy currently being experienced.

Trading conditions for 2024

As already mentioned, harder market conditions are expected to continue into 2024, meaning that the good rate adequacy currently being seen will remain for all products. The plan for 2024 is to write £873 million of gross premium income, a headline plan-to-plan increase from 2023 of £18 million. The true growth within the business, accounting for foreign exchange movements and the closure of the UK insurance book, however, is close to £90 million. Inflation is still an influencing factor and an increase of around 4% across the portfolio has been assumed. It has further been assumed that the syndicate's expected risk adjusted rate change for 2024 accounts for around two-thirds of the growth. The balance is from organic growth across existing classes plus the establishment of two new units for 2024, being

Review of underwriting activities *continued*

construction and engineering and a more meaningful presence in the worldwide direct and facultative property market. Business seen to date for 2024 is confirming the syndicate's view of conditions; a positive rating market with a modest slowdown of momentum in the scale of applicable rate increases in most classes.

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

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

Environmental, social and governance strategy

Environmental strategy

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

Social strategy

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

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

Governance strategy

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

Environmental, social and governance strategy *continued*

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

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

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

ASML business structure

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

As the managing agency of Syndicate 2121, ASML has maintained a strategy of steadily growing the syndicate where market conditions permit with capacity increasing from £600 million in 2021 to £800 million in 2023. The capacity of the syndicate for the 2024 year of account has been maintained at the same level as for 2023. The growth strategy is achieved by the selective addition over the years of new classes of business to complement the existing portfolio, as well as continued organic growth in a number of areas.

The syndicate underwrites a broad cross section of classes including marine, property, energy and utility on a predominantly short tail basis; and financial lines, casualty, marine and energy liability and elements of the specialty class with longer tail characteristics. In June 2023, the syndicate ceased to underwrite the UK insurance class first introduced to the syndicate in 2015.

The syndicate underwrites business on a global basis from London and via the Australian branch of AUA. Until late 2021, the syndicate underwrote business from China by way of participating on the Lloyd's China Platform in Shanghai through a division of LICCL. It also underwrote business from Singapore via AUA until August 2022.

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

A strategy of growth has also been adopted in respect of Syndicate 6134. In respect of the 2021 year of account, the syndicate underwrote gross net written premium of £76.2 million, increasing to £85.8 million and £86.7 million for the 2022 and 2023 years of account respectively. The forecast is for this to increase to £110.2 million in respect of the 2024 year of account.

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

Directors

John LP Whiter – *Non-executive Chairman*

Nicholas J Moore – *Director*

Graham K Allen – *Director*

Sven Althoff – *Non-executive Director*

Rosemary F Beaver – *Non-executive Director (appointed 24 April 2023)*

Ian Burford – *Director and Active Underwriter Syndicates 2121 and 6134*

Carol-Ann Burton – *Director and Company Secretary*

Adam B Cragg – *Director (appointed 17 October 2023)*

Nigel S Meyer – *Non-executive Director (appointed 30 January 2023)*

Gary A Powell – *Non-executive Director*

Jens Schäfermeier – *Non-executive Director*

David J Thompson – *Director (resigned 31 July 2023)*

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”), the Australian Securities and Investment Commission (“ASIC”) 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 cash resources to be able to meet its liabilities as they fall due. The liquidity of the syndicate is influenced by a number of factors that have the potential to arise from across the business. Management information is used to enable the effective monitoring of the liquidity risk framework in line with the agreed procedures and governance arrangements. Robust procedures are in place for the monitoring of cash flow and effective credit control. Claims activity is closely scrutinised and the movement of existing claims is reported at regular intervals.

Credit risk

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

Financial market risk

Financial market risk is concerned with the loss resulting from adverse movements in the financial markets. The risks are partly mitigated by following a predominantly fixed income investment strategy that is designed to perform in line with a specific target benchmark. The outsourced professional investment managers have the ability to use interest rate futures to mitigate exposure to potential losses from the movement in interest rates or inflation. The business has a low appetite for market risk and as such there is a requirement to hold only investment grade fixed income investments within the fixed income portfolio that it manages. Assets are also held in cash and high quality, highly liquid short term money market 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, to mitigate exposure to exchange rate movements.

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 2023 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 the Lloyd's treasury team, also 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 US dollar fixed income portfolio return net of fees was 5.1%, which outperformed the target benchmark of 4.6%. The Federal Reserve ('the Fed') continued hiking interest rates from 4.5% at the end of December 2022 to a peak of 5.5% in July 2023. Insight achieved a good return in 2023.

During the latter part of the year credit spreads tightened and the markets started to price in interest rate cuts in early 2024 following indications that the Fed had reached the end to its interest rate hiking cycle. However, an increase in US inflation in December appears to have pushed back expectations as to the timing of interest rates cuts to the latter half of 2024. The outlook for fixed income markets is positive from a yield perspective in 2024 but valuations will remain sensitive to the outlook for inflation and geopolitical events. Insight reports on 2023 as follows:

> "Following a good first quarter in 2023, government yields rose sharply as the markets feared that not only would official interest rates have to rise further than was anticipated but rates would have to stay at elevated levels well into 2024 as inflationary pressures were still a concern.
>
> The tone in bond markets improved in the latter part of the year, thanks to rapidly improving inflation data. Central Bank comments also indicated they had reached the end of their hiking cycles. For government bond yields this changing environment, lead to a roller coaster ride with 5 year US treasury yields starting the year at 4% and ending the year at 3.8%, having peaked in October at around 5%. Although the yield curve in the US remained inverted, sending a signal to markets that a recession was possible, the size of the inversion decreased as the markets began to price in sizeable interest rate cuts in early 2024.
>
> Risk assets such as equity markets and credit had a volatile start to the year, thanks to the US regional banking turmoil, which led to sell offs in March and April. With central banks stepping in to provide support to the banking system, risk markets regained their poise and ended the year well, with the focus shifting to the lack of recessionary data and the possibility that interest rates could be cut in 2024.
>
> The global economy outperformed most commentators' forecasts with all but Germany and Sweden avoiding growth contractions. Inflationary pressures, having caused much concern to all the world's central banks, finally started to show a trend of deceleration with US inflation declining from the peak of 9%, reached in June 2022, to 3.1% in November 2023. The last concern for central banks is the strength of labour markets where there is little evidence that companies have started to shed staff having struggled to find new employees over the years following Covid.
>
> Broadly, the world is seeing falling growth, which is not a constructive environment for risk assets. However, there is a stark divergence between the resilient growth being seen in the US in the face of higher rates and the more precarious economic health of the EU, UK and China. Insight is forecasting below trend GDP growth for the US, with

Investment managers and policy *continued*

2.1% in 2023 and only 1.4% in 2024. Elsewhere, the eurozone and UK are expected to experience lacklustre growth. Inflation is forecast to continue declining and if US inflation continues to moderate, Insight expects rate cuts to commence in the second half of 2024. The inversion of the US treasury yield curve is expected to slowly reduce, though two-year yields may not fall below ten-year yields for some time. Insight envisages ten-year yields to ease slightly over the next year, to around 3.75%, with two-year yields just below 4%.

Demand for investment grade credit rose as investors became more confident that interest rates have peaked globally and look to lock in yields over longer time horizons. This has led to a tightening in credit spreads from historically attractive levels. Insight believes this momentum could have further to run in the short term but takes a more cautious view in the medium term with the lagged impact of central bank tightening slowing growth further in 2024, which has negative implications for corporate profit margins. That said, the absolute level of yields remains attractive from an income perspective and provides a significant buffer against losses should yields rise."

Lloyd's treasury

The gross Canadian dollar portfolio return was a profit of 4.5%, which was slightly under the benchmark of 4.6% for the calendar year. Lloyd's treasury reports on 2023 as follows:

"Over the year markets were impacted by the collapse of several US regional banks, the purchase of Credit Suisse by UBS, the rise in technology stocks on the back of the emergence of AI, concerns around the US budget deficit and ongoing political events.

The majority of the calendar year performance was driven by a dramatic rally in bond yields from mid-October until the year end as economic data showed that inflation was moving towards central banks' targets, which caused markets to bring forward their expectations on the timing of interest rate cuts. Dovish commentary from the Fed supported this view.

In Q4, two and five year Canadian government bond yields moved 1 and 1.1% lower to approximately 3.9% and 3.2% respectively as markets priced in a 45% chance of a rate cut at the end of Q1 and a further four cuts in the rest of 2024. It is believed the fundamentals remain supportive for bonds, however, the asset class has begun 2024 with tight valuations, and in the short-term markets will have to push back on the bullish interest rate cuts priced in at the end of 2023.

From a rates perspective, there is an opportunity to add duration as interest rate cuts are likely in 2024 with inflation continuing its downward trajectory towards central bank targets. From a credit spread perspective there is limited room for further tightening but there is the potential for a modest widening. Investment grade credit ratings are expected to remain broadly stable, as there are no concerns at present for the asset class. The government elections due in 2024 and ongoing geopolitical tensions may, however, have an impact on central bank policy. Nonetheless, inflation is falling, energy prices are declining and with growth slowing there is a high expectation that rate cuts will be forthcoming. The major obstacles to these are avoiding a recession and the resurgence of inflationary pressures."

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 managers and policy *continued*

Investment objectives

The overall objective is to target a return, over the long term, of the secured overnight financing rate ("SOFR") plus 126 bps and remain 99.5% confident of not underperforming SOFR by more than 574 bps over a three-year rolling period. With regard to the US dollar portfolio, the return for 2023 of 5.2% underperformed the long-term US dollar target, which was 6.3%. The portfolio was negatively impacted by the 1% increase in Fed interest rates by July 2023 to curb inflation. This resulted in credit spreads widening although valuations recovered towards the back end of the year as markets priced in the expectation of interest rate cuts in the early part of 2024. The outlook for fixed income bond markets in 2024 is positive from a yield perspective but credit spreads are much tighter at the start of the year than previous points, meaning that valuations will be sensitive to central bank policy, economic data and geopolitical events.

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:

	2023	*2022*
	'000	*'000*
United States dollars	689,439	526,880
Sterling and other currencies	149,126	119,918
Canadian dollars	114,830	91,701
Euros	61,237	41,176
Combined in sterling	825,554	637,559
Net aggregate investment return for the calendar year in sterling	39,411	3,401

Net calendar year investment yield:	*2023*	*2022*
United States dollars	5.2%	0.8%
Sterling and other currencies	4.3%	0.0%
Canadian dollars	4.0%	0.1%
Euros	3.2%	0.0%
Combined in sterling	4.8%	0.5%

Research and development

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

Disclosure of information to the auditors

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

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

Independent auditors

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

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

Annual general meeting of syndicate members

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

Nicholas J Moore

Managing Director

Approved by the board of Argenta Syndicate Management Limited on 26 February 2024.

SYNDICATE

2121

ANNUAL ACCOUNTS 2023

Statement of Managing Agent's Responsibilities

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

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

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

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

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

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

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

Independent Auditors' Report to the Members of Syndicate 2121

Report on the audit of the syndicate annual accounts

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

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Report, annual accounts and underwriting year accounts (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2023; Income statement: technical account – general business, Income statement: non-technical account, the Statement of cash flows, and the Statement of changes in members' balances for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

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

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

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

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

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

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

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

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

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

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

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

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

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2023 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 regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to insurance contract technical provisions and estimates of future premiums. Audit procedures performed by the engagement team included:

- discussions with the Board, management and compliance function of the Managing Agent, including consideration of known or suspected instances of fraud and non-compliance with laws and regulations;
- reviewing relevant meeting minutes, including those of the Board and Audit Committee of the Managing Agent, and correspondence with regulatory authorities, including Lloyd's of London, the 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 insurance contract technical provisions and the estimates of future premiums;
- identifying and testing journal entries based on risk criteria; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

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

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Alexis Gish (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2024

Income Statement: Technical account – general business

for the year ended 31 December 2023

	Notes	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Earned premiums, net of reinsurance					
Gross premiums written	2	837,807		776,419	
Outward reinsurance premiums		(262,220)		(257,476)	
Net premiums written		575,587		518,943	
Change in the provision for unearned premiums					
Gross amount		(51,738)		(10,569)	
Reinsurers' share		4,628		(1,764)	
Change in the net provision for unearned premiums		(47,110)		(12,333)	
Earned premiums, net of reinsurance			528,477		506,610
Allocated investment return transferred from the non-technical account	8		39,411		3,401
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(270,765)		(283,462)	
Reinsurers' share		85,553		110,005	
Net claims paid		(185,212)		(173,457)	
Change in the provision for claims					
Gross amount		(70,551)		(164,640)	
Reinsurers' share		4,361		39,776	
Change in the net provisions for claims		(66,190)		(124,864)	
Claims incurred, net of reinsurance			(251,402)		(298,321)
Net operating expenses	4		(211,446)		(203,327)
Balance on the technical account for general business			105,040		8,363

All items relate only to continuing operations.

Income Statement: Non-technical account

for the year ended 31 December 2023 continued

	Notes	*2023* *£'000*	*2022* *£'000*
Balance on the general business technical account		105,040	8,363
Investment income	8	27,421	10,223
Net unrealised gains/(losses) on investments	8	12,603	(6,269)
Investment expenses and charges	8	(613)	(553)
Allocated investment return transferred to the general business technical account		(39,411)	(3,401)
Exchange (losses)/gains		(4,862)	1,028
Profit for the financial year		100,178	9,391

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 2023

	Notes	2023 £'000	2022 £'000
At 1 January		(2,958)	(54,028)
Profit for the financial year		100,178	9,391
Members' agents' fees		(1,257)	(1,292)
Payment of profits to members' personal reserve funds	14	(5,621)	–
Cash calls made from members' personal reserve funds	14	11,886	42,695
Net movement in unearned profits on closed years	14	16	276
At 31 December		102,244	(2,958)

Statement of Financial Position

as at 31 December 2023

	Notes	2023 £'000	2023 £'000	2022 £'000	2022 £'000
ASSETS					
Investments					
Financial investments	9		833,367		626,613
Deposits with ceding undertakings			669		2,124
Reinsurers' share of technical provisions					
Provision for unearned premiums	10	102,661		102,544	
Claims outstanding	10	376,707		390,750	
			479,368		493,294
Debtors					
Debtors arising out of direct insurance operations	11	214,697		195,489	
Debtors arising out of reinsurance operations	12	172,954		175,334	
Other debtors		2,370		4,875	
			390,021		375,698
Cash and other assets					
Cash at bank and in hand		16,240		41,877	
Other assets	13	77,756		91,239	
			93,996		133,116
Prepayments and accrued income					
Accrued interest		1,268		158	
Deferred acquisition costs	10	111,455		98,476	
Other prepayments and accrued income		4,926		4,218	
			117,649		102,852
TOTAL ASSETS			1,915,070		1,733,697

Statement of Financial Position

as at 31 December 2023 continued

		2023		2022	
	Notes	*£'000*	*£'000*	*£'000*	*£'000*
MEMBERS' BALANCES AND LIABILITIES					
Members' balances			102,244		(2,958)
Technical provisions					
Provision for unearned premiums	10	384,994		349,596	
Claims outstanding	10	991,495		963,993	
			1,376,489		1,313,589
Creditors					
Creditors arising out of direct insurance operations	15	9,700		12,002	
Creditors arising out of reinsurance operations	16	367,292		370,749	
Other creditors		3,469		5,850	
			380,461		388,601
Accruals and deferred income	17		55,876		34,465
TOTAL MEMBERS' BALANCES AND LIABILITIES			1,915,070		1,733,697

The syndicate annual accounts on pages 23 to 67 were approved by the Board of Argenta Syndicate Management Limited on 26 February 2024 and were signed on its behalf by

Nicholas J Moore
Managing Director

Statement of Cash Flows

for the year ended 31 December 2023

	Notes	2023 £'000	2022 £'000
Profit on ordinary activities		100,178	9,391
Increase/(decrease) in unearned premiums and outstanding claims		120,896	179,568
(Increase)/decrease in reinsurers' share of unearned premiums and outstanding claims		(9,256)	(39,854)
(Increase)/decrease in debtors		(52,907)	(81,399)
Increase/(decrease) in creditors		29,086	96,723
Investment return		(39,411)	(3,401)
Movements in other assets/liabilities		16,189	(4,264)
Exchange differences		9,207	(5,516)
Net cash inflow/(outflow) from operating activities		173,982	151,248
Investing activities			
Investment income received		22,556	7,756
Purchases of debt and equity instruments		(1,111,632)	(484,024)
Sales of debt and equity instruments		967,717	341,917
Purchases of derivatives		(69,307)	(159,339)
Sales of derivatives		69,082	162,112
(Increase)/decrease in overseas deposits		10,642	(11,279)
(Increase)/decrease in deposits with ceding undertakings		1,357	(693)
Net cash inflow/(outflow) from investing activities		(109,585)	(143,550)
Financing activities			
Payment of profits to members' personal reserve funds		(5,621)	–
Cash calls made from members' personal reserve funds		11,886	42,695
Members' agents' fee advances		(1,257)	(1,292)
Net cash inflow/(outflow) from financing activities		5,008	41,403
Increase/(decrease) in cash and cash equivalents		69,405	49,101
Cash and cash equivalents at 1 January		148,772	93,348
Exchange differences on opening cash and cash equivalents		(5,714)	6,323
Cash and cash equivalents at 31 December	18	212,463	148,772

Notes to the Accounts

1. Accounting policies

1.1 Statement of compliance

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

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

1.2 Basis of preparation

The financial statements for the year ended 31 December 2023 were approved for issue by the board of directors on 26 February 2024.

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.

A split between notified claims and claims IBNR at the year-end is provided in note 10.

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. There are some bespoke agreements under which a capital provider pays profit commission at a level above the standard rate. Profit commission 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 2023 and 31 December 2022 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 or losses recognised in 2023 or 2022.

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:

2023	*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	516	511	(60)	(255)	(170)	26
Motor (other classes)	422	4,090	(2,961)	(1,821)	1,096	404
Marine, aviation and transport	30,825	33,301	(16,399)	(11,510)	(1,880)	3,512
Energy	59,122	55,739	(24,856)	(17,465)	(4,276)	9,142
Fire and other damage to property	221,358	206,400	(75,694)	(72,391)	(37,659)	20,656
Third-party liability	231,008	224,593	(101,460)	(91,780)	(14,086)	17,267
Pecuniary loss	26,980	26,397	(10,108)	(7,666)	(4,726)	3,897
	570,231	551,031	(231,538)	(202,888)	(61,701)	54,904
Reinsurance acceptances:						
Fire and other damage to property	85,769	84,897	(38,792)	(23,514)	(27,009)	(4,418)
Marine, aviation and transport	42,763	38,677	(30,716)	(11,269)	2,083	(1,225)
Energy	43,051	34,645	(15,929)	(10,023)	(5,485)	3,208
Casualty	95,993	76,819	(24,341)	(25,636)	(13,682)	13,160
	267,576	235,038	(109,778)	(70,442)	(44,093)	10,725
	837,807	786,069	(341,316)	(273,330)	(105,794)	65,629

Notes to the Accounts

continued

2. Particulars of business written *continued*

2022

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses* £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Accident and health	(261)	(430)	96	60	(480)	(754)
Motor (other classes)	12,295	11,931	(5,117)	(5,859)	(1,392)	(437)
Marine, aviation and transport	43,647	44,085	(16,827)	(17,753)	(4,842)	4,663
Energy	54,930	51,840	(14,261)	(18,312)	(11,954)	7,313
Fire and other damage to property	203,021	195,791	(80,254)	(70,777)	(16,741)	28,019
Third-party liability	243,612	246,336	(173,602)	(93,647)	7,306	(13,607)
Pecuniary loss	22,196	24,217	(7,543)	(6,693)	(7,190)	2,791
	579,440	573,770	(297,508)	(212,981)	(35,293)	27,988
Reinsurance acceptances:						
Fire and other damage to property	82,210	83,697	(87,108)	(17,801)	(6,050)	(27,262)
Marine, aviation and transport	33,370	34,810	(24,855)	(11,402)	(311)	(1,758)
Energy	25,141	21,896	(9,510)	(5,737)	(1,312)	5,337
Casualty	56,258	51,677	(29,121)	(15,460)	(6,439)	657
	196,979	192,080	(150,594)	(50,400)	(14,112)	(23,026)
	776,419	765,850	(448,102)	(263,381)	(49,405)	4,962

All premiums were concluded in the UK.

*Net operating expenses shown in the income statement include an amount of £61.9 million (2022: £60.1 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 2023 £'000	Gross written premiums 2022 £'000
US	338,402	253,087
UK	210,137	279,401
EU	87,152	53,816
Other	202,116	190,115
	837,807	776,419

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

An overall deterioration of £4.4 million on prior years' provisions was experienced during the year. Deteriorations of £3.5 million on third-party liability, £3.7 million on fire and other damage to property and £1.5 million on reinsurance accepted were partially offset by improvements of £1.1 million on marine, aviation and transport, £2.0 million on pecuniary loss, £0.6 million on motor and £0.6 million on energy.

(2022: An overall deterioration of £7.4 million on prior years' provisions was experienced during the year. Deteriorations of £3.1 million on energy, £13.3 million on third-party liability and £6.0 million on reinsurance accepted were partially offset by improvements of £3.0 million on marine, aviation and transport, £4.7 million on fire and other damage to property and £6.8 million on pecuniary loss.)

4. Net operating expenses

	2023	*2022*
	£'000	*£'000*
Acquisition costs	251,165	248,868
Change in deferred acquisition costs	(17,010)	(6,094)
Administrative expenses	39,175	20,607
Gross operating expenses	273,330	263,381
Reinsurance commissions	(66,244)	(62,051)
Change in deferred reinsurance commissions	4,360	1,997
Net operating expenses	211,446	203,327

Administrative expenses include:

	2023	*2022*
	£'000	*£'000*
Auditors' remuneration – audit of the syndicate accounts	308	327
– other services pursuant to regulations and Lloyd's byelaws	286	216
Members' standard personal expenses	25,282	9,024

Total commissions for direct insurance accounted for in the year amounted to £159.3 million (2022: £182.9 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:

	2023	*2022*
	£'000	*£'000*
Wages and salaries	23,029	18,324
Social security costs	3,193	2,530
Other pension costs	1,446	1,241
	27,668	22,095

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

	2023	*2022*
	Number	*Number*
Administration and finance	15	15
Underwriting	46	45
Underwriting support	41	41
Claims	17	15
	119	116

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

Notes to the Accounts

continued

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

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

	2023	*2022*
	£'000	*£'000*
Emoluments	1,715	1,919

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:

	2023	*2022*
	£'000	*£'000*
Emoluments	397	374

8. Investment return

	2023	*2022*
	£'000	*£'000*
Income from other financial investments	26,656	10,078
Net gains on realisation of investments		
– designated at fair value through profit or loss	765	145
Total investment income	27,421	10,223
Net unrealised gains/(losses) on investments		
– designated at fair value through profit and loss	12,603	(6,269)
Investment expenses and charges	(613)	(553)
Total investment return	39,411	3,401

9. Financial investments

	31 December 2023		
	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	203,839	203,839	83,921
Debt securities and other fixed income securities			
– designated at fair value through profit or loss	589,761	576,464	–
Participation in investment pools	39,767	38,083	–
Deposits with credit institutions held at fair value	–	–	–
Loans secured by mortgages held at fair value	–	–	–
Derivative assets held at fair value	–	–	–
	833,367	818,386	83,921

	31 December 2022		
	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	114,379	114,379	62,482
Debt securities and other fixed income securities			
– designated at fair value through profit or loss	472,562	477,116	–
Participation in investment pools	39,429	39,501	–
Deposits with credit institutions held at fair value	–	–	–
Loans secured by mortgages held at fair value	–	–	–
Derivative assets held at fair value	243	–	–
	626,613	630,996	62,482

The shares and other variable yield securities and units in unit trusts primarily 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 2023	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*
Shares and other variable yield securities and units in unit trusts	196,008	–	7,831	203,839
Debt securities and other fixed income securities	–	589,761	–	589,761
Participation in investment pools	1	39,766	–	39,767
Loans, deposits with credit institutions and derivatives	–	–	–	–
Overseas deposits	18,200	59,556	–	77,756
	214,209	689,083	7,831	911,123

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

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

		2023	
	Gross	*Reinsurers' share*	*Net*
	£'000	*£'000*	*£'000*
At 1 January	963,993	(390,750)	573,243
Claims incurred in current underwriting year	147,982	(36,387)	111,595
Claims incurred in prior underwriting years	193,334	(53,527)	139,807
Claims paid during the year	(270,765)	85,553	(185,212)
Foreign exchange	(43,049)	18,404	(24,645)
At 31 December	991,495	(376,707)	614,788
Claims notified	322,127	(109,717)	212,410
Claims incurred but not reported	669,368	(266,990)	402,378
At 31 December	991,495	(376,707)	614,788

		2022	
	Gross	*Reinsurers' share*	*Net*
	£'000	*£'000*	*£'000*
At 1 January	731,072	(319,353)	411,719
Claims incurred in current underwriting year	180,405	(73,492)	106,913
Claims incurred in prior underwriting years	267,697	(76,289)	191,408
Claims paid during the year	(283,462)	110,005	(173,457)
Foreign exchange	68,281	(31,621)	36,660
At 31 December	963,993	(390,750)	573,243
Claims notified	318,404	(106,142)	212,262
Claims incurred but not reported	645,589	(284,608)	360,981
At 31 December	963,993	(390,750)	573,243

10. Technical provisions *continued*

Provision for unearned premiums

		2023	
		Reinsurers'	
	Gross	*share*	*Net*
	£'000	*£'000*	*£'000*
At 1 January	349,596	(102,544)	247,052
Premiums written in the year	837,807	(262,220)	575,587
Premiums earned in the year	(786,069)	257,592	(528,477)
Foreign exchange	(16,340)	4,511	(11,829)
At 31 December	384,994	(102,661)	282,333

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

Deferred acquisition costs

	2023	*2022*
	£'000	*£'000*
At 1 January	98,476	85,361
Change in deferred acquisition costs	17,010	6,094
Foreign exchange	(4,031)	7,021
At 31 December	111,455	98,476

11. Debtors arising out of direct insurance operations

	2023	*2022*
	£'000	*£'000*
Amounts falling due within one year – intermediaries	214,524	195,489
Amounts falling due after one year – intermediaries	173	–
	214,697	195,489

12. Debtors arising out of reinsurance operations

	2023 £'000	2022 £'000
Amounts falling due within one year	172,931	175,328
Amounts falling due after one year	23	6
	172,954	175,334

13. Other assets

	2023 £'000	2022 £'000
Overseas deposits		
Amounts advanced in the following locations as a condition of carrying on business there:		
Illinois, USA	559	825
Australia	31,922	38,408
Canada	12,218	11,673
South Africa, Switzerland and other countries	33,057	40,333
	77,756	91,239

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.

Payment of profits to members' personal reserve funds relates to distributions of £5,621,000 in respect of the 2020 year of account (2022: Nil).

Cash calls made from members' personal reserve funds relate to collections of £11,886,000 in respect of the 2019 year of account. (2022: collections of £23,789,000 and £18,906,000 in respect of the 2019 and 2018 years of account respectively).

Members' results on closed years of account are determined without reference to whether they are earned.

15. Creditors arising out of direct insurance operations

	2023 £'000	2022 £'000
Amounts falling due within one year	9,700	12,002
Amounts falling due after one year	–	–
	9,700	12,002

16. Creditors arising out of reinsurance operations

	2023	*2022*
	£'000	*£'000*
Amounts falling due within one year	225,773	240,959
Amounts falling due after one year	141,519	129,790
	367,292	370,749

17. Accruals and deferred income

Accruals and deferred income includes £30.9 million (2022: £27.8 million) in respect of deferred reinsurance commissions.

18. Cash and cash equivalents

	2023	*2022*
	£'000	*£'000*
Cash at bank and in hand	16,240	41,877
Short-term deposits with financial institutions	196,223	106,895
	212,463	148,772

The syndicate holds £196.2 million (2022: £106.9 million) of highly liquid assets. An amount of £196.0 million (2022: £106.5 million) is held in unitised money market funds that provide daily liquidity, with the remaining £0.2 million (2022: £0.4 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 undertaking. Copies of the financial statements for AHL and ASML can be obtained from Companies House.

AHL is wholly owned by Hannover Re, which is the smallest group to consolidate the financial statements of ASML. Its financial statements can be obtained from its registered office address at Karl-Wiechert-Allee 50, 30625 Hannover, Germany. The parent undertaking of Hannover Re is Talanx AG which holds a 50.2% interest in the company. The principal shareholder in Talanx AG is HDI Haftpflichtverband der Deutschen Industrie. V.a.G. ("HDI") which holds 78.9% of Talanx AG's issued share capital.

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

Argenta Private Capital Limited ("APCL"), an AHL group company, provides taxation services to the syndicate. These services were previously provided by Argenta Tax & Corporate Services Limited ("ATCSL"), another AHL group company, until its business and assets were acquired by APCL with effect from 1 January 2023. Fees are agreed on a commercial basis and the profit to APCL generated from providing these services is less than £1,000 (2022: less than £1,000 profit to ATCSL).

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 (2022: £100,000).

The commission retained by AUA for business underwritten by the Australian branch during 2023 was, at most, 28.5% of gross premium. This commission covered original acquisition costs, branch office expenses and processing costs. The total commissions payable were £12.8 million (2022: £12.3 million). For 2024, the Australian branch commissions were changed such that AUA now receives 3% in respect of delegated business and 15% on open market business it underwrites on behalf of Syndicate 2121. This is in addition to original acquisition costs. The arrangements detailed are in line with other Australian facilities currently supported by the syndicate.

On 5 August 2022 the Board of ASML decided not to renew the service company agreement for Singapore and the business written in Singapore is now in run-off. The future structure under which the Australian branch offices are to operate is currently under review. This is expected to be concluded during 2024.

Mr Graham Allen, Mr Sven Althoff, Mr Ian Burford, Mr Nicholas Moore and Mr John Whiter are directors of AHL. Mr Andrew Annandale was a director of ASML, AHL, APCL, AUA and ATCSL until his retirement from these Boards on 31 December 2022. Mr Ian Maguire was a director of ASML, AHL and AUA until his resignation on 7 May 2021. Mr Moore and Mr Burford were appointed to the Board of AHL with effect from 28 July 2022 and 14 December 2023 respectively. Mr Moore was appointed as a director of APCL on 31 December 2022. Mr Allen was appointed to the Board of AUA with effect from 5 December 2022. Ms Carol-Ann Burton is a director of ATCSL.

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

Business transactions

Hannover Re

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

Syndicate 2121 has in the past provided insurance or reinsurance cover to Hannover Re and its subsidiaries and may do so in the future.

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

Syndicate 6134 writes quota share reinsurances across specific classes of business within the underwriting capability of the host syndicate. From 2021 these included elements of the property, terrorism, specialty, cyber, political risks, marine hull and war, marine and energy liability, marine cargo and specie and casualty treaty accounts as well as financial lines business consisting of professional indemnity, financial institutions, and SME specialty liability accounts. The estimated ultimate gross net written premium of Syndicate 6134 for the 2022 year of account is £85.8 million, for the 2023 year of account it is £86.7 million and for the 2024 year of account the expectation is that the gross net written premium will be £110.2 million.

20. Related parties *continued*

Syndicate 2121 charges Syndicate 6134 an overriding commission in relation to these arrangements. For the 2021 to 2023 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 2023 creditors included an amount of £182.0 million (2022: £219.7 million) owed to Syndicate 6134.

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

ASML Directors

Mr John Whiter was chairman of Piiq Risk Partners Ltd (formerly PSE Partners Ltd and before that Ed Broking (London) Ltd), a Lloyd's broker, until his resignation on 31 March 2022. Mr Whiter was also chairman of Ed Broking Group Ltd until his resignation on 31 March 2022. Mr Whiter was appointed as a non-executive director of Continuum Advisory Limited, a corporate finance advisory firm, on 16 January 2023.

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

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

Mr Jens Schäfermeier is the managing director of the UK and Ireland, Aviation and Marine division within Hannover Re.

Mr Nigel Meyer joined the Board of ASML on 30 January 2023 as a non-executive director. Mr Meyer holds non-executive directorships with First Central Insurance Management Limited, an insurance broker; Amtrust Europe Limited, an insurance company; and is an executive director of Heydon Consulting Limited, a consultancy providing mergers and acquisitions advisory services to the insurance sector. Mr Meyer owns 50% of the shares of Heydon Consulting Limited.

Ms Rosemary Beaver joined the Board of ASML on 24 April 2023. Ms Beaver is a non-executive director of Newline Underwriting Management Limited and Newline Insurance Company Limited.

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

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

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

20. Related parties *continued*

ASML

Total fees payable to ASML in respect of services provided to the syndicate amounted to £6.0 million (2022: £5.0 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 2023, no profit commission was payable to ASML. Accruals and deferred income at the year-end include amounts accrued in respect of profit commission due to ASML of £13.9 million (2022: Nil) including £1.3 million in relation to the 2021 closed year of account payable in 2024.

In addition to this, £31.2 million (2022: £25.7 million) was recharged by ASML for expenses paid on behalf of the syndicate. Creditors at the year-end include amounts due to ASML of £2.9 million (2022: £1.2 million) relating to these.

Capital support for Syndicate 2121

For a fee, Hannover Re provides capital support to Argenta Underwriting No. 3 Ltd for the 2021 to 2023 years of account and Argenta Underwriting No. 2 Ltd for the 2022 and 2023 years of account by way of excess participation agreements.

IH1, a wholly owned subsidiary of the Hannover Re group, participates on Syndicate 2121 for the 2021 to 2024 years of account.

HGS, a subsidiary of Talanx AG, supported Syndicate 2121 for the 2022 year of account by way of a pro-rata participation agreement with Argenta Underwriting No. 9 Ltd in respect of 100% of the member's participation.

APCL allocates capacity to Syndicate 2121 for all the open years of account. It has also allocated capacity to Syndicate 2121 in respect of the 2024 year of account.

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

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

Messrs Allen and Moore were appointed as directors of all the above corporate members on 10 April 2019 and 31 December 2022 respectively and Messrs Annandale and Allen were also appointed directors of IH1 with effect from 18 January 2021. Mr Annandale resigned from IH1 with effect from 31 December 2022 and Mr Moore was appointed as a director of IH1 with effect from 31 December 2022. Mr Schäfermeier was appointed a director of IH1 on 26 January 2024.

AU2 and AU3 participated on Syndicate 2121 for the open years of account and are participating for the 2024 year of account. AU9 participated on the syndicate for the 2021 and 2022 years of account and AU10 supported the syndicate for the 2021 year of account.

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

For the 2023 and prior years of account all capital providers who underwrite on Syndicate 2121 are charged managing agency fees and profit commission on a standard basis, apart from where the charges are less advantageous, as disclosed in the Register of Underwriting Agency Charges.

There are no other transactions or arrangements to be disclosed.

21. Funds at Lloyd's

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

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

22. Risk management

(a) Governance framework

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

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

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

(b) Capital management objectives

Capital framework at Lloyd's

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

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

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

22. Risk management *continued*

Lloyd's capital setting process

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

A syndicate may comprise one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. For a member participating on a single syndicate, its SCR is determined by the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate a credit for diversification is included to reflect the spread of risk. The credit given is consistent with determining a SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies an uplift to the member's SCR to determine the overall level of capital required. This is known as the member's Economic Capital Assessment ("ECA"). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2023 was 35% (2022: 35%) of the member's SCR 'to ultimate'.

Provision of capital by members

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

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

(c) Insurance risk

(1) General

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

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

22. Risk management *continued*

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

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

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

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

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

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

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

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

22. Risk management *continued*

As a further guide to the level of catastrophe exposure written by the syndicate, the following table shows forecast claims arising from various hypothetical catastrophe events for the 2024 year.

These include 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 2024 Syndicate Business Forecast ("SBF") approved by Lloyd's, therefore are based on expected risk exposures estimated for the 2024 year.

Catastrophe event	*Estimated gross loss £m*	*Estimated final net loss £m*
30-year loss – Whole world natural catastrophe	205	127
30-year loss – US windstorm	133	81
Cyber – Ransomware contagion	63	48
30-year loss – US & Canada earthquake	61	39
Cyber – Major data security breach	45	34

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

	31 December 2023		*31 December 2022*	
	Gross liabilities £'000	*Net liabilities £'000*	*Gross liabilities £'000*	*Net liabilities £'000*
Direct insurance:				
Accident and health	2,675	1,304	3,473	1,686
Motor (other classes)	7,432	4,866	9,240	5,595
Marine, aviation and transport	56,802	38,769	64,662	47,149
Energy	78,061	62,862	74,668	63,399
Fire and other damage to property	256,261	188,310	262,270	179,260
Third-party liability	516,872	296,161	500,838	276,983
Pecuniary loss	49,049	20,005	47,600	20,404
	967,152	612,277	962,751	594,476
Reinsurance acceptances:				
Fire and other damage to property	142,904	105,310	149,444	95,900
Marine, aviation and transport	75,965	50,947	65,286	46,132
Motor	14,063	9,204	12,400	7,585
Energy	51,831	41,996	34,245	26,805
Casualty	124,574	77,387	89,463	49,397
	409,337	284,844	350,838	225,819
	1,376,489	897,121	1,313,589	820,295

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 2023		*31 December 2022*	
	Gross liabilities £'000	*Net liabilities £'000*	*Gross liabilities £'000*	*Net liabilities £'000*
UK	524,290	339,197	554,422	357,702
US	385,307	243,198	403,536	230,303
EU	88,675	50,174	61,574	39,387
Other	378,217	264,552	294,057	192,903
	1,376,489	897,121	1,313,589	820,295

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 2023	*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%	36,736	23,564	(19,943)	(19,943)
Incurred claims development patterns	Recede development by 1 month	23,007	15,805	(14,568)	(14,568)

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

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 2023.

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 2023:

Underwriting year	*Before 2014*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Estimate of cumulative claims incurred:												
At end of underwriting year		48.1	64.6	69.3	121.3	125.0	113.3	171.4	169.2	176.2	145.7	
12 months later		107.5	139.3	170.4	219.8	299.7	329.4	348.6	396.4	343.8		
24 months later		107.6	151.0	193.7	261.0	351.4	337.3	379.2	418.9			
36 months later		101.9	156.3	213.2	261.4	343.8	323.8	359.3				
48 months later		107.4	157.9	211.0	272.1	358.2	324.8					
60 months later		106.9	154.5	218.2	285.3	368.8						
72 months later		106.8	155.5	213.5	288.9							
84 months later		106.1	154.7	218.2								
96 months later		104.2	156.6									
108 months later		103.8										
Current estimate of cumulative claims incurred		103.8	156.6	218.2	288.9	368.8	324.8	359.3	418.9	343.8	145.7	
Cumulative payments to date		102.6	145.5	189.3	242.7	308.1	253.1	208.6	188.3	98.4	13.7	
Gross outstanding claims provision at 31 December 2023 per the statement of financial position	13.0	1.2	11.1	28.9	46.2	60.7	71.7	150.7	230.6	245.4	132.0	991.5

22. Risk management *continued*

Net insurance contract outstanding claims provision as at 31 December 2023:

Underwriting year	*Before 2014*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Estimate of cumulative claims incurred:												
At end of underwriting year		44.6	49.1	57.1	66.1	83.6	69.9	85.7	108.7	104.5	109.8	
12 months later		99.3	116.4	124.5	168.6	188.1	209.2	180.4	266.2	234.2		
24 months later		100.2	122.1	140.7	189.2	215.3	215.0	210.2	271.8			
36 months later		94.9	123.4	145.5	187.6	217.1	215.8	201.4				
48 months later		97.2	124.3	144.5	194.2	223.9	216.4					
60 months later		96.5	122.0	147.5	191.4	229.2						
72 months later		96.4	122.4	145.9	195.5							
84 months later		95.7	122.3	146.9								
96 months later		94.5	123.6									
108 months later		94.1										
Current estimate of cumulative claims incurred		94.1	123.6	146.9	195.5	229.2	216.4	201.4	271.8	234.2	109.8	
Cumulative payments to date		93.1	115.7	133.8	169.3	188.5	160.0	129.7	140.8	74.2	11.4	
Net outstanding claims provision at 31 December 2023 per the statement of financial position	8.4	1.0	7.9	13.1	26.2	40.7	56.4	71.7	131.0	160.0	98.4	614.8

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

Russia-Ukraine and Covid-19

Syndicate 2121 has material exposure to losses arising from the Russia-Ukraine conflict. 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.

Syndicate 2121 also has material exposure to the Covid-19 pandemic. However, this does not lead to a material increase in the uncertainty of the syndicate's total results in an adverse direction.

22. Risk management *continued*

(d) Financial risk

(1) Credit risk

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

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

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

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

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

- Guidelines determine when to obtain collateral and guarantees.

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

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

22. Risk management *continued*

31 December 2023	*Neither past due nor impaired £'000*	*Past due £'000*	*Impaired £'000*	*Total £'000*
Financial investments				
– Debt securities and other fixed income securities	589,761	–	–	589,761
– Shares and other variable yield securities and units in unit trusts	203,839	–	–	203,839
– Participation in investment pools	39,767	–	–	39,767
– Loans secured by mortgages	–	–	–	–
– Derivative assets	–	–	–	–
– Deposits with credit institutions	–	–	–	–
Deposits with ceding undertakings	669	–	–	669
Reinsurers' share of claims outstanding	376,707	–	–	376,707
Debtors arising out of insurance operations	316,368	71,283	–	387,651
Other debtors	2,370	–	–	2,370
Cash at bank and in hand	16,240	–	–	16,240
Overseas deposits	77,756	–	–	77,756
	1,623,477	71,283	–	1,694,760

22. Risk management *continued*

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

Assets that are past due but not impaired include amounts relating to binding authority business as at 31 December 2023. 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 2023 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 2023	*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	175,635	–	–	–	–	28,204	203,839
Debt securities and other fixed income securities	15,714	265,662	199,790	108,595	–	–	589,761
Participation in investment pools	29,939	688	5,217	3,922	–	1	39,767
Loans secured by mortgages	–	–	–	–	–	–	–
Deposits with credit institutions	–	–	–	–	–	–	–
Overseas deposits	33,762	5,340	4,298	4,071	8,137	22,148	77,756
Derivative assets	–	–	–	–	–	–	–
Deposits with ceding undertakings	–	–	615	–	–	54	669
Reinsurers' share of claims outstanding	–	54,984	321,246	–	–	477	376,707
Cash at bank and in hand	–	–	16,240	–	–	–	16,240
Total credit risk	255,050	326,674	547,406	116,588	8,137	50,884	1,304,739

22. Risk management *continued*

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

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 2023					
Outstanding claim liabilities	347,733	350,829	149,146	143,787	991,495
Other	238,941	141,520	–	–	380,461

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

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. 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 2023							
Total assets	231,901	1,216,302	107,544	159,305	160,730	39,288	1,915,070
Total liabilities	(264,388)	(1,150,457)	(82,954)	(151,705)	(152,456)	(10,866)	(1,812,826)
Net assets	(32,487)	65,845	24,590	7,600	8,274	28,422	102,244

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

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 2023.

	Impact on result	
	2023	*2022*
	£'000	*£'000*
Sterling weakens:		
10% against other currencies	12,214	4,292
20% against other currencies	27,481	9,657
Sterling strengthens:		
10% against other currencies	(9,993)	(3,511)
20% against other currencies	(18,321)	(6,438)

(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	
	2023	*2022*
	£'000	*£'000*
Changes in variables:		
+50 basis points	(8,277)	(2,772)
-50 basis points	8,424	2,817

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	
	2023	*2022*
	£'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 2023

2021 YEAR OF ACCOUNT

CLOSED

Statement of Managing Agent's Responsibilities

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

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

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

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

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

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

Independent Auditors’ Report to the Members of Syndicate 2121 – 2021 closed year of account

Report on the audit of the syndicate underwriting year financial statements

Opinion

In our opinion, 2121’s syndicate underwriting year financial statements for the 2021 year of account for the 36 months ended 31 December 2023 (the “underwriting year financial statements”):

- give a true and fair view of the state of the syndicate’s affairs as at 31 December 2023 and of its result and cash flows for the 2021 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd’s Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the underwriting year financial statements included within the 2121 Underwriting year accounts (the “Underwriting Year Accounts”), which comprise: the Statement of financial position as at 31 December 2023; the Income statement for 2021 year of account: technical account – general business, the Income statement for the 2021 year of account: non-technical account, the Statement of cash flows, and the Statement of changes in members’ balances for the 36 months then ended; and the notes to the underwriting year financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Emphasis of matter – Basis of preparation

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

Reporting on other information

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

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

Responsibilities for the underwriting year financial statements and the audit

Responsibilities of the Managing Agent for the underwriting year financial statements

As explained more fully in the Statement of Managing Agent's Responsibilities, the Managing Agent is responsible for the preparation of the underwriting year financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2021 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 regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the underwriting year financial statements. We also considered those laws and regulations that have a direct impact on the underwriting year financial statements such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the underwriting year financial statements (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to insurance contract technical provisions and estimates of future premiums.

Audit procedures performed by the engagement team included:

- discussions with the Board, management and compliance function of the Managing Agent, including consideration of known or suspected instances of fraud and non-compliance with laws and regulations;
- reviewing relevant meeting minutes, including those of the Board and Audit Committee of the Managing Agent, and correspondence with regulatory authorities, including Lloyd's of London, the 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 insurance contract technical provisions and the estimates of future premiums;
- identifying and testing journal entries based on risk criteria; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Alexis Gish (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2024

Income Statement for the 2021 year of account: Technical account – general business

closed at the end of the third year at 31 December 2023

	Notes	*£'000*	*Cumulative balance at 31 December 2023 £'000*
Syndicate allocated capacity			599,950
Earned premiums, net of reinsurance			
Gross premiums written	2		683,213
Outward reinsurance premiums			(240,186)
			443,027
Reinsurance to close premiums received, net of reinsurance	2		298,102
			741,129
Allocated investment return transferred from the non-technical account	8		22,866
Claims incurred, net of reinsurance			
Gross claims paid		(288,512)	
Reinsurers' share		88,088	
		(200,424)	
Reinsurance to close premiums payable, net of reinsurance	4	(361,567)	
			(561,991)
Net operating expenses	5		(179,516)
Balance on the technical account for general business			22,488

Income Statement for the 2021 year of account: Non-technical account

closed at the end of the third year at 31 December 2023 continued

	Notes	*Cumulative balance at 31 December 2023 £'000*
Balance on the general business technical account		22,488
Investment income	8	21,487
Net unrealised gains on investments	8	1,895
Investment expenses and charges	8	(516)
Allocated investment return transferred to the general business technical account		(22,866)
Exchange gains		13,279
Result for the 2021 closed year of account		35,767

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

Statement of Changes in Members’ Balances

for the 36 months ended 31 December 2023

	2021 year of account £’000
At 1 January 2021	–
Profit for the 2021 closed year of account	35,767
Members’ agents’ fees	(1,536)
At 31 December 2023	34,231

Statement of Financial Position

as at 31 December 2023

	Notes	*2023* £'000	£'000
ASSETS			
Investments	9		420,086
Deposits with ceding undertakings			604
Debtors			
Debtors arising out of direct insurance operations	10	69,393	
Debtors arising out of reinsurance operations	11	62,810	
Other debtors		723	
			132,926
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the year of account			261,056
Cash and other assets			
Cash at bank and in hand		11,420	
Other assets	12	53,572	
			64,992
Prepayments and accrued income			1,994
TOTAL ASSETS			881,658
LIABILITIES			
Amounts due to members			34,231
Reinsurance to close premiums payable to close the year of account – gross amounts			620,598
Creditors			
Creditors arising out of direct insurance operations		3,602	
Creditors arising out of reinsurance operations		192,752	
Other creditors		25,107	
			221,461
Accruals and deferred income			5,368
TOTAL LIABILITIES			881,658

The syndicate underwriting year accounts on pages 75 to 104 were approved by the Board of Argenta Syndicate Management Limited on 26 February 2024 and were signed on its behalf by

Nicholas J Moore

Managing Director

Statement of Cash Flows

for the 36 months ended 31 December 2023

	Notes	*2023* *£'000*
Profit on ordinary activities		35,767
Increase in outstanding claims		620,598
Increase in reinsurers' share of outstanding claims		(261,056)
Increase in debtors		(134,920)
Increase in creditors		226,829
Investment return		(22,866)
Net cash inflow from operating activities		464,352
Investing activities		
Investment income received		17,519
Purchase of debt and equity instruments		(748,407)
Sale of debt and equity instruments		433,405
Purchase of derivatives		(116,201)
Sale of derivatives		117,388
Increase in overseas deposits		(48,080)
Increase in deposits with ceding undertakings		(604)
Net cash outflow from investing activities		(344,980)
Financing activities		
Members' agents' fee advances		(1,536)
Net cash outflow from financing activities		(1,536)
Increase in cash and cash equivalents		117,836
Cash and cash equivalents at 1 January 2021		–
Cash and cash equivalents at 31 December 2023	13	117,836

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 2021 year of account has closed and all assets and liabilities have been transferred to the 2022 year of account. The result for the year of account was declared in sterling, having been translated at the prevailing rate of exchange at the balance sheet date. The distribution of the closed year profit will be made in the currency in which it is declared with the exchange risk in respect of this transferring to the capital providers to the syndicate with effect from 31 December 2023. 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 2021 year of account, which has closed by reinsurance to close at 31 December 2023; consequently the statement of financial position represents the assets and liabilities of the 2021 year of account and the income statement and statement of cash flows reflect the transactions for that year of account during the 36 month period until closure.

The financial statements for the period ended 31 December 2023 were approved for issue by the board of directors on 26 February 2024.

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 or losses recognised relating to the 2021 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. There are some bespoke agreements under which a capital provider pays profit commission at a level above the standard rate. 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

2021 closed year of account after three years

Type of business

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

	Gross premiums written and earned £'000	*Gross claims incurred £'000*	*Gross operating expenses* £'000*	*Reinsurance balance £'000*	*Total £'000*
Direct insurance:					
Marine, aviation and transport	55,082	(23,322)	(17,929)	(4,900)	8,931
Fire and other damage to property	193,348	(98,649)	(65,916)	(22,713)	6,070
Third-party liability	236,813	(147,058)	(90,131)	(7,007)	(7,383)
Other	34,526	(24,574)	(11,829)	652	(1,225)
	519,769	(293,603)	(185,805)	(33,968)	6,393
Reinsurance accepted	461,546	(598,169)	(47,564)	177,416	(6,771)
	981,315	(891,772)	(233,369)	143,448	(378)

Reinsurance acceptances include the reinsurance to close premiums of £63,627,000 (net) and £234,475,000 (net) received from the 2019 and 2020 years of account respectively.

All premiums were concluded in the UK.

*Net operating expenses shown in the income statement include an amount of £53.9 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	369,073
US	299,468
EU	73,422
Other	239,352
	981,315

3. Analysis of underwriting result

	2020 and prior years of account £'000	*2021 pure year of account £'000*	*Total 2021 year of account £'000*
Technical account balance before allocated investment return and net operating expenses	549	178,589	179,138
Acquisition costs and reinsurance commissions	3,805	(161,166)	(157,361)
	4,354	17,423	21,777

4. Reinsurance to close premiums payable, net of reinsurance

2021 closed year of account after three years	*Reported £'000*	*IBNR £'000*	*Total £'000*
Gross outstandings	232,612	370,648	603,260
Reinsurance recoveries anticipated	(84,857)	(156,836)	(241,693)
	147,755	213,812	361,567

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

5. Net operating expenses

	2023 £'000
Acquisition costs	211,214
Administrative expenses	22,155
	233,369
Reinsurance commissions	(53,853)
Net operating expenses	179,516

Members' standard personal expenses amounting to £10.3 million are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission.

6. Staff numbers and costs

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

	2023
	£'000
Wages and salaries	17,024
Social security costs	2,354
Other pension costs	1,174
	20,552

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

	2023
	Number
Underwriting	42
Underwriting support	39
Claims	14
Administration and finance	15
	110

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 £301,000 that relates to the active underwriter.

7. Auditors' remuneration

	2023
	£'000
Audit services	301
Other services pursuant to regulations and Lloyd's byelaws	236
	537

8. Investment return

	2023 £'000
Income from other investments	19,889
Net gains on realisation of investments	1,598
Total investment income	21,487
Net unrealised gains on investments	1,895
Investment expenses and charges	(516)
Total investment return	22,866

9. Financial investments

	Market value 2023 £'000
Shares and other variable yield securities and units in unit trusts	
– designated at fair value through profit or loss	114,103
Debt securities and other fixed income securities	
– designated at fair value through profit or loss	295,002
Deposits with credit institutions held at fair value	–
Loans secured by mortgages held at fair value	–
Participation in investment pools	10,981
Derivatives held at fair value	–
	420,086

The shares and other variable yield securities and units in unit trusts primarily 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 41% 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	106,272	–	7,831	114,103
Debt securities and other fixed income securities	–	295,002	–	295,002
Participation in investment pools	1	10,980	–	10,981
Loans and deposits with credit institutions	–	–	–	–
Overseas deposits	12,539	41,033	–	53,572
Derivatives	–	–	–	–
	118,812	347,015	7,831	473,658

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

	2023
	£'000
Amounts falling due within one year – intermediaries	69,393
Amounts falling due after one year – intermediaries	–
	69,393

11. Debtors arising out of reinsurance operations

	2023
	£'000
Amounts falling due within one year	62,805
Amounts falling due after one year	5
	62,810

12. Other assets

	2023
	£'000
Overseas deposits	
Amounts advanced in the following locations as a condition of carrying on business there:	
Illinois, USA	505
Australia	24,263
Canada	6,486
South Africa, Switzerland and other countries	22,318
	53,572

13. Cash and cash equivalents

	2023
	£'000
Cash at bank and in hand	11,420
Short-term deposits with financial institutions	106,416
	117,836

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 undertaking. Copies of the financial statements for ASML can be obtained from Companies House.

AHL is wholly owned by Hannover Re, which is the smallest group to consolidate the financial statements of ASML. Its financial statements can be obtained from its registered office address at Karl-Wiechert-Allee 50, 30625 Hannover, Germany. The parent undertaking of Hannover Re is Talanx AG which holds a 50.2% interest in the company. The principal shareholder in Talanx AG is HDI Haftpflichtverband der Deutschen Industrie. V.a.G. ("HDI") which holds 78.9% of Talanx AG's issued share capital.

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

Argenta Private Capital Limited ("APCL"), an AHL group company, provides taxation services to the syndicate. These services were previously provided by Argenta Tax & Corporate Services Limited ("ATCSL"), another AHL group company, until its business and assets were acquired by APCL with effect from 1 January 2023. Fees are agreed on a commercial basis and the profit to APCL generated from providing these services to the 2021 year of account 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 2021 year of account is less than £115,000.

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 2021 year of account by Syndicate 2121 were £13.2 million.

On 5 August 2022 the Board of ASML decided not to renew the service company agreement for Singapore and the business written in Singapore is now in run-off. The future structure under which the Australian branch offices are to operate is currently under review. This is expected to be concluded during 2024.

Mr Graham Allen, Mr Sven Althoff, Mr Ian Burford, Mr Nicholas Moore and Mr John Whiter are all directors of AHL. Mr Andrew Annandale was a director of AHL, ASML, APCL, AUA and ATCSL until his retirement from these Boards on 31 December 2022. Mr Ian Maguire was a director of AHL, ASML and AUA until his resignation on 7 May 2021. Mr Moore and Mr Burford were appointed to the Board of AHL with effect from 28 July 2022 and 14 December 2023 respectively. Mr Moore was appointed as a director of APCL on 31 December 2022. Mr Allen was appointed as a director of AUA with effect from 5 December 2022. Ms Carol-Ann Burton is a director of ATCSL.

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

15. Related parties *continued*

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 provided insurance or reinsurance cover to Hannover Re and its subsidiaries and may do so in the future.

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

Syndicate 6134 writes quota share reinsurances across specific classes of business within the underwriting capability of the host syndicate. In 2021 these included elements of the property, terrorism, specialty, cyber, political risks, marine hull and war, marine and energy liability, marine cargo and specie, casualty treaty, professional indemnity, financial institutions, and SME specialty liability accounts. The estimated ultimate gross net written premium of Syndicate 6134 for the 2021 year of account is £76.2 million.

Syndicate 2121 charges Syndicate 6134 an overriding commission in relation to these arrangements. For the 2021 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 2023 creditors included an amount of £40.4 million owed to Syndicate 6134.

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

ASML Directors

Mr John Whiter was chairman of Piiq Risk Partners Ltd (formerly PSE Partners Ltd and before that Ed Broking (London) Ltd), a Lloyd's broker, until his resignation on 31 March 2022. Mr Whiter was also chairman of Ed Broking Group Ltd until his resignation from this board on 31 March 2022. Mr Whiter was appointed as a non-executive director of Continuum Advisory Limited, a corporate finance advisory firm, on 16 January 2023.

Mr Paul Hunt resigned as a director of ASML on 30 June 2021.

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

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

Mr Jens Schäfermeier is the managing director of the UK and Ireland, Aviation and Marine division within Hannover Re.

15. Related parties *continued*

Mr Nigel Meyer joined the Board of ASML on 30 January 2023 as non-executive director. Mr Meyer holds non-executive directorships with First Central Insurance Management Limited, an insurance broker; Amtrust Europe Limited, an insurance company; and is an executive director of Heydon Consulting Limited, a consultancy providing mergers and acquisitions advisory services to the insurance sector. Mr Meyer owns 50% of the shareholding of Heydon Consulting Limited.

Ms Rosemary Beaver joined the Board of ASML on 24 April 2023. Ms Beaver is a non-executive director of Newline Underwriting Management Limited and Newline Insurance Company Limited.

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

ASML

Total fees and profit commission payable to ASML in respect of services provided to the syndicate in respect of its role as managing agent for the 2021 year of account amounted to £4.5 million. Profit commission of £1.3 million will be payable following the closure of the year of account.

In addition to this, creditors at 31 December 2023 included £0.3 million due to ASML in respect of expenses paid on behalf of the 2021 year of account.

Capital support for Syndicate 2121

For a fee, Hannover Re provides capital support to Argenta Underwriting No. 3 Ltd for the 2021 to 2023 years of account and Argenta Underwriting No. 2 Ltd for the 2022 to 2023 years of account by way of excess participation agreements.

IH1, a wholly owned subsidiary of the Hannover Re group, participates on Syndicate 2121 for the 2021 to 2024 years of account.

HGS, a subsidiary of Talanx AG, supported Syndicate 2121 for the 2022 year of account by way of a pro-rata participation agreement with Argenta Underwriting No. 9 Ltd in respect of 100% of the member's participation.

APCL allocates capacity to Syndicate 2121 for the 2021 to 2024 years of account.

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

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

15. Related parties *continued*

Messrs Allen and Moore were appointed as directors of all the above corporate members on 10 April 2019 and 31 December 2022 respectively. Messrs Annandale and Allen were also appointed directors of IH1 with effect from 18 January 2021. Mr Annandale resigned from IH1 on 31 December 2022. Mr Moore was appointed as a director of IH1 with effect from 31 December 2022. Mr Schäfermeier was appointed a director of IH1 on 26 January 2024.

AU2 and AU3 participated on Syndicate 2121 for the 2021 to 2024 years of account. AU9 participated on Syndicate 2121 for the 2021 and 2022 years of account. AU10 supported the syndicate for the 2021 year of account.

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

For the 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.

16. Risk management

(a) Governance framework

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

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

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

(b) Capital management objectives

Capital framework at Lloyd's

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

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

16. Risk management *continued*

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

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

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member ("FAL"), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates (the latter being adjusted to reflect their value on a Solvency II basis). Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 27 of the syndicate annual accounts, represent resources available to meet members' and Lloyd's capital requirements.

(c) Insurance risk

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

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

16. Risk management *continued*

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

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

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

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

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

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

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

16. Risk management *continued*

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

The 2021 year of account has closed, so no catastrophe exposure written by the syndicate remains in respect of the closing year. A further guide to the level of catastrophe exposure written by the syndicate is in note 22 of the syndicate annual accounts.

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

Key assumptions

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

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

Sensitivities

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

Claims development table

The syndicate annual accounts include tables showing the estimates of cumulative incurred claims, including both claims notified and IBNR for each underwriting year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at 31 December 2023.

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

16. Risk management *continued*

(d) Financial risk

(1) Credit risk

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

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

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

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

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

- Guidelines determine when to obtain collateral and guarantees.

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

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

The syndicate annual accounts also include a table showing information regarding the credit risk exposure of the syndicate at 31 December 2023 by classifying assets according to Standard & Poor's credit ratings of the counterparties.

16. Risk management *continued*

Maximum credit exposure

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

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

(2) Liquidity risk

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

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

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

Maturity profiles

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

(3) Financial market risk

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

a. Currency risk;

b. Interest rate risk; and

c. Equity price risk.

16. Risk management *continued*

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

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

(a) Currency risk

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

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

The 2021 year of account has closed and the result fixed in sterling. Only the years of account that remain open at 31 December 2023 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 2023.

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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