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Argenta Syndicate Management Limited
Syndicate 2121

Report, Annual Accounts
and Underwriting Year Accounts
as at 31 December 2020



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Managing Agent's Report

The directors of Argenta Syndicate Management Limited ("ASML"), a company registered in England and Wales, present their report for the year ended 31 December 2020.

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

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

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

Principal activity

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

Overview of business

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 account remains weighted towards direct and short tail classes although long tail business is also underwritten. The syndicate's involvement in the longer tail classes has grown substantially following the introduction of a new financial lines team for the 2020 and subsequent years of account.

Based in London, the syndicate operates within the Lloyd's of London ("Lloyd's") insurance market and through a service company, Argenta Underwriting Asia Pte Ltd ("AUA"), on the Lloyd's Asia platform in Singapore. AUA has branch offices in Australia, one located in the central business district of Sydney and the other located in Tuggerah, north of Sydney. The Tuggerah branch operates as a managing general agent predominantly in the New South Wales region, underwriting a niche property account. Finally, the syndicate has access to Chinese domiciled reinsurance business through a dedicated underwriting division of Lloyd's Insurance Company (China) Limited ("LICCL") based in Shanghai.

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

The business underwritten 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 continues to be the direct and facultative property book. It is built around a number of long-standing relationships with managing general agents, supplemented with an open-market book of predominantly small commercial and homeowners' business and a UK commercial combined book for small to medium enterprises. The latter packages property with both employer's and public liability risks. The property account has grown with the AUA office in Sydney underwriting Australasian property and business interruption business on both a delegated authority basis through third party coverholders and on an open-market basis.

Energy, including utilities, exploration, production and distribution risks are underwritten, but not downstream refining exposures. The marine book consists of the traditional classes including hull, cargo, specie, war, fine art and liability, both in conjunction with physical damage lines and on a standalone basis. The syndicate has a worldwide treaty account split between catastrophe excess of loss and risk excess business.

Managing Agent's Report

continued

Overview of business *continued*

A worldwide casualty account is written almost entirely through a suite of large market consortia and has been since the consortia started in 2013.

The syndicate underwrites a cyber book predominantly through participation on a Lloyd's approved consortium, a London Market binding authority and a quota share reinsurance placement. A political risks account covering contract frustration, credit and political risks was added to the portfolio in late 2016.

Finally, a new financial lines team was recruited at the beginning of 2020 adding professional indemnity; financial institutions and SME specialty liability business to the portfolio underwritten.

For the 2019 year of account, the stamp capacity was maintained at £340 million and this was increased to £425 million for 2020. The overall capacity of the syndicate was further increased to £600 million for the 2021 year of account. This was mainly to cater for Lloyd's rules around the treatment of income reinsured by the Special Purpose Arrangement, Syndicate 6134, which is hosted by Syndicate 2121 and some inherent growth within the established portfolio. Such growth remains in line with the ASML strategic objective to grow Syndicate 2121 by adding new lines of business or aligned distribution sources that are able to deliver profit in a competitive market. This strategy is expected to continue, but will always be subject to market conditions and either the recruitment of high quality underwriters with a proven track record, or through the support of market consortia which have lead expertise.

Review of underwriting activities

Calendar year 2020 presented huge and unique challenges, not only to the insurance industry but globally, as the world grappled with the impact of the COVID-19 pandemic. The thoughts of all ASML staff go out to those who have been affected personally by the coronavirus outbreak through the loss of loved ones, financially or through ill health. ASML would also offer a huge vote of thanks to those key workers who have worked, and continue to work, tirelessly on the front line to help defeat the pandemic.

At the time of writing, there remains a significant degree of uncertainty and it is too early to comment on the final total insured losses likely to emerge globally from this event.

During 2020, alongside a number of other insurance carriers, ASML was involved in the test case brought by the UK Financial Conduct Authority ("FCA") on behalf of insureds seeking to resolve contractual uncertainties around the validity of many business interruption claims. As has been widely publicised, the original judgement handed down by the High Court found largely in favour of the arguments advanced by the FCA on behalf of policyholders. This ruling was subsequently appealed to the Supreme Court although the arguments put forward by the majority of insurers, including Syndicate 2121, were dismissed. The ASML claims team is working hard to ensure that all valid COVID-19 claims are settled as quickly as possible to avoid any undue hardship.

In Australia there has been significant COVID-19 related activity, however their legal framework has not progressed to the same extent as in the UK at this time.

Against the backdrop of the losses arising from the pandemic, the result of the syndicate for calendar year 2020 on an annual accounting basis is a loss of £37.1 million representing a combined ratio of 113%. This is made up of losses from the underwriting years 2018, 2019 and 2020 of £1.2 million, £25.6 million and £10.3 million respectively.

Current COVID-19 reserves impact the 2020 calendar year result by £63.1 million resulting in a combined ratio excluding COVID-19 related losses of 94%.

As explained in the 2018 year of account section below, the 2018 year of account is remaining open due to the uncertainties relating to the COVID-19 claims situation.

Review of underwriting activities *continued*

The table below summarises the capacity, premium volumes and performance of Syndicate 2121 for 2020 alongside comparative numbers for 2019. 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.

<i>Key performance indicators</i>	2020	2019
Capacity (underwriting year)	£425 million	£340 million
Premiums written gross of commission	£587 million	£458 million
Net premiums earned	£329 million	£312 million
Loss for the year	(£37 million)	(£9 million)
Claims ratio (net)	74%	65%
Combined ratio	113%	105%
COVID-19 related net losses	£63 million	Nil
Combined ratio excluding COVID-19	94%	105%
Cash and investments at 31 December	£348 million	£289 million

The start of 2020 witnessed the early stages of a welcome and necessary correction in market conditions. Since then the COVID-19 pandemic has added to uncertainty in the global economy and financial markets, which has driven a continued improvement in pricing. This, coupled with the ongoing action by Lloyd's requiring all managing agents to produce remediation plans in respect of all Decile 10 classes, has helped maintain market discipline.

The 2020 Atlantic hurricane season was the most active and the fifth costliest on record. In addition, it was the only the second season in respect of which it was necessary to utilise additional Greek lettering in the storm naming process, the first being 2005.

This year also saw the continuation of major bushfires in Australia which started in 2019 but continued into 2020, and devastating tornadoes affecting the state of Tennessee.

According to Swiss Re's insurance research arm, Sigma, natural catastrophe and man-made insured losses in 2020 totalled US\$83.1 billion. This is up on the US\$63.1 billion in 2019 but down on the US\$94.1 billion impacting the 2018 year.

Outside of worldwide COVID-19 losses, the largest natural catastrophe loss incurred by the syndicate was in respect of Hurricane Laura, with the largest incurred man-made loss being a natural gas leak reported in the casualty class. The losses from COVID-19, Australian bushfires, Hurricanes Laura and Sally, Tennessee tornadoes and the natural gas leak, are all mitigated by the syndicate's reinsurance protections.

The re-underwriting that the syndicate has undertaken over the last few years is starting to pay dividends as demonstrated by the combined ratio excluding COVID-19 losses of 94%. This, coupled with anticipated further improvement in conditions, holds the syndicate in good stead to take advantage of the current upturn in the market cycle.

It is also encouraging to report that, other than in respect of the terrorism class, premium rates increased during the year above the level previously anticipated. On a whole account basis, the overall rate increases on business that was renewed in 2020 was 12.6% compared to the original plan that anticipated an increase of 4.4%.

Managing Agent's Report

continued

Review of underwriting activities *continued*

Reductions in planned income were seen in the casualty treaty account as the new team did not commence underwriting until mid-January 2020. As a result, the team was not able to benefit from the significant 1 January renewal season for this class. In addition, the sub-class review within the casualty class continued, resulting in lower income levels than originally anticipated. The credit insurance exposures within the political risks class were also deliberately reduced as the economic uncertainty brought about by the pandemic affected the global economy.

Smaller reductions were seen in the terrorism, marine liability and UK commercial combined classes as the syndicate balanced expected return against market conditions.

These reductions in premium income estimates were offset, in part at least, by an increase in premium written within the specialty and utility books as terms improved significantly and quickly.

Smaller increases were also seen in the cyber account, the property treaty class and the direct property books in London and Singapore.

Finally, increased income was also seen in the new financial lines classes as business volumes developed more quickly than anticipated and at much better terms.

2018 year of account

The 2018 year is impacted from expected COVID-19 losses as the main UK facilities exposed to the event inceptioned during the second half of the year with risks attaching for a period of 12 months thereafter, providing businesses annual cover for property, business interruption and public and employer's liability.

The 2018 year also witnessed a significant increase in losses when compared to the long term average from a catastrophe perspective, with the syndicate's largest natural catastrophe losses arising from the California wildfires, the Hawaiian volcanic eruptions, Hurricanes Michael and Florence in the United States and from Typhoon Jebi in Japan.

On a gross basis, the losses from these individual events largely fell within the retentions on the syndicate's reinsurance programme resulting in a reduced level of reinsurance recoveries. There has been little movement, however, in the syndicate's net position on these compared to twelve months ago.

From a man-made loss perspective, the largest losses are a fire that destroyed fine art on an estate in the Hamptons and a Brazilian warehouse fire. These losses emanated from the specie and cargo accounts respectively. In addition, the 2018 year of account was impacted by a number of losses arising on the political risks book.

With the continued uncertainty around the final outcome of the impact of COVID-19 losses and the need to ensure equity between capital providers on the different years of account, the 2018 year of account is being left open for the time being. The latest estimate for the forecast result is a loss in the range of 5% to 15%.

2019 year of account

The overall impact of COVID-19 losses on this year will be significantly influenced by the final outcome of legal rulings in Australia.

In addition, the syndicate has incurred losses from Typhoons Hagibis and Faxai in Japan, Hurricane Dorian in the US, extensive flooding in Townsville, Australia and major bushfires affecting Australia. There was also a large flood loss in Wisconsin in the utility account, a fire loss emanating from business underwritten by the Sydney office and a number of political risks losses that will also fall to the 2019 year of account.

Overall, the 2019 forecast result has worsened from last year due largely to the losses expected from COVID-19.

Review of underwriting activities *continued*

2020 year of account

Whilst reserves are being held in respect of anticipated COVID-19 losses in this year, they are smaller than those in the 2019 year of account, however it must be recognised that this is an ongoing situation and there remains a significant degree of uncertainty.

The largest losses aside from COVID-19 to impact this year so far are the catastrophe losses referred to above and, in particular, the Tennessee tornadoes. In addition, there were two fire losses emanating from the utility account.

The introduction of the new financial lines team further diversified the class of business spread and was a greater success than anticipated with business developing more quickly than expected and terms and conditions improving in these classes.

Overall, the 2020 forecast result is currently developing behind the business plan target due to the impact of COVID-19. There is, however, a significant element of 2020 business still on risk throughout a large part of 2021 and it is hoped that this develops more favourably over the months ahead.

Trading conditions for 2021

Losses from the coronavirus pandemic dominate the industry results for 2020 but come at a time when the syndicate, and the wider market, was starting to see some success from the re-underwriting strategy adopted over the last few years. This, coupled with the stronger stance taken by Lloyd's in the business planning process, has slowly but surely resulted in the strengthening of trading conditions first seen during the second half of 2019, gaining more momentum.

The syndicate continues to take advantage of the improving market conditions and there was evidence of further strengthening over the January renewal season. Rate movements for 2021 are predicted to continue to be positive with expectations that they will increase by a further 8.7% in 2021 on top of the previously stated 2020 increase, at a whole account level of 12.6%.

The 1 January 2021 renewal season was better than expected with rates at a whole account level increasing by 11.3% and the fact that the syndicate is seeing double digit rate increases on double digit rate increases imposed last year, clearly demonstrate dramatically improving terms. This is in addition to the re-underwriting of certain classes that has already begun.

The syndicate's appetite for catastrophe exposure has not changed from that adopted in previous years and the risk metrics for major US perils are expected to remain consistent with previous years at a whole account level. The syndicate will continue to purchase a comprehensive reinsurance programme, the 2021 structure of which has been slightly enhanced from that placed for 2020.

The largest increases in targeted premium volumes for 2021 can be seen in the treaty reinsurance, property and utility accounts as a result of a combination of controlled growth and increased rates.

Offsetting this, the syndicate has withdrawn from accident and health; energy renewables; hull and war completely in London; all stand-alone hull and war in Singapore and China; and is only renewing current risks written when hull is part of a combined class slip in Singapore and China. All of these actions support the continued re-underwriting process.

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 or consortia.

Managing Agent's Report

continued

ASML business structure

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

As the managing agency of Syndicate 2121, ASML has maintained a strategy of steadily growing the syndicate with capacity increasing from £340 million in 2018 to £600 million in 2021. The growth strategy is achieved by the selective addition over the years of new classes of business to complement the existing portfolio as well as continued organic growth in a number of areas.

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

In 2018 ASML established a Special Purpose Arrangement, Syndicate 6134, to be managed alongside Syndicate 2121. Syndicate 6134, sponsored and capitalised by the Hannover Re group, underwrites quota share reinsurances of business written by Syndicate 2121 as the host syndicate. Syndicate 2121 retains at least 10% of the business introduced by the sponsor.

A strategy of growth has also been adopted in respect of Syndicate 6134. In 2018 the syndicate underwrote gross net written premium of £22.2 million across specific classes of business within the underwriting capability of the host syndicate. This increased to £32.6 million and £100.9 million for the 2019 and 2020 years of account respectively. For the 2021 year of account the expectation is that Syndicate 6134 will underwrite £66.3 million of gross net premium. The reduction in gross net written premium, over that written in 2020, reflects a realignment of certain classes of business as between Syndicate 6134 and Syndicate 2121 as the host syndicate. Syndicate 2121 receives an overriding commission in respect of these arrangements. The quota share contracts are being underwritten on a funds withheld basis although amounts may be advanced if needed to enable Syndicate 6134 to finance its standalone obligations.

Directors

John LP Whiter – *Non-executive Chairman*

Andrew J Annandale – *Managing Director*

Graham K Allen – *Finance Director*

Sven Althoff – *Non-executive Director*

Carol-Ann Burton – *Risk Management and Compliance Director and Company Secretary (appointed 10 September 2020)*

Alan E Grant – *Non-executive Director*

Paul Hunt – *Non-executive Director*

Ian M Maguire – *Active Underwriter Syndicates 2121 and 6134*

Nicholas J Moore – *Chief Actuary and Operations Director*

Gary A Powell – *Non-executive Director*

Matthew P Rowan – *Risk Management and Compliance Director and Company Secretary (resigned 10 September 2020)*

Jens Schäfermeier – *Non-executive Director*

David J Thompson – *Claims Director*

Risk management

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

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

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

Insurance risk

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

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

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

Operational risk

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

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

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

Managing Agent's Report

continued

Risk management *continued*

Capital risk

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

Liquidity risk

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

Credit risk

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

Financial market risk

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

Emerging risk

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

Conduct risk

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

Investment managers and policy

During 2020 Insight Investment Management (Global) Limited ("Insight") has been responsible for investing the large majority of the syndicate's assets within a fixed income portfolio. The syndicate's Canadian dollar assets in the regulated trust funds are managed by Lloyd's treasury within a fixed income portfolio. The returns achieved on these portfolios are measured with reference to appropriate benchmarks.

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

Insight

The US dollar fixed income portfolio returned 2.6%, outperforming the target benchmark of 1.3%. A good investment return for the calendar year, particularly after the adverse credit conditions experienced by fixed income markets in the early part of the year that followed the lockdowns imposed on economies in the aftermath of the COVID-19 outbreak. The US Federal Reserve responded to the outbreak by cutting interest rates from 1.75% to 0.25% in March 2020. Market sentiment suggests that interest rates will be held at these low levels for an extended period, so US dollar yields are likely to be depressed during 2021. Insight report on 2020 as follows:

"The syndicate started the period with a short duration position of 0.9 years, which remained steady throughout the year and ended at the same level. The portfolio retained a short-dated focus with the majority of bonds having a maturity of between 1 and 3 years. This slightly longer duration position, relative to cash, was beneficial for performance throughout the period. Credit strategy was a key positive for performance as spreads tightened over the year. Allocations to banks, sovereign issuers, energy, technology and consumer names were all key contributors to returns. Exposure to US inflation-linked bonds was also a positive for returns.

The majority of the portfolio's risk budget remains allocated to corporate bond exposures. Following the dramatic widening of spreads during the first quarter, a number of attractive high-grade corporate bonds came to the primary market and securities such as Visa and PepsiCo were acquired. Most of the purchases made during the year were attractively priced new issues, with a small amount added from the secondary market. New additions to the portfolio were focused on high quality, shorter maturity bonds.

Going forward as economies recover, to help deal with the debt overhang from the response to the virus, it is believed that central banks will endeavour to keep interest rates and bond yields low for an extended period of time. Within credit markets, a full reversal of the 'Trump tax cuts' is unlikely, which could be good news for a number of sectors, including telecommunications, banking and technology, which were expected to lose out from future tax reform. For the banking sector, higher capital requirements could benefit credit investors by strengthening credit worthiness at the expense of equity holders. The portfolio will continue to focus on short dated, high quality issues."

Lloyd's treasury

The Canadian dollar portfolio returned 3.7% marginally underperforming the benchmark of 3.8% for the calendar year. Lloyd's treasury report on 2020 as follows:

"The overall fund performance in Q4, similar to the previous quarter, came from the tightening in corporate bond spreads continuing to retrace some of their widening witnessed earlier in the year. The fund's slight underperformance came from its more defensive credit exposure relative to the benchmark.

Managing Agent's Report

continued

Investment managers and policy *continued*

The credit spread recovery witnessed in 2020 has been unprecedented, since the initial dramatic blowout seen on the back of the pandemic. The grind tighter was mainly driven by Government and Central Bank actions helping to provide an important backstop to credit markets. By the end of the year credit spread levels are sitting close to levels witnessed at the start of the year, although certain sectors impacted by Covid-19, have not tightened as much. Going forward, the bias is for credit to tighten modestly, helped by supportive ongoing fiscal stimulus, monetary accommodation and the potential success of vaccine programmes. Nonetheless, there will likely be periods of volatility especially with the virus continuing to mutate, which may result in vaccine resistance, and this remains a key area of risk. Valuations are tight for Investment Grade bonds and the impetus seen last year has been removed in terms of further rates cuts. Credit markets remain vulnerable to corrections particularly if support for markets by Central Banks diminishes.

The 2- and 5-year Government bonds currently yield 0.15% and 0.33% respectively, at or near the Bank of Canada target rate of 0.25%. The longer-term view is that front-end rates will trade near or below their Central Bank cash rate. If steepness in front-end rates is witnessed, the duration in the portfolio will be increased. Opportunities currently exist in semi-sovereign, supranational and agency bonds as spreads continue to offer relative value of 15 to 25 basis points above their respective government benchmark securities.

For 2021, as the year progresses and the global growth trajectory improves, rates are expected to increase from their very low levels but it is believed that central banks will want to avoid any taper tantrum like scenario and will ensure that rises are orderly to avoid hampering the recovery via a tightening of financial conditions."

Custodians

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

Investment objectives

The overall objective is to target a return, over the long term, of three-month LIBOR plus 1% and remain 99.5% confident of not underperforming LIBOR by more than 5%. The US dollar return for 2020 outperformed the long term target, which was 1.6%, although it must be recognised that this will be difficult to achieve in 2021 without taking significantly more investment risk.

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:

	2020 '000	2019 '000
United States dollars	275,186	252,389
Sterling and other currencies	57,995	34,433
Canadian dollars	41,798	32,848
Euros	21,190	15,542
Combined in sterling	314,146	264,949
Net aggregate investment return for the calendar year in sterling	6,730	6,987

Net calendar year investment yield:

	2020	2019
United States dollars	2.3%	3.0%
Sterling and other currencies	1.9%	1.9%
Canadian dollars	2.9%	2.5%
Euros	0.0%	0.1%
Combined in sterling	2.1%	2.7%

Research and development

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

Disclosure of information to the auditors

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

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

Auditors

PricewaterhouseCoopers LLP ("PwC") continue to act as 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.

Managing Agent's Report

continued

Annual general meeting of syndicate members

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

Andrew J Annandale

Managing Director

Approved by the board of Argenta Syndicate Management Limited on 3 March 2021.

SYNDICATE

2121

ANNUAL ACCOUNTS 2020

Statement of Managing Agent's Responsibilities

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

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

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

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

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

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

Independent Auditors' Report to the Members of Syndicate 2121

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 2121's annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Report, Annual Accounts and Underwriting Year Accounts (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2020; Income statement – Technical account, 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 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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 2020 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

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

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

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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

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

Independent Auditors' Report to the Members of Syndicate 2121

continued

management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to claims outstanding and estimated premium income. Audit procedures performed included:

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

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

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Mark Bolton (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 March 2021

Income Statement

for the year ended 31 December 2020

Technical account – general business

		2020		2019	
	Notes	£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	2	586,912		457,938	
Outward reinsurance premiums		(246,036)		(138,940)	
Net premiums written		340,876		318,998	
<i>Change in the provision for unearned premiums</i>					
Gross amount		(62,872)		(14,066)	
Reinsurers' share		50,810		7,383	
Change in the net provision for unearned premiums		(12,062)		(6,683)	
<i>Earned premiums, net of reinsurance</i>			328,814		312,315
Allocated investment return transferred from the non-technical account	8		6,730		6,987
Claims incurred, net of reinsurance					
<i>Claims paid</i>					
Gross amount		(278,157)		(253,093)	
Reinsurers' share		101,900		83,662	
Net claims paid		(176,257)		(169,431)	
<i>Change in the provision for claims</i>					
Gross amount		(147,549)		(95,580)	
Reinsurers' share		80,492		63,471	
Change in the net provisions for claims		(67,057)		(32,109)	
<i>Claims incurred, net of reinsurance</i>			(243,314)		(201,540)
Net operating expenses	4		(129,235)		(127,841)
Balance on the technical account for general business			(37,005)		(10,079)

All items relate only to continuing operations.

Income Statement

for the year ended 31 December 2020 continued

Non-technical account

		2020	2019
	Notes	£'000	£'000
Balance on the general business technical account		(37,005)	(10,079)
Investment income	8	4,672	5,707
Net unrealised gains on investments	8	2,369	1,580
Investment expenses and charges	8	(311)	(300)
Allocated investment return transferred to the general business technical account		(6,730)	(6,987)
Exchange (losses)/gains		(79)	1,530
Loss for the financial year		<u>(37,084)</u>	<u>(8,549)</u>

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 2020

		2020	2019
	Notes	£'000	£'000
At 1 January		(52,406)	(44,737)
Loss for the financial year		(37,084)	(8,549)
Members' agents' fees		(1,639)	(1,425)
Cash calls made from members' personal reserve funds	14	5,005	2,305
At 31 December		<u>(86,124)</u>	<u>(52,406)</u>

Statement of Financial Position

as at 31 December 2020

		2020		2019	
	Notes	£'000	£'000	£'000	£'000
ASSETS					
Investments					
Financial investments	9		268,503		217,205
Deposits with ceding undertakings			55		38
Reinsurers' share of technical provisions					
Provision for unearned premiums	10	102,483		53,989	
Claims outstanding	10	282,762		205,752	
			385,245		259,741
Debtors					
Debtors arising out of direct insurance operations	11	132,784		103,729	
Debtors arising out of reinsurance operations	12	96,906		56,812	
Other debtors		1,862		1,471	
			231,552		162,012
Cash and other assets					
Cash at bank and in hand		20,813		24,569	
Other assets	13	59,029		46,888	
			79,842		71,457
Prepayments and accrued income					
Accrued interest		121		179	
Deferred acquisition costs	10	78,261		61,650	
Other prepayments and accrued income		2,370		1,555	
			80,752		63,384
TOTAL ASSETS			1,045,949		773,837

Statement of Financial Position*as at 31 December 2020 continued*

		2020		2019	
	Notes	£'000	£'000	£'000	£'000
MEMBERS' BALANCES AND LIABILITIES					
Members' balances			(86,124)		(52,406)
Technical provisions					
Provision for unearned premiums	10	281,632		223,660	
Claims outstanding	10	632,132		492,277	
			913,764		715,937
Creditors					
Creditors arising out of direct insurance operations	15	12,674		7,230	
Creditors arising out of reinsurance operations	16	172,092		84,889	
Other creditors		2,274		2,548	
			187,040		94,667
Accruals and deferred income	17		31,269		15,639
TOTAL MEMBERS' BALANCES AND LIABILITIES			1,045,949		773,837

The syndicate annual accounts on pages 21 to 65 were approved by the board of Argenta Syndicate Management Limited on 3 March 2021 and were signed on its behalf by

Andrew J Annandale
Managing Director

Statement of Cash Flows

for the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Loss on ordinary activities		(37,084)	(8,549)
Increase/(decrease) in unearned premiums and outstanding claims		210,064	107,237
(Increase)/decrease in reinsurers' share of unearned premiums and outstanding claims		(130,651)	(69,729)
(Increase)/decrease in debtors		(75,500)	(18,548)
Increase/(decrease) in creditors		94,467	12,850
Investment return		(6,730)	(6,987)
Movements in other assets/liabilities		2,325	1,942
Exchange differences		(322)	804
Net cash inflow/(outflow) from operating activities		<u>56,569</u>	<u>19,020</u>
Investing activities			
Investment income received		4,183	5,349
Purchases of debt and equity instruments		(140,880)	(140,581)
Sales of debt and equity instruments		118,936	141,509
Purchases of derivatives		(45,804)	(24,163)
Sales of derivatives		45,811	24,120
(Increase)/decrease in overseas deposits		(16,019)	(19,080)
(Increase)/decrease in deposits with ceding undertakings		(17)	(17)
Net cash inflow/(outflow) from investing activities		<u>(33,790)</u>	<u>(12,863)</u>
Financing activities			
Cash calls made from members' personal reserve funds		5,005	2,305
Members' agents' fee advances		(1,639)	(1,425)
Net cash inflow/(outflow) from financing activities		<u>3,366</u>	<u>880</u>
Increase/(decrease) in cash and cash equivalents		26,145	7,037
Cash and cash equivalents at 1 January		33,015	27,026
Exchange differences on opening cash and cash equivalents		1,140	(1,048)
Cash and cash equivalents at 31 December	18	<u>60,300</u>	<u>33,015</u>

Notes to the Accounts

1. Accounting policies

1.1 *Statement of compliance*

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

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

1.2 *Basis of preparation*

The financial statements for the year ended 31 December 2020 were approved for issue by the board of directors on 3 March 2021.

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.

Notes to the Accounts

continued

1. Accounting policies *continued*

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

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

Estimates of future premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are 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.

Notes to the Accounts

continued

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.

Notes to the Accounts

continued

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

Claims

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

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

Technical provisions

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

Claims outstanding

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

1. Accounting policies *continued*

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

Provisions for unearned premiums

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

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

Unexpired risks

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

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

At 31 December 2020 and 31 December 2019 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.

Notes to the Accounts

continued

1. Accounting policies *continued*

Reinsurance assets

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

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

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2020 or 2019.

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:

2020	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses* £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Accident and health	920	1,995	(2,933)	(1,097)	1,080	(955)
Motor (other classes)	9,693	9,211	(4,787)	(3,795)	(17)	612
Marine, aviation and transport	49,959	48,542	(46,932)	(16,267)	17,775	3,118
Energy	39,517	35,707	(24,024)	(9,798)	(2,303)	(418)
Fire and other damage to property	161,061	159,262	(199,727)	(56,343)	39,499	(57,309)
Third party liability	168,083	126,991	(59,339)	(43,820)	(21,203)	2,629
Pecuniary loss	18,624	14,552	(10,310)	(4,120)	808	930
	447,857	396,260	(348,052)	(135,240)	35,639	(51,393)
Reinsurance acceptances:						
Fire and other damage to property	66,390	66,785	(30,152)	(14,044)	(11,128)	11,461
Marine, aviation and transport	27,077	26,355	(28,959)	(9,624)	2,917	(9,311)
Energy	18,880	15,963	(4,253)	(4,080)	(2,716)	4,914
Casualty	26,708	18,677	(14,290)	(5,503)	1,710	594
	139,055	127,780	(77,654)	(33,251)	(9,217)	7,658
	586,912	524,040	(425,706)	(168,491)	26,422	(43,735)

Notes to the Accounts

continued

2. Particulars of business written continued

2019

	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	7,208	8,686	(4,828)	(3,668)	(1,265)	(1,075)
Motor (other classes)	6,669	7,312	(4,892)	(2,996)	(226)	(802)
Marine, aviation and transport	40,009	43,232	(25,889)	(15,438)	(1,549)	356
Energy	31,925	30,340	(43,180)	(8,986)	15,435	(6,391)
Fire and other damage to property	166,559	150,290	(100,757)	(50,807)	(13,344)	(14,618)
Third party liability	102,471	100,300	(86,132)	(33,802)	13,004	(6,630)
Pecuniary loss	23,588	22,957	(27,216)	(5,905)	6,154	(4,010)
	378,429	363,117	(292,894)	(121,602)	18,209	(33,170)
Reinsurance acceptances:						
Fire and other damage to property	46,032	44,742	(41,072)	(11,759)	20,700	12,611
Marine, aviation and transport	21,206	22,723	(11,688)	(7,990)	(4,161)	(1,116)
Energy	10,871	10,278	(2,675)	(3,033)	(1,534)	3,036
Casualty	1,400	3,012	(344)	(1,242)	147	1,573
	79,509	80,755	(55,779)	(24,024)	15,152	16,104
	457,938	443,872	(348,673)	(145,626)	33,361	(17,066)

All premiums were concluded in the UK.

*Net operating expenses shown in the income statement include an amount of £39.3 million (2019: £17.8 million) in respect of commissions on outward reinsurance that have been set off from the gross operating expenses but are included in the reinsurance balance above.

Geographical analysis by destination

	Gross written premiums	
	2020	2019
	£'000	£'000
UK	205,985	168,026
EU	33,241	20,769
Other	347,686	269,143
	586,912	457,938

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

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

(2019: An overall deterioration of £3.7 million on prior years' provisions was experienced during the year.

Deteriorations of £11.5 million on third party liability, £4.3 million on energy and £3.4 million on pecuniary loss were largely offset by an improvement of £17.5 million on reinsurance acceptances.)

4. Net operating expenses

	2020	2019
	£'000	£'000
Acquisition costs	169,756	131,139
Change in deferred acquisition costs	(17,667)	(1,066)
Administrative expenses	16,402	15,553
Gross operating expenses	168,491	145,626
Reinsurance commissions	(54,515)	(22,922)
Change in deferred reinsurance commissions	15,259	5,137
Net operating expenses	129,235	127,841

Administrative expenses include:

	2020	2019
	£'000	£'000
Auditors' remuneration – audit of the syndicate accounts	239	233
– other services pursuant to regulations and Lloyd's byelaws	182	165
Operating lease rentals – office equipment	–	11
Members' standard personal expenses	6,887	5,367

Total commissions for direct insurance accounted for in the year amounted to £123.0 million (2019: £99.5 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:

	2020	2019
	£'000	£'000
Wages and salaries	13,380	10,111
Social security costs	1,806	1,306
Other pension costs	971	730
	16,157	12,147

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

	2020	2019
	Number	Number
Administration and finance	14	12
Underwriting	39	27
Underwriting support	37	33
Claims	11	9
	101	81

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:

	2020	2019
	£'000	£'000
Emoluments	1,902	1,809

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

7. Active underwriter's emoluments

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

	2020	2019
	£'000	£'000
Emoluments	390	380

8. Investment return

	2020	2019
	£'000	£'000
Income from other financial investments	4,344	4,873
Net gains on realisation of investments		
– designated at fair value through profit or loss	328	834
Total investment income	4,672	5,707
Net unrealised gains on investments		
– designated at fair value through profit and loss	2,369	1,580
Investment expenses and charges	(311)	(300)
Total investment return	6,730	6,987

9. Financial investments

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

31 December 2019			
	Carrying	Purchase	
	value	price	Listed
	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts			
– designated at fair value through profit or loss	15,694	15,694	8,873
Debt securities and other fixed income securities			
– designated at fair value through profit or loss	183,362	181,716	–
Participation in investment pools	15,388	15,063	–
Deposits with credit institutions held at fair value	1,617	1,617	–
Loans secured by mortgages held at fair value	1,101	1,093	–
Derivative assets held at fair value	43	43	–
	<u>217,205</u>	<u>215,226</u>	<u>8,873</u>

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

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

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

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

Notes to the Accounts

continued

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.

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
31 December 2020				
Shares and other variable yield securities and units				
in unit trusts	37,830	–	7,831	45,661
Debt securities and other fixed income securities	–	198,450	–	198,450
Participation in investment pools	1	24,391	–	24,392
Loans, deposits with credit institutions and derivatives	–	–	–	–
Overseas deposits	12,755	46,274	–	59,029
	<u>50,586</u>	<u>269,115</u>	<u>7,831</u>	<u>327,532</u>
31 December 2019				
Shares and other variable yield securities and units				
in unit trusts	14,382	–	1,312	15,694
Debt securities and other fixed income securities	–	183,362	–	183,362
Participation in investment pools	31	15,357	–	15,388
Loans, deposits with credit institutions and derivatives	1,660	1,101	–	2,761
Overseas deposits	14,595	32,293	–	46,888
	<u>30,668</u>	<u>232,113</u>	<u>1,312</u>	<u>264,093</u>

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

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

	2019		
	<i>Reinsurers'</i>		
	<i>Gross</i>	<i>share</i>	<i>Net</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
At 1 January	411,463	(148,032)	263,431
Claims incurred in current underwriting year	117,616	(43,463)	74,153
Claims incurred in prior underwriting years	231,057	(103,670)	127,387
Claims paid during the year	(253,093)	83,662	(169,431)
Foreign exchange	(14,766)	5,751	(9,015)
At 31 December	492,277	(205,752)	286,525

Notes to the Accounts

continued

10. Technical provisions *continued*

Provision for unearned premiums

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

	2019		
	<i>Reinsurers'</i>		
	<i>Gross</i>	<i>share</i>	<i>Net</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
At 1 January	216,409	(48,274)	168,135
Premiums written in the year	457,938	(138,940)	318,998
Premiums earned in the year	(443,872)	131,557	(312,315)
Foreign exchange	(6,815)	1,668	(5,147)
At 31 December	<u>223,660</u>	<u>(53,989)</u>	<u>169,671</u>

Deferred acquisition costs

	2020	2019
	<i>£'000</i>	<i>£'000</i>
At 1 January	61,650	62,265
Change in deferred acquisition costs	17,667	1,066
Foreign exchange	(1,056)	(1,681)
At 31 December	<u>78,261</u>	<u>61,650</u>

11. Debtors arising out of direct insurance operations

	2020	2019
	<i>£'000</i>	<i>£'000</i>
Amounts falling due within one year – intermediaries	132,783	103,684
Amounts falling due after one year – intermediaries	<u>1</u>	<u>45</u>
	<u>132,784</u>	<u>103,729</u>

12. Debtors arising out of reinsurance operations

	2020	2019
	£'000	£'000
Amounts falling due within one year	96,795	56,753
Amounts falling due after one year	111	59
	<u>96,906</u>	<u>56,812</u>

13. Other assets

	2020	2019
	£'000	£'000
Overseas deposits		
Amounts advanced in the following locations as a condition of carrying on business there:		
Illinois, USA	579	431
Australia	37,253	24,474
Canada	5,446	4,174
Switzerland and other countries	15,751	17,809
	<u>59,029</u>	<u>46,888</u>

14. Reconciliation of members' balances

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

Cash calls made from members' personal reserve funds relate to collection of £5,005,000 in respect of the 2017 year of account. (2019: collection of £2,305,000 in respect of the 2016 year of account).

15. Creditors arising out of direct insurance operations

	2020	2019
	£'000	£'000
Amounts falling due within one year	12,673	7,230
Amounts falling due after one year	1	–
	<u>12,674</u>	<u>7,230</u>

Notes to the Accounts

continued

16. Creditors arising out of reinsurance operations

	2020	2019
	£'000	£'000
Amounts falling due within one year	77,382	50,101
Amounts falling due after one year	94,710	34,788
	<u>172,092</u>	<u>84,889</u>

17. Accruals and deferred income

Accruals and deferred income includes £28.2 million (2019: £13.5 million) in respect of deferred reinsurance commissions.

18. Cash and cash equivalents

	2020	2019
	£'000	£'000
Cash at bank and in hand	20,813	24,569
Short-term deposits with financial institutions	39,487	8,446
	<u>60,300</u>	<u>33,015</u>

The syndicate holds £39.5 million (2019: £8.4 million) of fixed deposits that have a maturity date of less than three months from inception, of which £1.7 million (2019: £6.8 million) are held within overseas deposits by Lloyd's (note 13) and £37.8 million (2019: £1.6 million) are fixed deposits that cannot be utilised until maturity.

19. Off balance sheet items

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

20. Related parties

Argenta Holdings Ltd

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

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

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

Argenta Tax & Corporate Services Ltd ("ATCSL"), an AHL group company, provides taxation services to the syndicate. Fees are agreed on a commercial basis and the profit to ATCSL generated from providing these services is, as in 2019, less than £1,000.

20. Related parties continued

AUA, a subsidiary of AHL, is a service company approved by Lloyd's and the MAS to operate on the Lloyd's Asia platform. AUA also holds a licence granted by the Australian Securities and Investments Commission and has a branch office approved by Lloyd's in Sydney, 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 £90,000 (2019: £80,000). The commission retained by AUA for business underwritten by the Australian branch is, at most, 28.5% of gross premium, which is in line with other Australian facilities currently supported by the syndicate. The commission charged in Australia covers original acquisition costs, branch office expenses and processing costs. The total commissions payable were £13.1 million (2019: £12.1 million).

Mr Graham Allen, Mr Sven Althoff, Mr Andrew Annandale, Mr Ian Maguire and Mr John Whiter are all directors of AHL. Mr Andrew Annandale and Mr Ian Maguire are directors of AUA. Mr Andrew Annandale and Ms Carol-Ann Burton are directors of ATCSL.

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

Business transactions

Hannover Re

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

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

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

Syndicate 6134 writes quota share reinsurances across specific classes of business within the underwriting capability of the host syndicate. In 2018 these included elements of the property, terrorism, specialty, cyber and political risks accounts. In 2019 this was extended to include elements of the marine hull and war, marine and energy liability, marine cargo and marine specie accounts. This was further extended in 2020 with casualty treaty as well as financial lines business consisting of professional indemnity, financial institutions, and SME specialty liability accounts, being added. The estimated ultimate gross net written premium of Syndicate 6134 for the 2020 year of account is £100.9 million (2019: £32.6 million) and for the 2021 year of account the expectation is that the gross net written premium will be £66.3 million.

Syndicate 2121 charges Syndicate 6134 an overriding commission in relation to these arrangements. For the 2018, 2019 and 2020 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 2020 creditors included an amount of £98.0 million (2019: £34.8 million) owed to Syndicate 6134.

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20. Related parties *continued*

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

ASML Directors

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

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

Mr Alan Grant is a director of Thomas Miller Holdings Ltd, Thomas Miller Specialty Holdings Ltd and Thomas Miller Specialty Underwriting Agency Ltd, a Lloyd's coverholder. He also became a director of Oneglobal Broking Ltd, a Lloyd's Broker, on 14 September 2020.

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

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

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

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

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

ASML

Total fees payable to ASML in respect of services provided to the syndicate amounted to £3.2 million (2019: £2.6 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 2020, no profit commission (2019: £Nil) was due to ASML. There were no creditors at the year-end in respect of profit commission due to ASML (2019: £Nil).

20. Related parties continued

In addition to this, £19.0 million (2019: £15.3 million) was recharged by ASML for expenses paid on behalf of the syndicate. Creditors at the year-end include amounts due to ASML of £0.9 million (2019: £1.7 million).

Capital support for Syndicate 2121

Hannover Re has supported Syndicate 2121 for the 2018 to 2020 years of account by way of a pro-rata participation agreement with Dynastic Underwriting Ltd (DUL) in respect of 100% of the member's participation. On 1 July 2020 Hannover Re acquired the entire issued share capital of DUL from Anglo Japanese Investment Co Ltd.

Hannover Re also provides capital support to Argenta Underwriting No. 3 Ltd for the 2018 to 2021 years of account by way of excess participation agreements.

Inter Hannover (No.1) Ltd, a wholly owned subsidiary of the Hannover Re group, participates on Syndicate 2121 for the 2018 to 2021 years of account.

Mr Annandale is a director of Argenta Private Capital Limited ("APCL"), a subsidiary of AHL. APCL allocates capacity to Syndicate 2121 for the 2018 to 2021 years of account.

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

Argenta Underwriting No. 2 Limited ("AU2")

Argenta Underwriting No. 3 Limited ("AU3")

Argenta Underwriting No. 8 Limited ("AU8") (resigned 28 February 2019)

Argenta Underwriting No. 9 Limited ("AU9")

Argenta Underwriting No. 10 Limited ("AU10")

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

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

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

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

There are no other transactions or arrangements to be disclosed.

Notes to the Accounts

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21. Funds at Lloyd's

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

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

22. Risk management

(a) Governance framework

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

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

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

(b) Capital management objectives

Capital framework at Lloyd's

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

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

22. Risk management *continued*

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

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

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. For a member participating on a single syndicate, its SCR is determined by the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate a credit for diversification is included to reflect the spread of risk. The credit given is consistent with determining a SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies an uplift to the member's SCR to determine the overall level of capital required. This is known as the member's Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2020 was 35% (2019: 35%) of the member's SCR 'to ultimate'.

Provision of capital by members

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

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

(c) Insurance risk

(1) General

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

Notes to the Accounts

continued

22. Risk management *continued*

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

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

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

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

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

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

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

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

22. Risk management continued

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

As a further guide to the level of catastrophe exposure written by the syndicate, the following table shows forecast claims arising from various hypothetical catastrophe events for the 2021 year.

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

Figures are consistent with the 2021 Syndicate Business Forecast (SBF) approved by Lloyd's, therefore are based on expected risk exposures estimated for the 2021 year.

<i>Catastrophe event</i>	<i>Estimated gross loss £m</i>	<i>Estimated final net loss £m</i>
30-year loss – Whole world natural catastrophe	176	61
30-year loss – US windstorm	119	38
Cruise vessel/Gulf of Mexico platform	85	28
30-year loss – US & Canada earthquake	53	20
Cyber – Major data security breach	37	19

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

	<i>31 December 2020</i>		<i>31 December 2019</i>	
	<i>Gross liabilities £'000</i>	<i>Net liabilities £'000</i>	<i>Gross liabilities £'000</i>	<i>Net liabilities £'000</i>
Direct insurance:				
Accident and health	4,521	3,045	6,573	5,947
Motor (other classes)	9,659	8,839	8,790	8,541
Marine, aviation and transport	64,325	51,619	61,706	54,757
Energy	57,684	45,031	77,911	49,870
Fire and other damage to property	280,439	161,914	188,856	128,130
Third party liability	281,714	136,634	205,570	113,276
Pecuniary loss	36,742	15,086	34,289	13,190
	<u>735,084</u>	<u>422,168</u>	<u>583,695</u>	<u>373,711</u>
Reinsurance acceptances:				
Fire and other damage to property	80,152	43,119	72,225	31,698
Marine, aviation and transport	52,610	40,783	44,221	35,995
Motor	2,770	1,096	–	–
Energy	17,171	15,854	13,089	12,275
Casualty	25,977	5,499	2,707	2,517
	<u>178,680</u>	<u>106,351</u>	<u>132,242</u>	<u>82,485</u>
	<u>913,764</u>	<u>528,519</u>	<u>715,937</u>	<u>456,196</u>

Notes to the Accounts

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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 2020		31 December 2019	
	Gross	Net	Gross	Net
	<i>liabilities</i>	<i>liabilities</i>	<i>liabilities</i>	<i>liabilities</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
United Kingdom	380,512	220,184	289,544	176,771
EU	30,071	19,100	25,304	19,487
USA	185,302	102,682	159,256	106,857
Canada	28,616	14,902	17,875	13,354
Other	289,263	171,651	223,958	139,727
	<u>913,764</u>	<u>528,519</u>	<u>715,937</u>	<u>456,196</u>

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

		Impact on gross liabilities £'000	Impact on net liabilities £'000	Impact on result £'000	Impact on members' balance £'000
31 December 2020	Change in assumptions				
'A priori' loss ratios	+5%	16,648	10,403	(11,051)	(11,051)
	Recede				
Incurred claims development patterns	development by 1 month	18,121	12,825	(13,602)	(13,602)
		Impact on gross liabilities £'000	Impact on net liabilities £'000	Impact on result £'000	Impact on members' balance £'000
31 December 2019	Change in assumptions				
'A priori' loss ratios	+5%	13,240	9,305	(10,145)	(10,145)
	Recede				
Incurred claims development patterns	development by 1 month	15,812	11,996	(12,718)	(12,718)

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 2020.

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

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22. Risk management continued

Gross insurance contract outstanding claims provision as at 31 December 2020:

Underwriting	Before											
year	2011	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of cumulative claims incurred: At end of												
underwriting year		61.1	92.1	57.5	45.5	61.1	66.1	114.8	121.1	114.0	166.3	
12 months later		173.2	148.3	113.2	102.0	132.0	162.7	209.1	290.8	326.4		
24 months later		182.7	149.9	115.2	102.1	143.1	185.2	248.3	341.5			
36 months later		193.1	147.9	111.8	96.7	148.0	203.6	248.6				
48 months later		194.9	144.1	111.1	102.5	149.6	201.5					
60 months later		193.7	139.9	107.9	102.0	146.3						
72 months later		191.8	138.4	106.4	101.9							
84 months later		189.9	138.1	105.4								
96 months later		188.6	137.5									
108 months later		188.6										
Current estimate of cumulative claims incurred		188.6	137.5	105.4	101.9	146.3	201.5	248.6	341.5	326.4	166.3	
Cumulative payments to date		184.9	134.7	98.5	96.6	123.9	157.6	184.3	207.0	118.3	35.6	
Gross outstanding claims provision at 31 December 2020 per the statement of financial position	9.5	3.7	2.8	6.9	5.3	22.4	44.0	64.3	134.4	208.1	130.7	632.1

22. Risk management continued

Net insurance contract outstanding claims provision as at 31 December 2020:

Underwriting year	Before	2011	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of cumulative claims incurred: At end of													
underwriting year		54.8	58.3	53.0	42.2	46.5	54.6	63.1	80.6	71.6	83.3		
12 months later		128.1	114.7	106.2	94.3	110.5	118.8	161.0	183.7	207.6			
24 months later		131.0	114.9	107.5	95.1	116.0	135.0	180.9	210.4				
36 months later		132.6	113.0	104.3	90.1	117.1	139.5	179.4					
48 months later		134.0	110.2	101.6	92.4	117.9	138.5						
60 months later		132.0	107.5	101.5	91.8	115.8							
72 months later		130.2	106.1	99.6	91.7								
84 months later		130.0	106.4	99.1									
96 months later		127.9	104.9										
108 months later		128.1											
Current estimate of cumulative claims incurred		128.1	104.9	99.1	91.7	115.8	138.5	179.4	210.4	207.6	83.3		
Cumulative payments to date		126.9	103.4	93.5	87.4	102.9	119.1	143.8	137.3	86.8	15.5		
Net outstanding claims provision at 31 December 2020 per the statement of financial position		7.2	1.2	1.5	5.6	4.3	12.9	19.4	35.6	73.1	120.8	67.8	349.4

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

(2) COVID-19

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

Notes to the Accounts

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22. Risk management *continued*

(d) Financial risk

(1) Credit risk

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

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

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

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

22. Risk management *continued*

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

Notes to the Accounts

continued

22. Risk management *continued*

31 December 2019	Neither past due nor impaired £'000	Past due £'000	Impaired £'000	Total £'000
Financial investments				
– Debt securities and other fixed income securities	183,362	–	–	183,362
– Shares and other variable yield securities and units in unit trusts	15,694	–	–	15,694
– Participation in investment pools	15,388	–	–	15,388
– Loans secured by mortgages	1,101	–	–	1,101
– Derivative assets	43	–	–	43
– Deposits with credit institutions	1,617	–	–	1,617
Deposits with ceding undertakings	38	–	–	38
Reinsurers' share of claims outstanding	205,752	–	–	205,752
Debtors arising out of insurance operations	111,130	49,411	–	160,541
Other debtors	1,471	–	–	1,471
Cash at bank and in hand	24,569	–	–	24,569
Overseas deposits	46,888	–	–	46,888
	<u>607,053</u>	<u>49,411</u>	<u>–</u>	<u>656,464</u>

Assets that are past due but not impaired include amounts relating to binding authority business as at 31 December 2020. 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 2020 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Insurance and other debtors have been excluded from the table as these are generally not rated.

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

Notes to the Accounts

continued

22. Risk management continued

	AAA	AA	A	BBB	<BBB	Not rated	Total
31 December 2019	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	10,791	–	–	–	–	4,903	15,694
Debt securities and other fixed income securities	106,052	20,870	34,378	22,062	–	–	183,362
Participation in investment pools	9,970	2,406	1,718	1,263	–	31	15,388
Loans secured by mortgages	1,101	–	–	–	–	–	1,101
Deposits with credit institutions	–	–	1,617	–	–	–	1,617
Overseas deposits	21,373	5,314	3,021	2,014	549	14,617	46,888
Derivative assets	43	–	–	–	–	–	43
Deposits with ceding undertakings	–	–	–	–	–	38	38
Reinsurers' share of claims outstanding	–	13,829	188,098	–	–	3,825	205,752
Cash at bank and in hand	–	–	24,569	–	–	–	24,569
Total credit risk	149,330	42,419	253,401	25,339	549	23,414	494,452

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.

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

	<i>0-1 year £'000</i>	<i>1-3 years £'000</i>	<i>3-5 years £'000</i>	<i>Over 5 years £'000</i>	<i>Total £'000</i>
<i>31 December 2019</i>					
Outstanding claim liabilities	202,522	173,969	62,438	53,348	492,277
Other	59,880	34,787	–	–	94,667

Notes to the Accounts

continued

22. Risk management *continued*

(3) *Financial market risk*

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

- a. Currency risk;
- b. Interest rate risk; and
- c. Equity price risk.

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

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

(a) *Currency risk*

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

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

22. Risk management continued

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

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

<i>Converted £'000</i>	<i>UK £</i>	<i>US \$</i>	<i>CAD \$</i>	<i>AUS \$</i>	<i>EUR €</i>	<i>OTH</i>	<i>Total</i>
<i>31 December 2019</i>							
Total assets	96,335	538,154	25,809	66,828	29,602	17,109	773,837
Total liabilities	(107,536)	(583,315)	(17,402)	(60,990)	(31,027)	(25,973)	(826,243)
Net assets	(11,201)	(45,161)	8,407	5,838	(1,425)	(8,864)	(52,406)

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.

Notes to the Accounts

continued

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 2020.

	<i>Impact on result</i>	
	<i>2020</i>	<i>2019</i>
	<i>£'000</i>	<i>£'000</i>
Sterling weakens:		
10% against other currencies	(5,812)	(5,780)
20% against other currencies	(13,076)	(13,005)
Sterling strengthens:		
10% against other currencies	4,755	4,729
20% against other currencies	8,718	8,670

(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.

	<i>Impact on result</i>	
	<i>2020</i>	<i>2019</i>
	<i>£'000</i>	<i>£'000</i>
Changes in variables:		
+50 basis points	(1,528)	(1,257)
-50 basis points	1,639	1,284

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.

	<i>Impact on result</i>	
	<i>2020</i>	<i>2019</i>
	<i>£'000</i>	<i>£'000</i>
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

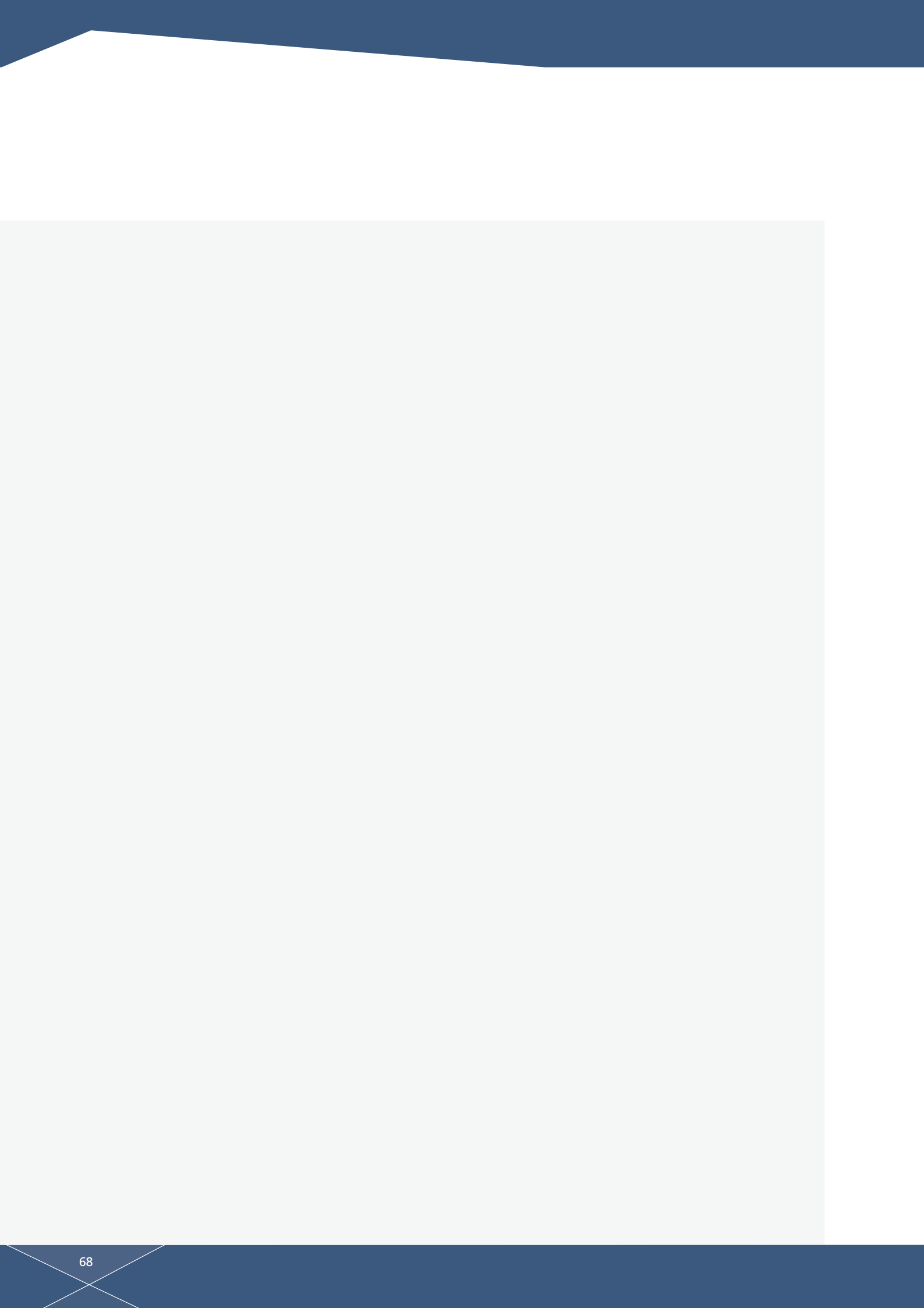
UNDERWRITING YEAR

ACCOUNTS

AS AT 31 DECEMBER 2020

2018 YEAR OF ACCOUNT

IN RUN-OFF



Statement of Managing Agent's Responsibilities

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

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

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

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

Independent Auditors' Report to the Members of Syndicate 2121 – 2018 run-off year of account

Report on the audit of the syndicate underwriting year financial statements

Opinion

In our opinion, Syndicate 2121's underwriting year financial statements for the 2018 year of account for the 3 years ended 31 December 2020 (the "underwriting year financial statements"):

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

We have audited the underwriting year financial statements included within the Report, Annual Accounts and the Underwriting Year Accounts, which comprise: the Statement of financial position as at 31 December 2020; the Income statement for the 2018 year of account, and the Statement of cash flows 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 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 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

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

Emphasis of matter – Basis of preparation

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

Reporting on other information

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

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

Responsibilities for the underwriting year financial statements and the audit

Responsibilities of the Managing Agent for the underwriting year financial statements

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

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

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

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

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

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the underwriting year financial statements. We also considered those laws and regulations that have a direct impact on the underwriting year financial statements such as the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). We evaluated management's incentives and opportunities for fraudulent manipulation of the underwriting year financial statements (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to claims outstanding and estimated premium income. Audit procedures performed included:

- discussions with the Audit Committee, management and the compliance function of the Managing Agent, including consideration of known or suspected instances of fraud and non-compliance with laws and regulations;

Independent Auditors' Report to the Members of Syndicate 2121 – 2018 run-off year of account

continued

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

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

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Mark Bolton (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 March 2021

Income Statement for the 2018 year of account

in run-off at the end of the third year at 31 December 2020

Technical account – general business

			Cumulative balance at 31 December 2020
	Notes	£'000	£'000
Syndicate allocated capacity			340,000
Earned premiums, net of reinsurance			
Gross premiums written	2		432,897
Outward reinsurance premiums			(126,905)
			305,992
Reinsurance to close premiums received, net of reinsurance	2		155,205
			461,197
Allocated investment return transferred from the non-technical account	8		6,358
Claims incurred, net of reinsurance			
Gross claims paid		(282,382)	
Reinsurers' share		104,838	
		(177,544)	
Amounts retained to meet all known and unknown outstanding liabilities, net of reinsurance, carried forward	4	(201,868)	
			(379,412)
Net operating expenses	5		(125,428)
Balance on the technical account for general business			(37,285)

Income Statement for the 2018 year of account

in run-off at the end of the third year at 31 December 2020 continued

Non-technical account

		Cumulative balance at 31 December 2020 £'000
	Notes	
Balance on the general business technical account		(37,285)
Investment income	8	4,609
Net unrealised gains on investments	8	2,009
Investment expenses and charges	8	(260)
Allocated investment return transferred to the general business technical account		(6,358)
Exchange gains		5,765
Result for the three years ended 31 December 2020 for the 2018 run-off account		<u>(31,520)</u>

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

Statement of Financial Position

as at 31 December 2020

		2020	
	Notes	£'000	£'000
ASSETS			
Investments	9		124,846
Deposits with ceding undertakings			39
Debtors			
Debtors arising out of direct insurance operations	10	6,562	
Debtors arising out of reinsurance operations	11	29,225	
Other debtors		1,068	
			36,855
Reinsurance recoveries anticipated on gross amounts retained to meet all known and unknown liabilities			136,944
Cash and other assets			
Cash at bank and in hand		8,200	
Other assets	12	27,383	
			35,583
Prepayments and accrued income			129
TOTAL ASSETS			334,396
LIABILITIES			
Amounts due from members			(32,813)
Amounts retained to meet all known and unknown liabilities – gross amounts			301,700
Creditors			
Creditors arising out of direct insurance operations		6,360	
Creditors arising out of reinsurance operations		42,567	
Other creditors		15,113	
			64,040
Accruals and deferred income			1,469
TOTAL LIABILITIES			334,396

The syndicate underwriting year accounts on pages 73 to 101 were approved by the Board of Argenta Syndicate Management Limited on 3 March 2021 and were signed on its behalf by

Andrew J Annandale
Managing Director

Statement of Cash Flows

for the 36 months ended 31 December 2020

	Notes	2020 £'000
Loss on ordinary activities		(31,520)
Increase in outstanding claims		301,700
Increase in reinsurers' share of outstanding claims		(136,944)
Increase in debtors		(36,984)
Increase in creditors		65,509
Investment return		(6,358)
Net cash inflow from operating activities		<u>155,403</u>
Investing activities		
Investment income received		5,023
Purchase of debt and equity instruments		(229,905)
Sale of debt and equity instruments		105,050
Purchase of derivatives		(34,361)
Sale of derivatives		34,371
Increase in overseas deposits		(26,049)
Increase in deposits with ceding undertakings		(39)
Net cash outflow from investing activities		<u>(145,910)</u>
Financing activities		
Members' agents' fee advances		(1,293)
Net cash outflow from financing activities		<u>(1,293)</u>
Increase in cash and cash equivalents		8,200
Cash and cash equivalents at 1 January		–
Cash and cash equivalents at 31 December	13	<u>8,200</u>

Notes to the Accounts

1. Accounting policies

1.1 Statement of compliance

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

The 2018 year of account is remaining open at 31 December 2020. These underwriting year accounts therefore represent the assets and liabilities of the 2018 run-off year of account and the transactions for that year of account during the 36 months from inception to the 31 December 2020. The risks that the run-off year of account is exposed to in respect of the reported financial position and financial performance are less than the syndicate annual accounts. Accordingly, these underwriting year accounts do not have associated risk disclosures as required by section 34 of FRS 102 and section 4 of FRS 103. Full disclosures relating to these risks are provided in the syndicate annual accounts. In addition certain other disclosure requirements under FRS 102 and FRS 103, which include reconciliations of changes in insurance liabilities, reinsurance assets and deferred acquisition costs, have not been provided as the directors believe they are not required for a proper understanding of the underwriting year accounts.

1.2 Basis of preparation

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2018 year of account; the statement of financial position represents the assets and liabilities of the 2018 year of account and the income statement and statement of cash flows reflect the transactions for that year of account during the 36 month period until 31 December 2020.

The financial statements for the period ended 31 December 2020 were approved for issue by the board of directors on 3 March 2021.

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

Notes to the Accounts

continued

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.

Notes to the Accounts

continued

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.

Notes to the Accounts

continued

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. All premium amounts are considered to be earned for the purpose of these underwriting accounts.

Gross claims

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

Outstanding claims

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

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

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

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

Reinsurance assets

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

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

1. Accounting policies continued

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

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

Insurance receivables

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

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

Insurance payables

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

Foreign currencies

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

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

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

Exchange differences are recorded in the non-technical account.

Taxation

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

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

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

Notes to the Accounts

continued

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

2. Particulars of business written

2018 run-off year of account after three years

Type of business

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

	Gross premiums written and earned £'000	Gross claims incurred £'000	Gross operating expenses* £'000	Reinsurance balance £'000	Total £'000
Direct insurance:					
Marine, aviation and transport	58,734	(41,000)	(19,891)	(1,256)	(3,413)
Fire and other damage to property	150,268	(180,922)	(51,489)	32,709	(49,434)
Third party liability	98,533	(27,294)	(33,968)	(22,965)	14,306
Other	41,731	(28,330)	(12,920)	3,798	4,279
	<u>349,266</u>	<u>(277,546)</u>	<u>(118,268)</u>	<u>12,286</u>	<u>(34,262)</u>
Reinsurance accepted	238,836	(321,068)	(24,445)	97,296	(9,381)
	<u>588,102</u>	<u>(598,614)</u>	<u>(142,713)</u>	<u>109,582</u>	<u>(43,643)</u>

Reinsurance acceptances include the reinsurance to close premium of £155,205,128 received from the 2017 year of account.

All premiums were concluded in the UK.

*Net operating expenses shown in the income statement include an amount of £17.3 million in respect of commissions on outward reinsurance that have been set off from the gross operating expenses but are included in the reinsurance balance above.

Geographical analysis by destination

	Gross written premiums £'000
UK	214,992
EU	40,131
Other	332,979
	<u>588,102</u>

Notes to the Accounts

continued

3. Analysis of underwriting result

	<i>2017 and prior years of account £'000</i>	<i>2018 pure year of account £'000</i>	<i>Total 2018 year of account £'000</i>
Technical account balance before allocated investment return and net operating expenses	7,212	74,573	81,785
Acquisition costs and reinsurance commissions	913	(111,563)	(110,650)
	<u>8,125</u>	<u>(36,990)</u>	<u>(28,865)</u>

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

	<i>Reported £'000</i>	<i>IBNR £'000</i>	<i>Total £'000</i>
2018 run-off year of account after three years			
Gross outstandings	157,789	158,443	316,232
Reinsurance recoveries anticipated	(75,632)	(38,732)	(114,364)
Net amounts retained to meet all known and unknown outstanding liabilities	<u>82,157</u>	<u>119,711</u>	<u>201,868</u>

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

5. Net operating expenses

	<i>2020 £'000</i>
Acquisition costs	127,935
Administrative expenses	<u>14,778</u>
	142,713
Reinsurance commissions	<u>(17,285)</u>
Net operating expenses	<u>125,428</u>

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

6. Staff numbers and costs

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

	2020 £'000
Wages and salaries	9,863
Social security costs	1,340
Other pension costs	666
	<hr/> 11,869 <hr/>

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

	2020 Number
Underwriting	26
Underwriting support	25
Claims	10
Administration and finance	12
	<hr/> 73 <hr/>

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

The aggregate remuneration charged to the syndicate in respect of emoluments paid to the directors of ASML and the active underwriter was £1.7 million. This includes £353,000 that relates to the active underwriter.

7. Auditors' remuneration

	2020 £'000
Audit services	235
Other services pursuant to regulations and Lloyd's byelaws	162
	<hr/> 397 <hr/>

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

Notes to the Accounts

continued

8. Investment return

	<i>2020</i>
	<i>£'000</i>
Income from other investments	4,538
Net gains on realisation of investments	71
Total investment income	4,609
Net unrealised gains on investments	2,009
Investment expenses and charges	(260)
Total investment return	<u>6,358</u>

9. Financial investments

	<i>Market value</i>
	<i>2020</i>
	<i>£'000</i>
Shares and other variable yield securities and units in unit trusts	
– designated at fair value through profit or loss	19,141
Debt securities and other fixed income securities	
– designated at fair value through profit or loss	95,947
Deposits with credit institutions held at fair value	–
Loans secured by mortgages held at fair value	–
Participation in investment pools	9,758
Derivatives held at fair value	–
	<u>124,846</u>

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

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

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

9. Financial investments continued

By market value, approximately 67% 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.

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Shares and other variable yield securities and units				
in unit trusts	19,141	–	–	19,141
Debt securities and other fixed income securities	–	95,947	–	95,947
Participation in investment pools	–	9,758	–	9,758
Loans and deposits with credit institutions	–	–	–	–
Overseas deposits	5,917	21,466	–	27,383
Derivatives	–	–	–	–
	<u>25,058</u>	<u>127,171</u>	<u>–</u>	<u>152,229</u>

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.

Notes to the Accounts

continued

10. Debtors arising out of direct operations

	2020 £'000
Amounts falling due within one year – intermediaries	6,561
Amounts falling due after one year – intermediaries	1
	<u>6,562</u>

11. Debtors arising out of reinsurance operations

	2020 £'000
Amounts falling due within one year	29,225
Amounts falling due after one year	–
	<u>29,225</u>

12. Other assets

	2020 £'000
Overseas deposits	
Amounts advanced in the following locations as a condition of carrying on business there:	
Illinois, USA	214
Australia	16,542
Canada	2,596
Switzerland and other countries	8,031
	<u>27,383</u>

13. Cash and cash equivalents

	2020 £'000
Cash at bank and in hand	8,200
Short-term deposits with financial institutions	–
	<u>8,200</u>

14. Off balance sheet items

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

15. Related parties

Argenta Holdings Ltd

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

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

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

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

AUA, a subsidiary of AHL, is a service company approved by Lloyd's and the MAS to operate on the Lloyd's Asia platform. AUA also holds a licence granted by the Australian Securities and Investments Commission and has a branch office approved by Lloyd's in Sydney, Australia. Syndicate 2121 uses this service company as a coverholder to bind risks on its behalf. Such services relating to business written in Singapore are provided at cost plus a small profit margin of 5% mainly for tax purposes. The total value of the margin for the 2018 year of account is less than £80,000. The commission retained by AUA for business underwritten by the Australian branch is at most 28.5% of gross premium, which is in line with other Australian facilities currently supported by the syndicate. The commission charged in Australia covers original acquisition costs, branch office expenses and processing costs. The total commissions payable for the 2018 year of account were £9.1 million.

Mr Graham Allen, Mr Sven Althoff, Mr Andrew Annandale, Mr Ian Maguire and Mr John Whiter are all directors of AHL. Mr Andrew Annandale and Mr Ian Maguire are directors of AUA. Mr Andrew Annandale and Ms Carol-Ann Burton are directors of ATCSL.

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

Business transactions

Hannover Re

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

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

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

Notes to the Accounts

continued

15. Related parties *continued*

Syndicate 6134 writes quota share reinsurances across specific classes of business within the underwriting capability of the host syndicate. In 2018 these included elements of the property, terrorism, specialty, cyber and political risks accounts. The estimated ultimate gross net written premium of Syndicate 6134 for the 2018 year of account is £22.2 million.

Syndicate 2121 charges Syndicate 6134 an overriding commission in relation to these arrangements. For the 2018 year of account, other than in respect of political risks business, this commission is charged at a rate of between 5% and 10% of gross net written premium. In respect of political risks the override 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 2020 creditors included an amount of £3.2 million owed to Syndicate 6134.

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

ASML Directors

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

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

Mr Alan Grant is a director of Thomas Miller Holdings Ltd, Thomas Miller Specialty Holdings Ltd and Thomas Miller Specialty Underwriting Agency Ltd, a Lloyd's coverholder. He also became a director of Oneglobal Broking Ltd, a Lloyd's Broker, on 14 September 2020.

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

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

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

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

15. Related parties continued

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

ASML

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

Capital support for Syndicate 2121

Hannover Re has supported Syndicate 2121 for the 2018 to 2020 years of account by way of a pro-rata participation agreement with Dynastic Underwriting Ltd (DUL) in respect of 100% of the member's participation. On 1 July 2020 Hannover Re acquired the entire issued share capital of DUL from Anglo Japanese Investment Co Ltd.

Hannover Re also provides capital support to Argenta Underwriting No. 3 Ltd for the 2018 to 2021 years of account by way of excess participation agreements.

Inter Hannover (No.1) Ltd, a wholly owned subsidiary of the Hannover Re group, participates on Syndicate 2121 for the 2018 to 2021 years of account.

Mr Annandale is a director of Argenta Private Capital Limited ("APCL"), a subsidiary of AHL. APCL allocates capacity to Syndicate 2121 for the 2018 to 2021 years of account.

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

Argenta Underwriting No. 2 Limited ("AU2")

Argenta Underwriting No. 3 Limited ("AU3")

Argenta Underwriting No. 8 Limited ("AU8") (resigned 28 February 2019)

Argenta Underwriting No. 9 Limited ("AU9")

Argenta Underwriting No. 10 Limited ("AU10")

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

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

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

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

There are no other transactions or arrangements to be disclosed.

Notes to the Accounts

continued

16. Risk management

(a) Governance framework

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

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

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

(b) Capital management objectives

Capital framework at Lloyd's

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

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

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

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

16. Risk management *continued**Lloyd's capital setting process*

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

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

Provision of capital by members

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

(c) Insurance risk*(1) General*

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

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

Notes to the Accounts

continued

16. Risk management *continued*

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

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

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

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

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

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

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

16. Risk management *continued*

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

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

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

Key assumptions

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

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

Sensitivities

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

Claims development table

The syndicate annual accounts include tables showing the estimates of cumulative incurred claims, including both claims notified and IBNR for each underwriting year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at 31 December 2020.

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

16. Risk management *continued*

(2) COVID-19

Syndicate 2121 has material exposure to losses arising from the COVID-19 pandemic both in the UK and overseas. Uncertainties exist both in respect of the assessment of the initial losses that the syndicate might be obliged to pay and of how these will interact with the syndicate's reinsurance programme. This increases the uncertainty of the syndicate's total reserves but does not increase that uncertainty significantly beyond the normal range of uncertainty for the liabilities of an insurance carrier at this stage of development. Nevertheless, against the backdrop of these uncertainties and the need to ensure equity between capital providers on the different years of account, the 2018 year of account is being left open at 31 December 2020.

(d) Financial risk

(1) Credit risk

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

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

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

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

The syndicate annual accounts also include a table showing information regarding the credit risk exposure of the syndicate at 31 December 2020 by classifying assets according to Standard & Poor's credit ratings of the counterparties.

16. Risk management *continued*

Maximum credit exposure

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

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

(2) *Liquidity risk*

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

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

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

Maturity profiles

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

(3) *Financial market risk*

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

- a. Currency risk;
- b. Interest rate risk; and
- c. Equity price risk.

Notes to the Accounts

continued

16. Risk management *continued*

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

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

(a) *Currency risk*

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

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

The years of account that remain open at 31 December 2020 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 2020.

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*

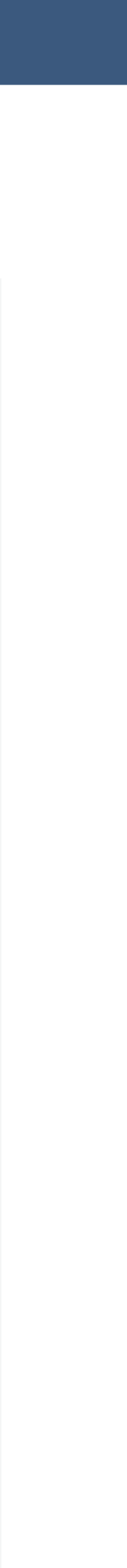
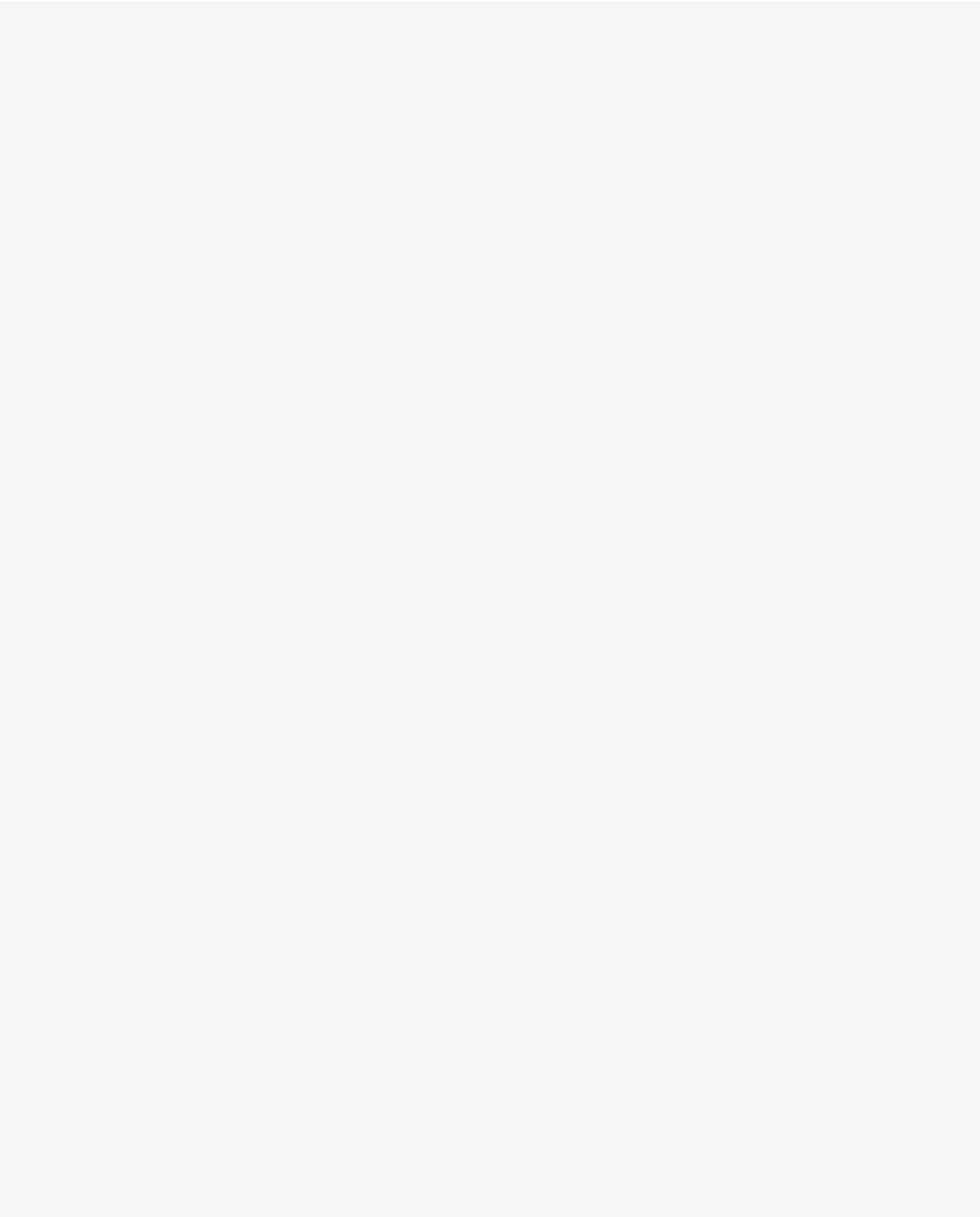
Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument 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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Argenta Syndicate Management Limited
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