

**Mallee Name No 2 Limited**  
**Annual Report and Financial Statements**  
**31 December 2019**



**Company registration number: 04050002**

# **Mallee Name No 2 Limited**

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# **Mallee Name No 2 Limited**

## **Company Information**

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### **Directors**

Jeremy Richard Holt Evans  
Nomina Plc

### **Company Secretary**

Hampden Legal Plc

### **Registered Office**

5th Floor, 40 Gracechurch Street  
London  
EC3V 0BT

### **Auditors**

PKF Littlejohn LLP  
Statutory Auditor  
15 Westferry Circus  
Canary Wharf  
London  
E14 4HD

### **Solicitors**

Jones Day  
21 Tudor Street  
London  
EC4Y 0DJ

# Mallee Name No 2 Limited

## Strategic Report

The Directors present their Strategic Report for the year ended 31 December 2019.

### Business review and future developments

The Financial Statements incorporate the annual accounting results of the syndicates on which the Company participates for the 2017, 2018 and 2019 years of account, as well as any prior run-off years. The 2017 year closed at 31 December 2019 with a result of £(59,896) (2016: £43,080). The 2018 and 2019 open underwriting accounts will normally close at 31 December 2020 and 2021.

### Key performance indicators

The Directors monitor the performance of the Company by reference to the following key performance indicators:

	2019	2018
Capacity of current underwriting year of account	1,076,339	1,125,582
Gross premium written as a % of capacity	111.0%	97.7%
Capacity of closed underwriting year of account	1,036,381	936,574
Underwriting profit/(loss) of closed year as a % of capacity	-5.8%	4.6%

### Other performance indicators

As a result of the nature of this Company as a Lloyd's corporate member the majority of its activities are carried out by the syndicates in which it participates. The Company is not involved directly in the management of the syndicates' activities and therefore the Directors of the Company do not consider it appropriate to monitor and report any performance indicators in relation to staff or environmental matters.

### Financial risk management objectives and policies

As a corporate member of Lloyd's the majority of the risks to this Company's future cash flows arise from its participation in the results of Lloyd's syndicates. As detailed in Note 5, these risks are mostly managed by the managing agent of the syndicate. The Company's role in managing this risk is limited to selection of syndicate participations and monitoring performance of the syndicates. The Company is also directly exposed to these risks, but they are not considered material compared to the syndicate risk for the assessment of the assets, liabilities, financial position and profit or loss of the Company.

### COVID-19

The rapid spread of COVID-19 around the world in 2020 has had a significant impact on families, communities and the global economy. The global financial markets in particular are experiencing significant volatility.

Although the spread of COVID-19 has created challenges, the Company and the Lloyd's market as a whole are well equipped to react and deal with any difficulties. The financial impact of COVID-19 on the Company is still uncertain, but it is not expected to affect the long term strategy.

### Section 172(1) Statement

The Directors of the Company have a duty to promote the success of the Company whilst giving due regard to the interests of stakeholders affected by the Company's activities.

As a result of the nature of this Company as a Lloyd's corporate member, the majority of its activities are carried out by the syndicates in which it participates. The Company is not involved directly in the management of the syndicates' activities, as these are the responsibility of the relevant managing agent. Each managing agent has a board of directors which are responsible for the activities of each syndicate, and themselves have a duty towards a range of considerations including (but not limited to) employees, community and environmental matters, standards of business conduct and the long term consequence of decisions.

The Company itself undertakes very few transactions. The Company does not employ any staff and the only suppliers are those who provide services for the administration of the Company. The Directors ensure supplier invoices are paid on time in line with any agreed terms. The Directors work very closely with the Members of the Company to discuss all significant decisions, including the selection of which syndicates to participate.

The Company and the syndicates are required to operate within the guidelines and code of conduct of the Lloyd's market. Behind the Lloyd's market is the Lloyd's Corporation, an independent organisation and regulator that acts to protect and maintain the market's reputation and provides services and original research, reports and analysis to the industry's knowledge base.

The Company's Section 172(1) Statement is also available at <https://www.hampden.co.uk/namecosection172>.

## **Mallee Name No 2 Limited**

### **Strategic Report (continued)**

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#### **Departure from the European Union**

The United Kingdom left the EU on 31 January 2020 and began a transition period that is set to end on 31 December 2020, during which the UK and the EU will negotiate their future relationship. The UK remains subject to EU law and remains part of the EU customs union and single market during the transition, but is no longer part of the EU's political bodies or institutions. Lloyd's has been working together with market members to prepare for changes that are likely to arise as a result of leaving the EU. Lloyd's have noted that, although only around 11% of the market's gross written premiums arise from the EU excluding the UK, they are making preparations to maintain access to the insurance market in the EU. At this time the details of future trading with the EU in general and the impact on the Lloyd's market cannot be known, although these uncertainties, together with related economic factors including exchange rates and investment values, may have an impact on results for several years. The Directors are monitoring the Lloyd's market's preparations along with general market conditions to identify if it is appropriate to make any changes to the current strategy of the Company.

Approved by the Board of Directors on 5 August 2020 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'JRH Evans', with a large, stylized loop at the end.

Jeremy Richard Holt Evans  
Director

# **Mallee Name No 2 Limited**

## **Directors' Report**

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The Directors present their Report together with the audited Financial Statements of the Company for the year ended 31 December 2019.

### **Principal activities**

The principal activity of the Company is that of trading as a Lloyd's corporate capital member. The Company continues to trade in 2020.

### **Results and dividends**

The results for the year are set out on pages 9 to 10 of the Financial Statements. Dividends totalling £nil were paid in the year (2018: £nil).

### **Directors**

The Directors who served at any time during the year were as follows:

Jeremy Richard Holt Evans  
Nomina Plc

### **Directors' Responsibilities Statement**

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for: such internal control as they determine necessary to enable the preparation of Financial Statements that are free from material misstatements, whether due to fraud or error; and safeguarding the assets of the Company, complying with laws and regulations, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Mallee Name No 2 Limited**

### **Directors' Report (continued)**

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#### **Auditor**

- i. PKF Littlejohn LLP has signified its willingness to continue in office as auditor.
- ii. Disclosure of information to the Auditor:

In the case of each of the persons who are Directors at the time this report is approved, the following applies:

- so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Approved by the Board of Directors on 5 August 2020 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'Jeremy Holt', with a large loop at the end.

Jeremy Richard Holt Evans  
Director

# **Mallee Name No 2 Limited**

## **Independent Auditor's Report**

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### **Independent Auditor's Report to the Members of Mallee Name No 2 Limited**

#### **Opinion**

We have audited the Financial Statements of Mallee Name No 2 Limited (the "Company") for the year ended 31 December 2019 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Shareholders' Equity, the Statement of Cash Flows and notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Emphasis of matter**

We draw your attention to Note 24 to the Financial Statements which explains that the Directors, having considered the impact of COVID-19 pandemic, believe it is appropriate to continue to adopt going concern basis of accounting in preparing the Financial Statements. Our opinion is not modified in this respect.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is not appropriate; or
- the Directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Financial Statements are authorised for issue.

#### **Other information**

The other information comprises the information included in the Annual Report, other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the 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 in this regard.

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.



# Mallee Name No 2 Limited

## Independent Auditor's Report (continued)

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### Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

### Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Company'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 Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

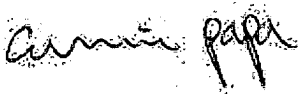
### Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Use of our report

This report is made solely to the Company's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's Members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.



**Carmine Papa (Senior Statutory Auditor)**  
**For and on behalf of PKF Littlejohn LLP**  
**Statutory Auditor**  
5 August 2020

15 Westferry Circus  
Canary Wharf  
London  
E14 4HD

# Mallee Name No 2 Limited

## Profit and Loss Account

### Technical Account – General Business for the year ended 31 December 2019

	Note	2019 £	2018 £
<b>Premiums written</b>			
Gross premiums written	6,7	1,195,150	1,100,057
Outward reinsurance premiums		(273,760)	(226,627)
<b>Net premiums written</b>		<u>921,390</u>	<u>873,430</u>
<b>Change in the provision for unearned premiums</b>	8		
Gross provision		(25,201)	(21,587)
Reinsurers' share		12,654	12,286
<b>Net change in the provision for unearned premiums</b>		<u>(12,547)</u>	<u>(9,301)</u>
<b>Earned premiums, net of reinsurance</b>		908,843	864,129
Allocated investment return transferred from the non-technical account		41,714	9,896
Other technical income, net of reinsurance		-	-
<b>Total technical income</b>		<u>950,557</u>	<u>874,025</u>
<b>Claims paid</b>			
Gross amount		(672,160)	(644,410)
Reinsurers' share		175,098	131,508
<b>Net claims paid</b>		<u>(497,062)</u>	<u>(512,902)</u>
<b>Change in the provision for claims</b>			
Gross amount		(117,535)	(47,526)
Reinsurers' share		55,743	22,297
<b>Change in the net provision for claims</b>	8	<u>(61,792)</u>	<u>(25,229)</u>
<b>Claims incurred, net of reinsurance</b>		(558,854)	(538,131)
Changes in other technical provisions, net of reinsurance		(1,804)	(1,291)
Net operating expenses	9	(355,624)	(352,814)
Other technical charges, net of reinsurance		-	-
<b>Balance on the technical account for general business</b>		<u>34,275</u>	<u>(18,211)</u>

The Notes are an integral part of these Financial Statements.

**Mallee Name No 2 Limited**  
**Profit and Loss Account**  
**Non - Technical Account**  
**for the year ended 31 December 2019**

	Note	2019 £	2018 £
<b>Balance on technical account for general business</b>		34,275	(18,211)
Investment income	10	39,915	46,546
Unrealised gains on investments	10	51,079	32,014
Investment expenses and charges	10	(5,965)	(10,912)
Unrealised losses on investments	10	(38,217)	(60,732)
Allocated investment return transferred to the general business technical account		(41,714)	(9,896)
Other income		725	5,492
Other charges		(20,642)	(1,552)
<b>Profit/(loss) before taxation</b>	11	19,456	(17,251)
Tax on profit/(loss)	12	(16,088)	558
<b>Profit/(loss) for the financial year</b>		3,368	(16,693)

**Statement of Comprehensive Income**

	2019 £	2018 £
<b>Profit/(loss) for the financial year</b>	3,368	(16,693)
Other comprehensive income:		
Currency translation differences	5,955	(7,392)
Tax on other comprehensive income	(1,012)	1,257
<b>Other comprehensive income for the year, net of tax</b>	4,943	(6,135)
<b>Total comprehensive income for the financial year</b>	17 8,311	(22,828)

All amounts relate to continuing operations.

The Notes are an integral part of these Financial Statements.

# Mallee Name No 2 Limited

## Balance Sheet as at 31 December 2019

		31 December 2019			31 December 2018		
	Note	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
<b>Assets</b>							
<b>Intangible assets</b>	13	-	931	931	-	1,396	1,396
<b>Investments</b>							
Financial investments	14	948,114	-	948,114	957,224	-	957,224
Deposits with ceding undertakings		89	-	89	84	-	84
		948,203	-	948,203	957,308	-	957,308
<b>Reinsurers' share of technical provisions</b>							
Provision for unearned premiums	8	89,263	-	89,263	79,477	-	79,477
Claims outstanding	8	559,063	-	559,063	535,862	-	535,862
Other technical provisions		903	-	903	2,706	-	2,706
		649,229	-	649,229	618,045	-	618,045
<b>Debtors</b>							
Arising out of direct insurance operations							
- Policyholders		3	-	3	6	-	6
- Intermediaries		242,536	-	242,536	241,602	-	241,602
Arising out of reinsurance operations		270,448	-	270,448	344,819	-	344,819
Other debtors	15	41,680	296,095	337,775	88,288	290,409	378,697
		554,667	296,095	850,762	674,715	290,409	965,124
<b>Other assets</b>							
Cash at bank and in hand		69,710	1,018	70,728	56,199	5,996	62,195
Other		112,490	-	112,490	95,207	-	95,207
		182,200	1,018	183,218	151,406	5,996	157,402
<b>Prepayments and accrued income</b>							
Accrued interest		2,177	-	2,177	2,366	-	2,366
Deferred acquisition costs	8	133,602	-	133,602	133,452	-	133,452
Other prepayments and accrued income		6,008	-	6,008	6,245	-	6,245
		141,787	-	141,787	142,063	-	142,063
<b>Total assets</b>		2,476,086	298,044	2,774,130	2,543,537	297,801	2,841,338

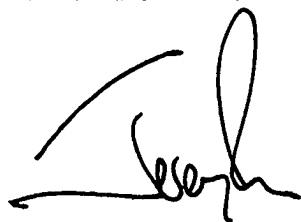
The Notes are an integral part of these Financial Statements.

# Mallee Name No 2 Limited

## Balance Sheet as at 31 December 2019

		31 December 2019			31 December 2018		
	Note	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
<b>Liabilities and shareholders' funds</b>							
<b>Capital and reserves</b>							
Called up share capital	16	-	100	100	-	100	100
Share premium account		-	-	-	-	-	-
Profit and loss account	17	(177,877)	244,396	66,519	(179,983)	238,191	58,208
<b>Shareholders' funds</b>		(177,877)	244,496	66,619	(179,983)	238,291	58,308
<b>Technical provisions</b>							
Provision for unearned premiums	8	515,589	-	515,589	502,519	-	502,519
Claims outstanding – gross amount	8	1,769,488	-	1,769,488	1,796,483	-	1,796,483
Other technical provisions		-	-	-	-	-	-
		2,285,077	-	2,285,077	2,299,002	-	2,299,002
<b>Provisions for other risks and charges</b>							
Deferred taxation	18	-	-	-	-	-	-
Other		-	-	-	-	-	-
		-	-	-	-	-	-
<b>Deposits received from reinsurers</b>		4,630	-	4,630	4,470	-	4,470
<b>Creditors</b>							
Arising out of direct insurance operations		37,968	-	37,968	34,066	-	34,066
Arising out of reinsurance operations		206,928	-	206,928	220,733	-	220,733
Amounts owed to credit institutions		11,678	-	11,678	18,677	-	18,677
Other creditors including taxation and social security	19	74,360	53,548	127,908	121,165	58,150	179,315
		330,934	53,548	384,482	394,641	58,150	452,791
<b>Accruals and deferred income</b>		33,322	-	33,322	25,407	1,360	26,767
<b>Total liabilities</b>		2,653,963	53,548	2,707,511	2,723,520	59,510	2,783,030
<b>Total liabilities and shareholders' funds</b>		2,476,086	298,044	2,774,130	2,543,537	297,801	2,841,338

The Financial Statements were approved and authorised for issue by the Board of Directors on 5 August 2020 and signed on its behalf by:



Jeremy Richard Holt Evans  
Director

Company registration number: 04050002

The Notes are an integral part of these Financial Statements.

# Mallee Name No 2 Limited

## Statement of Changes in Shareholders' Equity for the year ended 31 December 2019

	Note	Called up share capital £	Share premium account £	Profit and loss account £	Total £
At 1 January 2018		100	-	81,036	81,136
<b>Total comprehensive income for the year:</b>					
Profit/(loss) for the financial year		-	-	(16,693)	(16,693)
Other comprehensive income for the year		-	-	(6,135)	(6,135)
Total comprehensive income for the year		-	-	(22,828)	(22,828)
<b>Transactions with owners:</b>					
Dividends paid	17,21	-	-	-	-
Proceeds from issue of shares	16	-	-	-	-
Total transactions with owners		-	-	-	-
<b>At 31 December 2018</b>		<b>100</b>	<b>-</b>	<b>58,208</b>	<b>58,308</b>
At 1 January 2019		100	-	58,208	58,308
<b>Total comprehensive income for the year:</b>					
Profit/(loss) for the financial year		-	-	3,368	3,368
Other comprehensive income for the year		-	-	4,943	4,943
Total comprehensive income for the year		-	-	8,311	8,311
<b>Transactions with owners:</b>					
Dividends paid	17,21	-	-	-	-
Proceeds from issue of shares	16	-	-	-	-
Total transactions with owners		-	-	-	-
<b>At 31 December 2019</b>		<b>100</b>	<b>-</b>	<b>66,519</b>	<b>66,619</b>

The Notes are an integral part of these Financial Statements.

# Mallee Name No 2 Limited

## Statement of Cash Flows for the year ended 31 December 2019

	2019 £	2018 £
<b>Cash flows from operating activities</b>		
Profit/(loss) before tax	19,456	(17,251)
Deduction of (profit)/loss attributed to syndicate transactions	(39,009)	13,927
Distribution/(collection) of closed year result from/(to) syndicates	42,858	87,359
Profit/(loss) excluding syndicate transactions	23,305	84,035
Adjustments for:		
(Increase)/decrease in debtors	(1,842)	(116,667)
Increase/(decrease) in creditors	(1,360)	39,867
(Profit)/loss on disposal of intangible assets	(725)	(5,492)
Amortisation of syndicate capacity	465	466
Investment income	(5,098)	(21,384)
Realised/unrealised (gains)/losses on investments	-	-
Income tax paid	(25,546)	(28,857)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(10,801)</b>	<b>(48,032)</b>
<b>Cash flows from investing activities</b>		
Investment income	5,098	21,384
Purchase of syndicate capacity	-	-
Proceeds from sale of syndicate capacity	725	5,492
Purchase of investments	-	-
Proceeds from sale of investments	-	-
<b>Net cash inflow/(outflow) from investing activities</b>	<b>5,823</b>	<b>26,876</b>
<b>Cash flows from financing activities</b>		
Equity dividends paid	-	-
Issue of shares	-	-
<b>Net cash inflow/(outflow) from financing activities</b>	<b>-</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(4,978)</b>	<b>(21,157)</b>
Cash and cash equivalents at beginning of year	5,996	27,153
Effect of exchange rate changes on cash and cash equivalents	-	-
<b>Cash and cash equivalents at end of year</b>	<b>1,018</b>	<b>5,996</b>
<b>Cash and cash equivalents comprise:</b>		
Cash at bank and in hand	1,018	5,996
Other financial investments	-	-
<b>Cash and cash equivalents</b>	<b>1,018</b>	<b>5,996</b>

The Company has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the Statement of Cash Flows is prepared reflecting only the movement in corporate funds, which includes transfers to and from the syndicates at Lloyd's.

### Net Debt Reconciliation:

The Net Debt Reconciliation comprises only of the corporate cash and cash equivalents, as the Company does not have any borrowings.

The cash and cash equivalents at the beginning of the year, the cash flows arising during the year, any exchange rate movements and the cash and cash equivalents at the end of the year are disclosed within the Cash Flow Statement above.

The Notes are an integral part of these Financial Statements.

# **Mallee Name No 2 Limited**

## **Notes to the Financial Statements**

### **for the year ended 31 December 2019**

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#### **1. General information**

The Company is a private company limited by shares that was incorporated in England and Wales and whose registered office is 40 Gracechurch Street, London, EC3V 0BT. The Company participates in insurance business as an underwriting member of various syndicates at Lloyd's.

#### **2. Statement of compliance**

These Financial Statements have been prepared in accordance with United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts", the Companies Act 2006 and Schedule 3 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations, relating to insurance.

#### **3. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

##### **Basis of preparation**

The Financial Statements have been prepared on a going concern basis, under the historical cost basis of accounting, as modified by the revaluation of certain financial instruments measured at fair value through profit or loss.

The preparation of Financial Statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 4.

##### **Going concern**

The Company participates as an underwriting member of Lloyd's. Its underwriting is supported by Funds at Lloyd's, either made available by the Company directly or by its members. The Directors are of the opinion that the Company has adequate resources to meet its underwriting and other operational obligations for the foreseeable future. Accordingly, the going concern concept has been adopted in the preparation of the Financial Statements. In arriving at this opinion, the Directors have considered the matter referred to in Note 24 in respect of the impact of COVID-19.

##### **Basis of accounting**

The Financial Statements have been prepared using the annual basis of accounting. Under the annual basis of accounting a result is determined at the end of each accounting period, reflecting the profit or loss from providing insurance coverage during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

Amounts reported in the general business technical account relate to movements in the period in respect of all relevant years of account of the syndicates on which the Company participates.

Assets and liabilities arising as a result of the underwriting activities are mainly controlled by the syndicates' managing agents. Accordingly, these assets and liabilities have been shown separately in the Balance Sheet as "Syndicate participation". Other assets and liabilities are shown as "Corporate". The syndicate assets are held subject to trust deeds for the benefit of the syndicates' insurance creditors.

The information included in these Financial Statements in respect of the syndicates has been supplied by managing agents based upon the various accounting policies they have adopted. The following describes the policies they have adopted:

##### **General business**

###### **i. Premiums**

Premiums written comprise the total premiums receivable in respect of business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the syndicates on which the Company participates, less an allowance for cancellations. All premiums are shown gross of commission payable to intermediaries and exclude taxes and duties levied on them.



## **Mallee Name No 2 Limited**

### **Notes to the Financial Statements (continued) for the year ended 31 December 2019**

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#### **3. Summary of significant accounting policies (continued)**

##### **ii. Unearned premiums**

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the Balance Sheet date, calculated on a time apportionment basis having regard where appropriate, to the incidence of risk. The specific basis adopted by each syndicate is determined by the relevant managing agent.

##### **iii. Deferred acquisition costs**

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

##### **iv. Reinsurance premiums**

Managing agents enter into reinsurance contracts on behalf of syndicates, in the normal course of business, in order to limit the potential losses arising from certain exposures. Reinsurance premium costs are allocated by the managing agent of each syndicate to reflect the protection arranged in respect of the business written and earned.

##### **v. Claims incurred and reinsurers' share**

Claims incurred comprise claims and settlement expenses (both internal and external) occurring in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and settlement expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation applied by each syndicate's in-house reserving team and reviewed by external consulting actuaries. These techniques 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. The provision for claims also includes amounts in respect of internal and external claims handling costs. 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 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 each syndicate's reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Each syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly the two most critical assumptions made by each syndicate's managing agent as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used including pricing models for recent business are reasonable indicators of the likely level of ultimate claims to be incurred.

The level of uncertainty with regard to the estimations within these provisions generally decreases with time as the exposure period recedes. In addition the nature of short tail claims such as property where claims are typically notified and settled within a short period of time will normally have less uncertainty after a few years than long tail risks such as some liability business where it may be several years before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim this may increase the uncertainty in the estimation of the outcomes.

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The provisions for gross claims and related reinsurance recoveries have been assessed on the basis of the information currently available to the directors of each syndicate's managing agent. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the Financial Statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

# **Mallee Name No 2 Limited**

## **Notes to the Financial Statements (continued) for the year ended 31 December 2019**

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### **3. Summary of significant accounting policies (continued)**

#### **vi. Unexpired risks provision**

Provisions for unexpired risks are made where the costs of outstanding claims, related expenses and deferred acquisition costs are expected to exceed the unearned premium provision carried forward at the Balance Sheet date. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return. The provision is made on a syndicate by syndicate basis by the relevant managing agent.

#### **vii. Closed years of account**

At the end of the third year, the underwriting account is normally closed by reinsurance into the following year of account. The amount of the reinsurance to close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled at 31 December, together with the estimated cost of claims incurred but not reported at that date, and an estimate of future claims handling costs.

Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured.

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and the other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle outstanding claims.

The Directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle the liabilities outstanding at the closure of an underwriting account. The Company has included its share of the reinsurance to close premiums payable as technical provisions at the end of the current period, and no further provision is made for any potential variation in the ultimate liability of that year of account.

#### **viii. Run-off years of account**

Where an underwriting year of account is not closed at the end of the third year (a "run-off" year of account) a provision is made for the estimated cost of all known and unknown outstanding liabilities of that year. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities for that year remains with the corporate member participating therein. As a result, any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close.

#### **ix. Net operating expenses (including acquisition costs)**

Net operating costs include acquisition costs, profit and loss on exchange and other amounts incurred by the syndicates on which the Company participates.

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the Balance Sheet date.

#### **x. Distribution of profits and collection of losses**

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between syndicates and their members. Lloyd's continues to require membership of syndicates to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are transferred between the syndicate and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. The syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements.

## **Mallee Name No 2 Limited**

### **Notes to the Financial Statements (continued) for the year ended 31 December 2019**

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#### **3. Summary of significant accounting policies (continued)**

##### **xi. Financial assets and financial liabilities**

###### **Classification:**

The accounting classification of financial assets and liabilities determines their basis of measurement and how changes in those values are presented in the Profit and Loss Account and Other Comprehensive Income. These classifications are made at initial recognition and subsequent classification is only permitted in restricted circumstances.

The syndicates' investments comprise of debt and equity investments, derivatives, cash and cash equivalents and loans and receivables. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the syndicate after deducting all of its liabilities.

###### **Recognition:**

Financial assets and liabilities are recognised when the syndicate becomes party to the contractual provisions of the instrument. In respect of the purchases and sales of financial assets, they are recognised on the trade date.

###### **Initial measurement:**

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 finance transaction, the financial asset or liability is measured at the present value of the future payments discounted at a market rate if interest for a similar debt instrument.

###### **Subsequent measurement:**

Non-current debt instruments are subsequently measured at amortised cost using the effective interest method.

Debt instruments that are classified as payable or receivable within one financial year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

Other debt instruments are measured at fair value through profit or loss.

###### **De-recognition of financial assets and liabilities:**

Financial assets are derecognised when and only when a) the contractual rights to the cash flow from the financial asset expire or are settled, b) the syndicates transfer to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the syndicates, despite having retained some significant risks and rewards of ownership, have transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

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

###### **Fair value measurement:**

The best evidence of fair value is a quoted price for an identical asset or liability in an active market that the entity can access at the measurement date.

When quoted prices are unavailable, observable inputs developed using market data for the asset or liability, either directly or indirectly, are used to determine the fair value.

If the market for the asset is not active and there are no observable inputs, then the syndicate estimates the fair value by using unobservable inputs, i.e. where market data is unavailable.

###### **Impairment of financial instruments measured at amortised cost or cost:**

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, i.e. using the effective interest method.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The amount of the reversal is recognised in profit and loss immediately.

# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

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### 3. Summary of significant accounting policies (continued)

#### xi. Financial assets and financial liabilities (continued)

##### Offsetting:

Debtors/creditors arising from insurance/reinsurance operations shown in the Balance Sheet include the totals of all the syndicates' outstanding debit and credit transactions as processed by the Lloyd's central facility. No account has been taken of any offsets which may be applicable in calculating the net amounts due between the syndicates and each of their counterparty insureds, reinsurers or intermediaries as appropriate.

#### xii. Investment return

Investment return comprises all investment income, realised investment gains and losses, movements in unrealised gains and losses, net of investment expenses and charges.

Realised and unrealised gains and losses are measured by reference to the original cost of the investment if purchased in the year, or if held at the beginning of the year by reference to the fair value at that date.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting the underwriting business.

#### xiii. Basis of currency translation

The presentation and functional currency of the Company is Pound Sterling, which is the currency of the primary economic environment in which it operates. Supported syndicates may have different functional currencies.

Income and expenditure in US dollars, Canadian dollars and Euros is translated at the average rate of exchange for the year. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities, which according to FRS 103 are deemed to include unearned premiums and deferred acquisition costs, are translated into Pound Sterling at the rates of exchange at the Balance Sheet date.

Any non-monetary items are translated into the functional currency using the rate of exchange prevailing at the time of the transaction.

Differences arising on translation to the functional currency of the syndicates where the functional currency was not Pound Sterling are reported in the Statement of Other Comprehensive Income. All other exchange differences are reported within the Profit and Loss Account, Non-Technical Account (or the Technical Account in respect of Life syndicates).

### Reinsurance at corporate level

Where considered applicable by the Directors, the Company may purchase additional reinsurance to that purchased through the syndicates. Any such reinsurance premiums and related reinsurance recoveries are treated in the same manner as described for syndicates in Note 3 (iv) and (v) above.

### Taxation

The Company is taxed on its results including its share of underwriting results declared by the syndicates. These are deemed to accrue evenly over the calendar year in which they are declared. The syndicate results included in these Financial Statements are only declared for tax purposes in the calendar year following the normal closure of the year of account. No provision is made for corporation tax in relation to open years of account. However, full provision is made for deferred tax on underwriting results not subject to current corporation tax.

HM Revenue & Customs agrees the taxable results of the syndicates at a syndicate level on the basis of computations submitted by the managing agent. At the date of the approval of these Financial Statements the syndicate taxable results of years of account closed at this and at previous year ends may not have been fully agreed with HM Revenue & Customs. Any adjustments that may be necessary to the tax provisions established by the Company, as a result of HM Revenue & Customs agreement of syndicate results, will be reflected in the Financial Statements of subsequent periods.

# **Mallee Name No 2 Limited**

## **Notes to the Financial Statements (continued) for the year ended 31 December 2019**

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### **3. Summary of significant accounting policies (continued)**

#### **Deferred taxation**

Deferred tax is provided in full on timing differences which result in an obligation at the Balance Sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise, based on current tax rates and law.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities have not been discounted.

#### **Intangible assets**

Costs incurred by the Company in the Corporation of Lloyd's auctions in order to acquire rights to participate on syndicates' underwriting years are included within intangible assets and amortised over a five year period beginning in the year following the purchase of the syndicate participation.

The intangible assets are reviewed for impairment where there are indicators for impairment, and any impairment is charged to the Profit and Loss Account for the period.

#### **Cash and cash equivalents and Statement of Cash Flows**

Cash and cash equivalents include deposits held at call with banks, other short-term liquid investments with original maturities of three months or less and cash in hand.

The Company has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the Statement of Cash Flows is prepared reflecting only the movement in corporate funds, which includes transfers to and from syndicates at Lloyd's.

#### **Share capital**

Ordinary share capital is classified as equity. The difference between fair value of the consideration received and the nominal value of the share capital being issued, is taken to the share premium account. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of taxes, from the proceeds.

#### **Dividend distributions to shareholders**

Dividend distributions to the Company's shareholders are recognised in the Financial Statements in the period in which the dividends are approved by the shareholders. These amounts are recognised in the Statement of Changes in Shareholders' Equity.

#### **Related party transactions**

The Company discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with members of the same group that are wholly owned.

### **4. Key accounting judgements and estimation uncertainties**

In applying the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions in determining the carrying amounts of assets and liabilities. These judgements, estimates and assumptions are based on the best and most reliable evidence available at the time when the decisions are made, and are based on historical experience and other factors that are considered to be applicable. Due to the inherent subjectivity involved in making such judgements, estimates and assumptions, the actual results and outcomes may differ. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The measurement of the provision for claims outstanding is the most significant judgement involving estimation uncertainty regarding amounts recognised in these Financial Statements in relation to underwriting by the syndicates and this is disclosed further in Note 5.

The management and control of each syndicate is carried out by the managing agent of that syndicate, and the Company looks to the managing agent to implement appropriate policies, procedures and internal controls to manage each syndicate.

The key accounting judgements and sources of estimation uncertainty set out below therefore relate to those made in respect of the Company only, and do not include estimates and judgements made in respect of the syndicates.

# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

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### 4. Key accounting judgements and estimation uncertainties (continued)

#### Purchased syndicate capacity:

Estimating value in use:

Where an indication of impairment of capacity values exists, the Directors will carry out an impairment review to determine the recoverable amount, which is the higher of fair value less cost to sell and value in use. The value in use calculation requires an estimate of the future cash flows expected to arise from the capacity and a suitable discount rate in order to calculate present value.

Determining the useful life of purchased syndicate capacity:

The assessed useful life of syndicate capacity is five years. This is on the basis that this is the life over which the original value of the capacity acquired is used up.

#### Assessing indicators of impairment:

In assessing whether there have been any indicators of impairment assets, the Directors consider both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability. There have been no indicators of impairments identified during the current financial year.

#### Recoverability of receivables:

The Company establishes a provision for receivables that are estimated not to be recoverable. When assessing recoverability, factors such as the aging of the receivables, past experience of recoverability, and the credit profile of individual or groups of customers are all considered.

### 5. Risk management

This section summarises the financial and insurance risks the Company is exposed to either directly at its own corporate level or indirectly via its participation in the Lloyd's syndicates.

#### Risk background

The syndicate's activities expose it to a variety of financial and non-financial risks. The managing agent is responsible for managing the syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. Each year, the managing agent prepares a Lloyd's Capital Return ("LCR") for the syndicate, the purpose of this being to agree capital requirements with Lloyd's based on an agreed assessment of the risks impacting the syndicate's business, and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are typically reflected in the LCR, and, typically, the majority of the total assessed value of the risks concerned is attributable to insurance risk.

The insurance risks faced by a syndicate include the occurrence of catastrophic events, downward pressure on pricing of risks, reductions in business volumes and the risk of inadequate reserving. Reinsurance risks arise from the risk that a reinsurer fails to meet their share of a claim. The management of the syndicate's funds is exposed to risks of investment, liquidity, currency and interest rates leading to financial loss. The syndicate is also exposed to regulatory and operational risks including its ability to continue to trade. However, supervision by Lloyd's provides additional controls over the syndicate's management of risks.

The Company manages the risks faced by the syndicates on which it participates by monitoring the performance of the syndicates it supports. This commences in advance of committing to support a syndicate for the following year, with a review of the business plan prepared for each syndicate by its managing agent. In addition, quarterly reports and annual accounts together with any other information made available by the managing agent are monitored and if necessary enquired into. If the Company considers that the risks being run by the syndicate are excessive it will seek confirmation from the managing agent that adequate management of the risk is in place and, if considered appropriate will withdraw support from the next underwriting year. The Company relies on advice provided by the members' agent which acts for it, who are specialists in assessing the performance and risk profiles of syndicates. The Company also mitigates its insurance risks by participating across several syndicates as detailed in Note 24.

#### Departure from the European Union:

The UK's departure from the EU and the future relationship being negotiated during the transition period will have an impact on various risk factors, including currency risks. Lloyd's have now set up an office in Brussels through which the syndicates are able to operate very much on the same terms as previously. The Company will monitor these developments and identify whether it needs to modify its participation in the Lloyd's market.

The analysis below provides details of the financial risks the Company is exposed to from syndicate insurance activities and at a corporate company level, as required by FRS 103. Note 8 provides further analysis of sensitivities to reserving and underwriting risks.

# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

### 5. Risk management (continued)

#### Syndicate risks

##### i. Liquidity risk

The syndicates are exposed to daily calls on their available cash resources, principally from claims arising from its insurance business. Liquidity risk arises where cash may not be available to pay obligation when due, or to ensure compliance with the syndicate's obligations under the various trust deeds to which it is party.

The syndicates aim to manage their liquidity position so that they can fund claims arising from significant catastrophic events, as modelled in their Lloyd's realistic disaster scenarios ("RDS").

Although there are usually no stated maturities for claims outstanding, syndicates have provided their expected maturity of future claims settlements as follows:

2019	No stated maturity £	0-1 year £	1-3 years £	3-5 years £	>5 years £	Total £
Claims outstanding	(135)	649,911	569,527	302,131	248,054	1,769,488
2018	No stated maturity £	0-1 year £	1-3 years £	3-5 years £	>5 years £	Total £
Claims outstanding	-	723,516	589,726	240,527	242,714	1,796,483

##### ii. Credit risk

Credit ratings to syndicate assets emerging directly from insurance activities which are neither past due nor impaired are as follows:

2019	AAA £	AA £	A £	BBB or lower £	Not rated £	Total £
Financial investments	161,798	292,356	292,122	110,658	91,180	948,114
Deposits with ceding undertakings	-	-	-	-	89	89
Reinsurers share of claims outstanding	29,371	107,556	381,178	868	40,194	559,167
Reinsurance debtors	286	8,582	17,981	704	7,429	34,982
Cash at bank and in hand	151	863	52,878	9,678	6,140	69,710
	191,606	409,357	744,159	121,908	145,032	1,612,062
2018	AAA £	AA £	A £	BBB or lower £	Not rated £	Total £
Financial investments	166,712	295,583	271,772	105,154	118,003	957,224
Deposits with ceding undertakings	-	-	-	-	84	84
Reinsurers share of claims outstanding	31,832	98,405	356,171	509	48,171	535,088
Reinsurance debtors	598	3,241	14,678	1	5,124	23,642
Cash at bank and in hand	464	875	40,172	9,799	4,889	56,199
	199,606	398,104	682,793	115,463	176,271	1,572,237

# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

### 5. Risk management (continued)

#### Syndicate risks (continued)

#### ii. Credit risk (continued)

Syndicate assets emerging directly from insurance activities, with reference to their due date or impaired are as follows:

	Neither past due nor impaired £	Past due but not impaired			Impaired £	Total £
		Less than 6 months £	Between 6 months and 1 year £	Greater than 1 year £		
2019						
Financial investments	948,114	-	-	-	-	948,114
Deposits with ceding undertakings	89	-	-	-	-	89
Reinsurers share of claims outstanding	559,167	-	-	-	(104)	559,063
Reinsurance debtors	34,982	11,900	774	477	(2)	48,131
Cash at bank and in hand	69,710	-	-	-	-	69,710
Insurance and other debtors	709,678	17,131	2,818	3,318	(165)	732,780
	2,321,740	29,031	3,592	3,795	(271)	2,357,887

	Neither past due nor impaired £	Past due but not impaired			Impaired £	Total £
		Less than 6 months £	Between 6 months and 1 year £	Greater than 1 year £		
2018						
Financial investments	957,224	-	-	-	-	957,224
Deposits with ceding undertakings	84	-	-	-	-	84
Reinsurers share of claims outstanding	535,088	875	-	-	(101)	535,862
Reinsurance debtors	23,642	11,088	371	370	(7)	35,464
Cash at bank and in hand	56,199	-	-	-	-	56,199
Insurance and other debtors	781,248	15,001	2,988	3,396	(188)	802,445
	2,353,485	26,964	3,359	3,766	(296)	2,387,278

#### iii. Interest rate and equity price risk

Interest rate risk and equity price risk are the risks that the fair value of future cash flows of financial instruments will fluctuate because of changes in market interest rates and market prices, respectively.

#### iv. Currency risk

The syndicates' main exposure to foreign currency risk arises from insurance business originating overseas, primarily denominated in US dollars. Transactions denominated in US dollars form a significant part of the syndicates' operations. This risk is, in part, mitigated by the syndicates maintaining financial assets denominated in US dollars against its major exposures in that currency.

The table below provides details of syndicate assets and liabilities by currency:

2019	GBP £ converted	USD £ converted	EUR £ converted	CAD £ converted	Other £ converted	Total £ converted
Total assets	404,711	1,635,238	144,506	192,868	98,763	2,476,086
Total liabilities	(603,496)	(1,657,894)	(137,206)	(149,741)	(105,626)	(2,653,963)
Surplus/(deficiency) of assets	(198,785)	(22,656)	7,300	43,127	(6,863)	(177,877)



## Mallee Name No 2 Limited

### Notes to the Financial Statements (continued) for the year ended 31 December 2019

#### 5. Risk management (continued)

##### Syndicate risks (continued)

##### iv. Currency risk (continued)

2018	GBP £ converted	USD £ converted	EUR £ converted	CAD £ converted	Other £ converted	Total £ converted
Total assets	402,693	1,616,359	180,258	199,908	144,319	2,543,537
Total liabilities	(585,720)	(1,695,590)	(179,445)	(136,312)	(126,453)	(2,723,520)
Surplus/(deficiency) of assets	(183,027)	(79,231)	813	63,596	17,866	(179,983)

The impact of a 5% change in exchange rates between GBP and other currencies would be £1,045 on shareholders' funds (2018: £152 ).

#### Company risks

##### i. Investment, Credit and Liquidity risks

The significant risks faced by the Company are with regard to the investment of the available funds within its own custody. The elements of these risks are investment risk, credit risk, interest rate risk and currency risk. The main liquidity risk would arise if a syndicate had inadequate liquid resources for a large claim and sought funds from the Company to meet the claim. In order to minimise investment, credit and liquidity risk the Company's funds are invested in readily realisable short term deposits. The Company does not use derivative instruments to manage risk and, as such, no hedge accounting is applied.

##### ii. Currency risks

The syndicates can distribute their results in Pound Sterling, US dollars or a combination of the two. The Company is exposed to movements in the US dollar between the Balance Sheet date and the distribution of the underwriting profits and losses, which is usually in the May following the closure of a year of account.

In addition, the Company is also subject to currency fluctuations in respect of any financial investments and Funds at Lloyd's shown in the Corporate column of the Balance Sheet and as set out in Notes 14 and 15 respectively.

##### iii. Regulatory risks

The Company is subject to continuing approval by Lloyd's to be a member of a Lloyd's syndicate. The risk of this approval being removed is mitigated by monitoring and fully complying with all requirements in relation to membership of Lloyd's. The capital requirements to support the proposed amount of syndicate capacity for future years are subject to the requirements of Lloyd's. A variety of factors are taken into account by Lloyd's in setting these requirements including market conditions and syndicate performance and although the process is intended to be fair and reasonable, the requirements can fluctuate from one year to the next, which may constrain the volume of underwriting the Company is able to support.

##### iv. Operational risks

As there are relatively few transactions actually undertaken by the Company there are only limited systems and operational requirements of the Company and therefore operational risks are not considered to be significant. Close involvement of all Directors in the Company's key decision making and the fact that the majority of the Company's operations are conducted by syndicates, provides control over any remaining operational risks.

# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

### 6. Class of business

	Gross written premiums £	Gross premiums earned £	Gross claims incurred £	Net operating expenses £	Reinsurance balance £	Total £
<b>2019</b>						
<b>Direct insurance</b>						
Accident and health	29,656	32,508	(19,246)	(15,015)	(1,967)	(3,720)
Motor – third party liability	2,223	2,868	(1,897)	(902)	(120)	(51)
Motor – other classes	81,158	81,866	(52,196)	(25,698)	(2,191)	1,781
Marine, aviation and transport	96,558	100,556	(50,161)	(33,627)	(8,926)	7,842
Fire and other damage to property	318,479	305,883	(171,611)	(92,906)	(36,651)	4,715
Third party liability	269,599	260,621	(180,061)	(84,478)	9,627	5,709
Credit and suretyship	33,311	32,924	(18,788)	(9,635)	(1,488)	3,013
Legal expenses	1,737	1,358	(490)	(750)	(93)	25
Assistance	-	-	-	-	-	-
Miscellaneous	2,063	2,161	(1,736)	(794)	(4)	(373)
<b>Total direct</b>	<b>834,784</b>	<b>820,745</b>	<b>(496,186)</b>	<b>(263,805)</b>	<b>(41,813)</b>	<b>18,941</b>
Reinsurance inwards	360,366	349,204	(293,509)	(91,819)	11,548	(24,576)
<b>Total</b>	<b>1,195,150</b>	<b>1,169,949</b>	<b>(789,695)</b>	<b>(355,624)</b>	<b>(30,265)</b>	<b>(5,635)</b>
<b>2018</b>						
<b>Direct insurance</b>						
Accident and health	34,989	36,532	(18,384)	(16,213)	(996)	939
Motor – third party liability	3,590	3,731	(2,108)	(1,286)	(336)	1
Motor – other classes	80,295	82,348	(31,493)	(26,488)	(21,440)	2,927
Marine, aviation and transport	98,604	97,479	(54,802)	(36,214)	(7,546)	(1,083)
Fire and other damage to property	278,859	264,874	(168,090)	(87,057)	(31,826)	(22,099)
Third party liability	258,788	240,744	(154,270)	(87,174)	9,416	8,716
Credit and suretyship	24,205	22,053	(9,974)	(6,987)	(2,153)	2,939
Legal expenses	1,254	1,091	(383)	(706)	5	7
Assistance	-	-	-	-	-	-
Miscellaneous	7,661	7,123	(3,901)	(2,696)	(657)	(131)
<b>Total direct</b>	<b>788,245</b>	<b>755,975</b>	<b>(443,405)</b>	<b>(264,821)</b>	<b>(55,533)</b>	<b>(7,784)</b>
Reinsurance inwards	311,812	322,495	(248,531)	(87,993)	(5,003)	(19,032)
<b>Total</b>	<b>1,100,057</b>	<b>1,078,470</b>	<b>(691,936)</b>	<b>(352,814)</b>	<b>(60,536)</b>	<b>(26,816)</b>

### 7. Geographical analysis

	2019 £	2018 £
<b>Direct gross premium written in:</b>		
United Kingdom	834,784	788,245
Other EU Member States	-	-
Rest of the World	-	-
	<b>834,784</b>	<b>788,245</b>

# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

### 8. Technical provisions

Movement in claims outstanding	Gross £	Reinsurance £	2019 Net £	Gross £	Reinsurance £	2018 Net £
At 1 January	1,796,483	535,862	1,260,621	1,728,168	513,031	1,215,137
Movement of reserves	117,535	55,743	61,792	47,526	22,297	25,229
Other movements	(144,530)	(32,542)	(111,988)	20,789	534	20,255
At 31 December	1,769,488	559,063	1,210,425	1,796,483	535,862	1,260,621

Movement in unearned premiums	Gross £	Reinsurance £	2019 Net £	Gross £	Reinsurance £	2018 Net £
At 1 January	502,519	79,477	423,042	462,321	63,547	398,774
Movement of reserves	25,201	12,654	12,547	21,587	12,286	9,301
Other movements	(12,131)	(2,868)	(9,263)	18,611	3,644	14,967
At 31 December	515,589	89,263	426,326	502,519	79,477	423,042

Movement in deferred acquisition costs	2019 Net £	2018 Net £
At 1 January	133,452	130,212
Movement in deferred acquisition costs	1,112	549
Other movements	(962)	2,691
At 31 December	133,602	133,452

Included within other movements are foreign exchange movements and the effect of the 2016 and prior years' technical provisions being reinsured to close into the 2017 year of account (2018: 2015 and prior years' technical provisions being reinsured to close into the 2016 year of account), to the extent where the Company's syndicate participation portfolio has changed between those two years of account.

#### Assumptions, changes in assumptions and sensitivity

As described in Note 5 the majority of the risks to the Company's future cash flows arise from its participation in the results of Lloyd's syndicates and are mostly managed by the managing agents of the syndicates. The Company's role in managing these risks, in conjunction with the Company's members' agent, is limited to a selection of syndicate participations and monitoring the performance of the syndicates and their managing agents.

The amounts carried by the Company arising from insurance contracts are calculated by the managing agents of the syndicates and derived from accounting information provided by the managing agents and reported upon by the syndicate auditors.

The key assumptions underlying the amounts carried by the Company arising from insurance contracts are:

- the net premiums written calculated by the managing agent are an accurate assessment of the premiums payable as a result of the risks contractually committed to up to the Balance Sheet date;
- the net unearned premiums calculated by the managing agent are an accurate assessment of the net premiums written that reflect the exposure to risks arising after the Balance Sheet date, including appropriate allowance for anticipated losses in excess of the unearned premium;
- the claims reserves calculated by the managing agents are an accurate assessment of the ultimate liabilities in respect of claims relating to events up to the Balance Sheet date;
- the potential ultimate result of run-off year results has been accurately estimated by the managing agents; and
- the values of investments and other assets and liabilities are correctly stated at their realisable values at the Balance Sheet date.

There have been no changes to these assumptions in 2019.

# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

### 8. Technical provisions (continued)

The amounts carried by the Company arising from insurance contracts are sensitive to various factors as follows:

- a 5% increase/decrease in net earned premium (with all other underwriting elements assumed to change pro-rata with premium) will increase/decrease the Company's pre-tax profit/loss by £45,442 (2018: £43,206 );
- a 5% increase/decrease in the managing agents' calculation of gross claims reserves will decrease/increase the Company's pre-tax profit/loss by £88,474 (2018: £89,824 );
- a 5% increase/decrease in the managing agents' calculation of net claims reserves will decrease/increase the Company's pre-tax profit/loss by £60,521 (2018: £63,031 ).

The 5% movement has been selected to give an indication of the possible variations in the assumptions used.

The tables below show the historical gross and net claims development based on the Company's syndicate participations on all syndicate years during the year ended 31 December 2019. The table does not include the claims development on any syndicates which the Company no longer participates upon and is based on the latest participation shares during the year ended 31 December 2019.

#### Claims development - Gross

Underwriting pure year	After one year	After two years	After three years	After four years	After five years	After six years	After seven years	After eight years	After nine years	Profit / (loss) on RITC received
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
2011	324	541	541	540	535	534	527	520	518	20
2012	306	469	461	445	442	435	430	428		54
2013	238	423	416	406	398	387	383			36
2014	230	404	415	402	410	405				63
2015	220	428	433	424	423					50
2016	256	516	523	523						30
2017	573	868	909							
2018	431	778								
2019	399									

#### Claims development - Net

Underwriting pure year	After one year	After two years	After three years	After four years	After five years	After six years	After seven years	After eight years	After nine years	Profit / (loss) on RITC received
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
2011	264	441	438	429	419	419	417	411	409	27
2012	238	388	383	363	360	358	354	351		58
2013	200	368	357	349	343	336	332			49
2014	195	354	358	345	346	342				39
2015	186	366	366	362	356					37
2016	203	406	415	412						49
2017	369	619	649							
2018	311	568								
2019	283									

# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

9. Net operating expenses	2019	2018
	£	£
Acquisition costs	265,994	257,429
Change in deferred acquisition costs	(1,112)	(549)
Administrative expenses	90,742	95,934
Loss/(profit) on exchange	-	-
	<u>355,624</u>	<u>352,814</u>

10. Investment return	2019	2018
	£	£
Investment income	21,252	18,116
Dividend income	1,136	2,527
Interest on cash at bank	6,122	3,924
Other interest and similar income	1,489	388
Realised gains on investments	9,916	21,591
<b>Investment income</b>	<u>39,915</u>	<u>46,546</u>
Investment management expenses	(1,305)	(1,144)
Realised losses on investments	(4,660)	(9,768)
<b>Investment expenses and charges</b>	<u>(5,965)</u>	<u>(10,912)</u>
Unrealised gains and losses, net	12,862	(28,718)
<b>Total investment return</b>	<u>46,812</u>	<u>6,916</u>

### Analysed as follows:

	Investments at fair value through profit or loss £	Investments available for sale £	2019 Total £	Investments at fair value through profit or loss £	Investments available for sale £	2018 Total £
Realised gains and losses	5,256	-	5,256	11,827	(4)	11,823
Unrealised gains and losses	12,862	-	12,862	(28,749)	31	(28,718)
Other relevant income	-	-	-	(13)	-	(13)
	<u>18,118</u>	<u>-</u>	<u>18,118</u>	<u>(16,935)</u>	<u>27</u>	<u>(16,908)</u>
Interest and similar income, net of expenses			28,694			23,824
<b>Total investment return</b>			<u>46,812</u>			<u>6,916</u>

# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

11. Profit/(loss) before taxation	2019 £	2018 £
This is stated after charging:		
Key management personnel remuneration	-	-
Amortisation of syndicate capacity	465	466
Interest on bank loan and overdrafts	-	-
Interest on other loans	-	-
The Company has no employees		

The auditors, PKF Littlejohn LLP, charge a fixed fee to Nomina Plc for the provision of the audit of the Company. This fee is included within the service fee charged to the Company by Nomina Plc and equates to approximately £99 (2018: £95), (Note 22).

12. Taxation	2019 £	2018 £
<b>Analysis of charge in year</b>		
Current tax:		
UK corporation tax on profit/(loss) of the year	7,302	11,904
Adjustment in respect of previous years	44	(256)
Foreign tax	13,598	9,345
Total current tax	20,944	20,993
Deferred tax:		
Origination and reversal of timing differences	(4,856)	(21,551)
Change in tax rate	-	-
Total deferred tax	(4,856)	(21,551)
Tax on profit/(loss)	16,088	(558)

### Factors affecting tax charge for year

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%). The differences are explained below:

	2019 £	2018 £
Profit/(loss) before tax	19,456	(17,251)
Profit/(loss) multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)	3,697	(3,278)
Effects of:		
Adjustment in respect of previous years	44	(256)
Group relief claimed	-	-
Income not taxable	(45)	(183)
Permanent differences	45	(35)
Foreign tax	13,598	9,345
Rate change and other adjustments	(1,251)	(6,151)
Tax charge/(credit) for the year	16,088	(558)

The results of the Company's participation on the 2017, 2018 and 2019 years of account and the calendar year movement on 2016 and prior run-offs will not be assessed to tax until the year ended 31 December 2020, 2021 and 2022 respectively being the year after the calendar year result of each run-off year or the normal date of closure of each year of account.

Legislation was passed on 18 November 2015 to reduce the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020. Further legislation was introduced in the Finance Bill 2016 to reduce the main rate of corporation tax to 17% from 1 April 2020, superseding the 18% rate. The deferred tax balance at 31 December 2019 has been calculated at these substantively enacted tax rates.

On 18 November 2019, the Government pledged to put the planned corporation tax reduction from 19% to 17% on hold. This was confirmed in the Budget on 11 March 2020 and substantively enacted on 17 March 2020. The change in the corporation tax rate is not expected to have a material impact on the deferred tax balance.

# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

13. Intangible assets	2019	2018
Purchased syndicate capacity	£	£
<b>Cost</b>		
At 1 January	73,910	75,984
Additions	-	-
Disposals	(1,185)	(2,074)
At 31 December	72,725	73,910
<b>Amortisation</b>		
At 1 January	72,514	74,122
Provided during the year	465	466
Disposals	(1,185)	(2,074)
At 31 December	71,794	72,514
<b>Net book value</b>		
At 31 December 2019 / 2018	931	1,396
At 31 December 2018 / 2017	1,396	1,862

## 14. Financial investments

The Company categorises its fair value measurement using the following three fair value hierarchy levels based on the reliability of inputs used in determining fair values as follows:

Level 1: The unadjusted quoted price in an active market for identical assets that an entity can access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable (i.e. developed using market data) for the asset, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset.

Financial investments Syndicate	Financial investments held at fair value through profit or loss				Held at amortised cost	Total
2019	Level 1 £	Level 2 £	Level 3 £	Total £	£	£
Shares and other variable yield securities and units in unit trusts	64,769	73,901	9,330	148,000	-	148,000
Debt securities and other fixed income securities	174,472	609,860	-	784,332	-	784,332
Participation in investment pools	2,112	6,895	1,063	10,070	-	10,070
Loans and deposits with credit institutions	1,276	1,724	177	3,177	528	3,705
Derivatives	182	1,814	-	1,996	-	1,996
Other investments	-	11	-	11	-	11
Financial assets classified as held for sale	-	-	-	-	-	-
<b>Fair value</b>	<b>242,811</b>	<b>694,205</b>	<b>10,570</b>	<b>947,586</b>	<b>528</b>	<b>948,114</b>
<b>Cost</b>				<b>934,311</b>	<b>528</b>	<b>934,839</b>

# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

### 14. Financial investments (continued)

Financial investments Syndicate	Financial investments held at fair value through profit or loss				Held at amortised cost £	Total £
	Level 1 £	Level 2 £	Level 3 £	Total £		
<b>2018</b>						
Shares and other variable yield securities and units in unit trusts	66,971	71,156	5,994	144,121	-	144,121
Debt securities and other fixed income securities	214,309	579,201	-	793,510	-	793,510
Participation in investment pools	4,093	7,768	2,962	14,823	-	14,823
Loans and deposits with credit institutions	2,572	844	735	4,151	-	4,151
Derivatives	359	248	-	607	-	607
Other investments	-	12	-	12	-	12
Financial assets classified as held for sale	-	-	-	-	-	-
<b>Fair value</b>	<b>288,304</b>	<b>659,229</b>	<b>9,691</b>	<b>957,224</b>	<b>-</b>	<b>957,224</b>
						<b>Total £</b>
<b>Cost</b>				<b>956,183</b>	<b>-</b>	<b>956,183</b>
Financial investments Corporate	Financial investments held at fair value through profit or loss				Held at amortised cost £	Total £
	Level 1 £	Level 2 £	Level 3 £	Total £		
<b>2019</b>						
Shares and other variable yield securities and units in unit trusts	-	-	-	-	-	-
Debt securities and other fixed income securities	-	-	-	-	-	-
<b>Fair value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
						<b>Total £</b>
<b>Cost</b>				<b>-</b>	<b>-</b>	<b>-</b>
Financial investments Corporate	Financial investments held at fair value through profit or loss				Held at amortised cost £	Total £
	Level 1 £	Level 2 £	Level 3 £	Total £		
<b>2018</b>						
Shares and other variable yield securities and units in unit trusts	-	-	-	-	-	-
Debt securities and other fixed income securities	-	-	-	-	-	-
<b>Fair value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
						<b>Total £</b>
<b>Cost</b>				<b>-</b>	<b>-</b>	<b>-</b>

Included within the Corporate figures above are financial investments denominated in non-Sterling currency. The impact of a 5% change in exchange rates between GBP and other currencies would be £nil on shareholders' funds (2018: £nil).



# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

### 15. Other debtors

	2019			2018		
	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
Amounts due from group undertakings	-	-	-	-	-	-
Proprietors' loan accounts	-	-	-	-	-	-
Funds at Lloyd's	-	252,769	252,769	-	267,962	267,962
Deferred tax asset (Note 18)	-	21,663	21,663	-	17,819	17,819
Other	41,680	21,663	63,343	88,288	4,628	92,916
	<b>41,680</b>	<b>296,095</b>	<b>337,775</b>	<b>88,288</b>	<b>290,409</b>	<b>378,697</b>

Funds at Lloyd's ("FAL") represents assets deposited with the Corporation of Lloyd's (Lloyd's) to support the Company's underwriting activities as described in the Accounting Policies. The Company retains the rights to the economic benefit of these assets. The Company has entered into a Lloyd's Deposit Trust Deed which gives Lloyd's the right to apply these monies in settlement of any claims arising from the participation on the syndicates. These monies can only be released from the provision of this Deed with Lloyd's express permission, and only in circumstances where the amounts are either replaced by an equivalent asset, or after the expiration of the Company's liabilities in respect of its underwriting. The Company's underwriting is supported by assets made available to it by the shareholders of the Company.

Where FAL is comprised of financial investments, to meet Lloyd's requirements these investments will usually be the equivalent of Level 1 as defined in Note 14. FAL are held mainly either in Sterling or US dollar denominations and therefore are potentially exposed to the currency risk of fluctuation between the Sterling and US dollar exchange rate. The maximum exposure to a 5% movement in the Sterling and USD exchange rate will be £12,638 (2018: £13,398).

### 16. Share capital

#### Allotted, called-up and fully paid

	2019		2018	
	Issued	Value £	Issued	Value £
Ordinary £1 shares	100	100	100	100

### 17. Profit and loss account

	2019			2018		
	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
Retained profit/(loss) brought forward	(179,983)	238,191	58,208	(71,305)	152,341	81,036
Reallocate distribution	(42,858)	42,858	-	(87,359)	87,359	-
Profit/(loss) and other comprehensive income for the financial year	44,964	(36,653)	8,311	(21,319)	(1,509)	(22,828)
Equity dividends	-	-	-	-	-	-
Retained profit/(loss) carried forward	<b>(177,877)</b>	<b>244,396</b>	<b>66,519</b>	<b>(179,983)</b>	<b>238,191</b>	<b>58,208</b>

# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

### 17. Profit and loss account (continued)

The result for each underwriting year of account is generated over a three year period. These Financial Statements, which cover the period from 1 January 2019 to 31 December 2019, show movements in the first twelve months of the 2019 year of account, the second twelve months of the 2018 year of account and the final twelve months of the 2017 year of account.

Future cash flows will arise when profits/(losses) are distributed/(collected) by Lloyd's after each year of account has closed. Subject to certain conditions, Lloyd's can allow the partial early release of some profits or in the event of an expect loss require advance funding prior to the year of account closing.

The cumulative profit and loss account on all open underwriting years of account is shown in the Balance Sheet under 'Syndicate participation' as detailed in the table below:

	2019	2018
	£	£
Underwriting year of account (cumulative):		
2016 after 36 months	-	43,080
2017 after 36 months / 24 months	(59,896)	(122,770)
2018 after 24 months / 12 months	(66,356)	(100,293)
2019 after 12 months	(51,625)	-
	(177,877)	(179,983)

### 18. Deferred taxation assets/(liabilities)

	2019	2018
	£	£
Opening balance – net	17,819	(4,989)
Profit and loss account (charge)/credit	4,856	21,551
Other comprehensive income (charge)/credit	(1,012)	1,257
Closing balance - net	21,663	17,819

The above net deferred tax position as at the year end is analysed as follows:

	2019	2018
	£	£
Deferred tax asset (Note 15)	21,663	17,819
Deferred tax liability	-	-
Net deferred tax balance	21,663	17,819

The deferred tax balance consists of timing differences relating to the taxation of underwriting results. Deferred tax assets are shown within Other debtors (Note 15).

### 19. Other creditors including taxation and social security

	2019			2018		
	Syndicate participation	Corporate	Total	Syndicate participation	Corporate	Total
	£	£	£	£	£	£
Corporation tax	-	7,302	7,302	-	11,904	11,904
Proprietors' loan accounts	-	46,246	46,246	-	46,246	46,246
Third party funds	-	-	-	-	-	-
Other creditors	74,360	-	74,360	121,165	-	121,165
Amount due to group undertakings	-	-	-	-	-	-
	74,360	53,548	127,908	121,165	58,150	179,315

# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

### 20. Financial liabilities

The Company categorises its fair value measurement using the following three fair value hierarchy levels based on the reliability of inputs used in determining fair values as follows:

Level 1: The unadjusted quoted price in an active market for identical liabilities that an entity can access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable (i.e. developed using market data) for the liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the liability.

Financial liabilities Syndicate	Financial liabilities held at fair value through profit or loss				Held at amortised cost	Total
	Level 1	Level 2	Level 3	Total		
2019	£	£	£	£	£	£
Borrowings	-	-	-	-	-	-
Derivative liabilities	431	-	-	431	-	431
Financial liabilities classified as held for sale	-	-	-	-	-	-
<b>Fair value</b>	<b>431</b>	<b>-</b>	<b>-</b>	<b>431</b>	<b>-</b>	<b>431</b>

Financial liabilities Syndicate	Financial liabilities held at fair value through profit or loss				Held at amortised cost	Total
	Level 1	Level 2	Level 3	Total		
2018	£	£	£	£	£	£
Borrowings	-	-	-	-	-	-
Derivative liabilities	416	32	-	448	-	448
Financial liabilities classified as held for sale	-	-	-	-	-	-
<b>Fair value</b>	<b>416</b>	<b>32</b>	<b>-</b>	<b>448</b>	<b>-</b>	<b>448</b>

All other financial liabilities of the syndicate participation, including creditors arising out of direct insurance operations, creditors arising out of reinsurance operations and other creditors, are measured at amortised cost.

#### Financial liabilities - Corporate

All corporate financial liabilities are measured at amortised cost.

### 21. Dividends

	2019	2018
	£	£
Equity dividends declared and paid	-	-

### 22. Related party transactions

Nomina plc, a Director of the Company, provides administration services to the Company. Nomina plc charged a management fee of £2,900 (2018: £2,900) to cover all the costs of basic administration of the Company.

### 23. Ultimate controlling party

The Company is controlled by A C Malcolm.

# Mallee Name No 2 Limited

## Notes to the Financial Statements (continued) for the year ended 31 December 2019

### 24. Post Balance Sheet event

Following the year end, the COVID-19 pandemic has caused significant uncertainty around the world and the subsequent economic consequences are unknown.

As the Company does not employ any staff and the members agent and the Lloyd's market were well prepared to work remotely, the Company is continuing to be run with minimal disruption.

The Directors are of the opinion that the Company has adequate resources to meet its future obligations and therefore adopt the going concern basis for the following reasons:

- The Company continues to have significant funds to support its underwriting through Fund at Lloyd's made available by either the Company or its members for the rest of 2020.
- If the Company ceases underwriting for the 2021 year of account, it will continue to run off its affairs in an orderly manner for at least three years.
- While the impact on the Lloyd's insurance market is currently uncertain, Lloyd's have stated that they are "confident in Lloyd's ability to meet the challenges of the pandemic."

### 25. Syndicate participation

The principal syndicates or members' agent pooling arrangements ("MAPA") in which the Company participates as an underwriting member are as follows:

Syndicate or MAPA number	Managing agent	2020 Allocated capacity £	2019 Allocated capacity £	2018 Allocated capacity £	2017 Allocated capacity £
33	Hiscox Syndicates Limited	194,285	160,000	182,856	131,427
218	ERS Syndicate Management Limited	70,000	88,637	88,637	88,637
386	QBE Underwriting Limited	72,960	72,960	72,960	72,960
510	Tokio Marine Kiln Syndicates Limited	134,696	117,127	117,127	117,127
609	Atrium Underwriters Limited	149,567	128,531	128,531	120,000
623	Beazley Furlonge Limited	134,877	116,695	111,704	97,018
2010	Cathedral Underwriting Limited	76,545	76,545	76,545	76,545
2121	Argenta Syndicate Management Limited	80,000	77,778	77,778	77,778
2689	Asta Managing Agency Limited	50,000	56,000	56,000	51,819
2791	Managing Agency Partners Limited	63,573	63,573	63,573	63,573
2988	Brit Syndicates Limited	-	48,419	48,419	48,419
4444	Canopus Managing Agents Limited	-	-	39,087	39,087
5886	Asta Managing Agency Limited	38,784	33,354	27,924	23,270
6117	Argo Managing Agency Limited	26,383	31,402	31,402	26,441
7227	Members' Agents Pooling Arrangement	5,318	5,318	3,039	2,280